

**THE COVENANTAL STRUCTURE  
OF CHRISTIAN ECONOMICS**

Other books by Gary North:

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

*Marx's Religion of Revolution* (1968, 1989)

*An Introduction to Christian Economics* (1973)

*Puritan Economic Experiments* (1974, 1988)

*Successful Investing in an Age of Envy* (1981)

*Government by Emergency* (1983)

*Backward, Christian Soldiers?* (1984)

*75 Bible Questions Your Instructors Pray You Won't Ask* (1984)

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*The Covenantal Tithe* (2011)

# **THE COVENANTAL STRUCTURE OF CHRISTIAN ECONOMICS**

**Gary North**

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This book is dedicated to

**Rev. Craig Bulkeley, J.D.**

A lawyer who understands the foundations of law



## TABLE OF CONTENTS

Foreword . . . . .	xv
Preface . . . . .	xxi
Introduction . . . . .	1

### **Part I: The Economic Structure of the Dominion Covenant**

Introduction to Part I. . . . .	21
1. The Judicial Sovereignty of God . . . . .	23
Introduction. . . . .	23
A. Ownership . . . . .	28
B. Stewardship . . . . .	32
C. Boundaries. . . . .	34
D. Imputation. . . . .	36
E. Kingdom . . . . .	39
Conclusion . . . . .	40
2. The Judicial Authority of Man . . . . .	42
Introduction . . . . .	42
A. The Image of God. . . . .	44
B. Hierarchy of Values/Ends . . . . .	47
C. Purposeful Action . . . . .	49
D. Imputation. . . . .	52
E. Inheritance. . . . .	57
Conclusion . . . . .	58
3. The Economic Assignment to Man . . . . .	60
Introduction. . . . .	60
A. Production. . . . .	62
B. Authority. . . . .	66
C. Property . . . . .	68
D. Plan Reconciliation . . . . .	73
E. Dominion . . . . .	76
Conclusion . . . . .	79

4. The Economic Constraints on Man . . . . .	81
Introduction. . . . .	81
A. Death . . . . .	82
B. Scarcity . . . . .	84
C. Conflict. . . . .	87
D. Uncertainty . . . . .	89
E. Poverty . . . . .	90
Conclusion . . . . .	92
5. Overcoming the Economic Constraints on Man. . . . .	94
Introduction. . . . .	94
A. Multiplication . . . . .	96
B. Stewardship . . . . .	98
C. Competition . . . . .	101
D. Accounting . . . . .	105
E. Compounding . . . . .	108
Conclusion . . . . .	115
Conclusion to Part I. . . . .	117

## **Part II: The Economic Structure of the Individual Covenant**

Introduction to Part II . . . . .	123
1. Planning . . . . .	127
Introduction. . . . .	127
A. Planner . . . . .	128
B. Steward. . . . .	129
C. Manager . . . . .	131
D. Imputer. . . . .	132
E. Legacy Builder . . . . .	133
Conclusion . . . . .	134
2. Stewardship . . . . .	135
Introduction. . . . .	135
A. Delegated Sovereignty . . . . .	137
B. Representative Stewardship . . . . .	139
C. Capital Accumulation . . . . .	141
D. Success Indicators. . . . .	143
E. Covenant Renewal. . . . .	145
Conclusion . . . . .	147
3. Manager . . . . .	149



Introduction. . . . .	149
A. Name and Ownership . . . . .	150
B. Resource Allocation. . . . .	152
C. Time and Place . . . . .	155
D. Scarcity. . . . .	156
E. Compounding . . . . .	158
Conclusion . . . . .	159
4. Imputation . . . . .	161
Introduction. . . . .	161
A. Valuation Is Inescapable . . . . .	164
B. Responsible Evaluation . . . . .	165
C. Criteria: Individual and Corporate . . . . .	167
D. Value and Price . . . . .	170
E. Value-Added Living. . . . .	173
Conclusion . . . . .	176
5. Legacy . . . . .	179
Introduction. . . . .	179
A. Multiplication . . . . .	183
B. Future-orientation . . . . .	185
C. Imitation . . . . .	186
D. Entrepreneurship . . . . .	188
E. Compounding . . . . .	190
Conclusion . . . . .	192
Conclusion to Part II . . . . .	195

### **Part III: The Economic Structure of the Family Covenant**

Introduction to Part III. . . . .	199
1. Planning . . . . .	205
Introduction. . . . .	205
A. Cooperation . . . . .	208
B. Ownership . . . . .	210
C. Boundaries. . . . .	212
D. Imputation. . . . .	214
E. Legacy. . . . .	217
Conclusion . . . . .	219
2. Stewardship . . . . .	221
Introduction. . . . .	221

A. Delegated Sovereignty . . . . .	222
B. Representative Stewardship . . . . .	223
C. Capital Accumulation . . . . .	225
D. Success Indicators. . . . .	227
E. Contract Renewal . . . . .	227
Conclusion . . . . .	230
3. Boundaries . . . . .	232
Introduction. . . . .	232
A. Name and Ownership . . . . .	234
B. Resource Allocation. . . . .	235
C. Time and Place . . . . .	237
D. Scarcity. . . . .	237
E. Economic Growth. . . . .	239
Conclusion . . . . .	240
4. Imputation . . . . .	243
Introduction. . . . .	243
A. Valuation Is Inescapable . . . . .	244
B. Responsible Evaluation . . . . .	246
C. Criteria: Individual and Corporate . . . . .	247
D. Value and Price . . . . .	250
E. Value-Added Living. . . . .	251
Conclusion . . . . .	253
5. Legacy . . . . .	255
Introduction. . . . .	255
A. Multiplication . . . . .	255
B. Future-orientation . . . . .	256
C. Imitation . . . . .	258
D. Entrepreneurship . . . . .	260
E. Compounding . . . . .	261
Conclusion . . . . .	263
Conclusion to Part III. . . . .	266

## **Part IV: The Economic Structure of the Church Covenant**

Introduction to Part IV. . . . .	271
1. Planning . . . . .	275
Introduction. . . . .	275
A. Cooperation . . . . .	279

B. Ownership . . . . .	280
C. Boundaries . . . . .	282
D. Imputation . . . . .	284
E. Legacy . . . . .	286
Conclusion . . . . .	287
2. Stewardship . . . . .	289
Introduction . . . . .	289
A. Delegated Sovereignty . . . . .	290
B. Representative Stewardship . . . . .	290
C. Capital Accumulation . . . . .	291
D. Success Indicators . . . . .	292
E. Contract Renewal . . . . .	293
Conclusion . . . . .	294
3. Boundaries . . . . .	295
Introduction . . . . .	295
A. Name and Ownership . . . . .	295
B. Resource Allocation . . . . .	296
C. Time and Place . . . . .	297
D. Scarcity . . . . .	299
E. Economic Growth . . . . .	300
Conclusion . . . . .	300
4. Imputation . . . . .	302
Introduction . . . . .	302
A. Valuation Is Inescapable . . . . .	303
B. Responsible Evaluation . . . . .	304
C. Criteria: Individual and Corporate . . . . .	305
D. Value and Price . . . . .	306
E. Value-Added Living . . . . .	307
Conclusion . . . . .	308
5. Legacy Building . . . . .	310
Introduction . . . . .	310
A. Multiplication . . . . .	310
B. Future-orientation . . . . .	311
C. Imitation . . . . .	311
D. Entrepreneurship . . . . .	312
E. Compounding . . . . .	313
Conclusion . . . . .	314

Conclusion to Part IV. . . . .	315
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## **Part V: The Economic Structure of the Civil Covenant**

Introduction to Part V . . . . .	321
1. Planning . . . . .	325
Introduction. . . . .	325
A. Cooperation . . . . .	326
B. Ownership . . . . .	327
C. Boundaries. . . . .	329
D. Imputation. . . . .	331
E. Legacy. . . . .	334
Conclusion . . . . .	335
2. Stewardship . . . . .	336
Introduction. . . . .	336
A. Delegated Sovereignty . . . . .	337
B. Representative Stewardship . . . . .	337
C. Capital Accumulation . . . . .	338
D. Success Indicators. . . . .	339
E. Covenant Renewal. . . . .	339
Conclusion . . . . .	340
3. Boundaries . . . . .	342
Introduction. . . . .	342
A. Name and Ownership . . . . .	343
B. Resource Allocation. . . . .	344
C. Time and Place . . . . .	345
D. Scarcity. . . . .	346
E. Economic Growth. . . . .	347
Conclusion . . . . .	348
4. Imputation . . . . .	350
Introduction. . . . .	350
A. Valuation Is Inescapable . . . . .	352
B. Responsible Evaluation . . . . .	355
C. Criteria: Individual and Corporate . . . . .	356
D. Value and Price . . . . .	358
E. Value-Added Living. . . . .	360
Conclusion . . . . .	361
5. Legacy . . . . .	362

Introduction. . . . .	362
A. Multiplication . . . . .	362
B. Future-orientation . . . . .	363
C. Imitation . . . . .	363
D. Entrepreneurship . . . . .	365
E. Compounding . . . . .	365
Conclusion . . . . .	366
Conclusion to Part V . . . . .	367
Conclusion . . . . .	371
Appendix:	
Economics: From Reason to Intuition . . . . .	374



## FOREWORD

(To Be Read)

### A. The Lord's Prayer

I am going to give you the opening words of what is known as the Lord's prayer. Can you complete this prayer? "Our Father, who art in heaven. . . ."

This prayer is in the language of the King James Bible, which was published in 1611. Most English-speaking Protestants who were born prior to 1960 grew up listening to the language of this version of the Bible. For that matter, as I write this, over half of all the Bibles purchased in the United States are King James Bibles. This is after half a century of the publication of new translations of the Bible. The translation in second place, the New International Version, accounts for under 20% of sales. All the others are marginal.<sup>1</sup> People say they cannot easily understand the King James. They say the language is difficult. But, when push comes to shove, they recite the Lord's prayer and the twenty-third psalm in the King James translation. They probably would have trouble reciting any other version.

Can you recite the prayer?

There are two versions. One is in Matthew. One is in Luke. Most people who have memorized it have memorized Matthew's version.

Our Father which art in heaven, Hallowed be thy name. Thy kingdom come, Thy will be done in earth, as it is in heaven. Give us this day our daily bread. And forgive us our debts, as we forgive our debtors. And lead us not into temptation,

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1. Sarah Eekhoff Zylstra, "The Most Popular and Fastest Growing Bible Translation Isn't What You Think It Is," *Christianity Today* (March 13, 2014). (<http://bit.ly/KJV55>)

but deliver us from evil: For thine is the kingdom, and the power, and the glory, for ever. Amen (Matt. 6:19b–13).

You probably got it wrong. Most people say, “who art in heaven.” It is “which.” Most people say “done on earth,” It is “done in earth.”

Luke’s version is shorter.

Our Father which art in heaven, Hallowed be thy name.  
Thy kingdom come. Thy will be done, as in heaven, so in earth. Give us day by day our daily bread. And forgive us our sins; for we also forgive every one that is indebted to us. And lead us not into temptation; but deliver us from evil (Luke 11:2b–4).

For the purposes of this Foreword, Luke’s version is clearer: “as in heaven, so in earth.”

How much thought have you given to this phrase? Probably not much. That is why I am beginning here.

Exactly, what is to be done “as in heaven, so in earth”? The text in both versions of the prayer are the same: “thy will.” What about God’s will? Is it different in heaven from what it is on earth? No. Then what is source of the difference on earth? *People’s willingness and ability to do God’s will.* God’s will is the same in both realms. People’s responses are different on earth from what they are in heaven. Why? Sin. There is no sin in heaven.

Jesus assigned this prayer. The prayer specifically calls for a world in which His will is done on earth, just as it is in heaven. How much clearer could this be?

How much thought have you given to this? How much thought have you given to the implications of this in history—in your history and in everyone’s history? Let me venture a guess: not much.

Let me press the issue. Do you think Jesus has given His people a prayer that He does not expect God to answer? I hope not. Do you think Jesus has given His people a prayer that He does not expect His people to pray? I hope not. Do you think Jesus’ people have prayed this prayer for almost two millennia? I hope so. So, if they have prayed it, has He answered it? He has not answered it perfectly, for there is still sin. But has He answered it progressively?



Let me cite another part of the prayer: “Give us this day our daily bread.” Do you have daily bread? Yes. Do you have a little too much bread? Could you stand to lose a few pounds? You may have a few Cheetos, too. Chips and dip. Pizza. Dessert. Second helpings.

Do you worry about where your next meal is coming from? No. But there are people in the world who do worry about this. Most of them live in non-Christian societies.

God has answered this prayer over the last two centuries to a degree that He never did before in recorded history. How much gratitude has He received? If you read a textbook on economic history, I guarantee you that the author does not attribute this historical development to God’s answering of this prayer. This prayer first began to be answered on a permanent basis in the British Isles and the United States: the early phase of the Industrial Revolution. This began around 1800 (sometime between 1780 and 1820). The last famine in the West was in Ireland in the 1840s, which was not an industrial nation. So, this part of the Lord’s prayer has been answered in the West, beginning in the most Protestant and most entrepreneurial regions of the West. It has spread around the world.

The explanations for this development are numerous, but none of them holds up under cross-examination.<sup>2</sup> They all have this in common: they give the credit to man and his institutions. We have been warned about this.

And thou say in thine heart, My power and the might of mine hand hath gotten me this wealth. But thou shalt remember the Lord thy God: for it is he that giveth thee power to get wealth, that he may establish his covenant which he sware unto thy fathers, as it is this day (Deut 8:17–18).

Let us return to my original questions. Do you think God has given His people a prayer that He does not intend to answer? Do you think God has given His people a prayer that He does not expect His people to pray? Do you think God’s people have prayed this prayer for almost two millennia? So, if they have prayed it, has He answered it progressively?

Specifically, when you pray this prayer, do you expect God to answer it progressively? Do you believe that if our grandchildren continue to pray

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2. Deirdre N. McCloskey, *Bourgeois Dignity: Why Economics Can’t Explain the Modern World* (Chicago: University of Chicago Press, 2010).

this prayer, that they will see more evidence that God is answering it? If not, why not?

In other words, do you believe that things will become less sinful over time if Christians pray this prayer consistently, and also in faith? Remember James' words:

If any of you lack wisdom, let him ask of God, that giveth to all men liberally, and upbraideth not; and it shall be given him. But let him ask in faith, nothing wavering. For he that wavereth is like a wave of the sea driven with the wind and tossed. For let not that man think that he shall receive any thing of the Lord. A double minded man is unstable in all his ways (James 1:5–8).

If your answer is “no, things will get more sinful over time,” then why do you think Christ told us to pray the Lord's prayer? Why do you think that things will get progressively worse rather than progressively better? Why do you think God will answer this prayer as follows? “Thy will not be done, in earth as it is in heaven.”

Let me get to the famous bottom line. *Is your eschatology consistent with the Lord's prayer?*

## **B. Economics and Confession**

Modern economists are mostly atheists or functional atheists. They do not think that economic theory is in any way related to Christianity. They do not think the Bible provides insights into the way the world works economically, or is supposed to work economically. They believe that economic theory is autonomous. They do not think it rests on morality, theology, or any other academic discipline.<sup>3</sup> They think that economic laws—what they may prefer to call predictable patterns of behavior—are autonomous: self-reinforcing in all seasons.

I think economic theory, as with all other social sciences, is dependent on God's revelation in the Bible. So, I do not begin with Adam Smith in my quest to understand economics. I also do not begin with the Spanish

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3. A growing number of economists, called behavioral economists, believe that economics and psychology are intimately related. Most economists reject this assumption.

Scholastic economists of the sixteenth century, who rested their case for economics and politics on Aristotle's defense of natural law. I do not begin with the assumption of man's autonomy. I reject that assumption. I begin with the Bible's revelation of God, man, and historical causation. In this, I am different from other economists, including Christians who are academic economists.

In this book, I bring together into a coherent form—I hope—a set of conclusions that I have reached, which are based on a series of studies that I have labored on for over half a century. I offer these conclusions in terms of an assumption: *God's five-point biblical covenant model is the appropriate model for all social theory, including economic theory.* More than this: I argue that all systems of social theory rest implicitly on this five-point structure. All social theorists must adopt this structure if they are to offer consistent analysis. Social theorists are not self-conscious about this, but they cannot escape this structure. They supply different content, but they adopt the structure.

Here is the structure: sovereignty, authority, law, sanctions, and inheritance. Put politically: sovereignty, representation, law, voting, and succession. Put economically: ownership, stewardship, law, feedback, and economic growth. Put theologically: God, man, law, sanctions, and eschatology. Every social system has a theory of each of these categories, as well as a theory of their interaction. Here is the version for modern economics.

Sovereignty: man (either individual or collective)

Authority: reason

Law: evolutionary

Sanctions: profit/loss or bureaucratic

Inheritance: economic growth

In this book, I set forth a minimal description of how biblical economic theory manifests the covenant's five-point structure. I also set forth the content and logic of these five categories in the five covenants of the Bible: the dominion covenant, the individual covenant, the family covenant, the church covenant, and the civil covenant. These are oath-bound covenants. There is no covenant apart from a specific oath before God, either explicit or implicit. He holds every covenant member responsible in time and eternity for adhering to His standards of each covenant. Men substitute other standards. They suffer the consequences: negative sanctions.

## C. Inheritance and Disinheritance

This is the first book that has presented economic theory in terms of the five-point covenant model and its five covenants. The logic of the presentation will be unfamiliar to economists. It presents a new paradigm.

The number-one shift in the paradigm is with respect to sovereignty: God, not man. The second shift deals with authority: the Bible, not man's unaided reason. The third shift deals with law: revelational, not autonomous. The fourth shift deals with sanctions: imposed (exogenous), not merely autonomous (endogenous). Finally, inheritance: the wealth of the sinner is laid up for the just (Prov. 13:22b).

The manifestation of this shift can be seen in my starting point. I begin with ownership, not scarcity. Ownership is central, for the universe is theocentric. God created the heaven and the earth. Man did not. Man is the son of God, not the son of the Big Bang. The crucial question for every person is therefore this: "Am I an adopted child or a disinherited child?" Society will inevitably reflect the dominance of one of these two families: adopted or disinherited.

Economics, more than any other social science, is a science of inheritance. This book presents the biblical case for the economics of inheritance. But this presentation is necessarily also a theory of the economics of disinheritance.

## PREFACE

### A. Background to This Book

I began thinking about the question of Christian economics in the spring of 1960. I was in the second semester of my freshman year in college. I have been thinking about this ever since.

I recognized early that the approach in the tabloid, *Christian Economics*, was not Christian. It came out every two weeks. It was funded by the richest Calvinist in history, J. Howard Pew of Sun Oil. It was edited by a Quaker, who as far as I could see, was not a Trinitarian. The featured authors were usually agnostics. I had been reading *The Freeman* since 1958. In the summer of 1959, I had recognized clearly that it was not Christian in outlook, either. I wanted to know what connection there was, or wasn't, between the economics of these two publications and the Bible. I bought Ludwig von Mises' *Human Action* and F. A. Hayek's *The Constitution of Liberty* in June of 1960. I wrote down this date in the covers.

I did not make any great breakthroughs as an undergraduate. I continued to read Austrian School economists, but only sporadically. My immersion came in the three months that I worked for the William Volker Fund (Center for American Studies) in the summer of 1963. I was paid to read, which I did. I read Murray Rothbard's *Man, Economy, and State* (1962), *America's Great Depression* (1963) and *The Panic of 1819* (1962). I finally finished Mises' *Human Action*. I read Mises' *Socialism* (1922) and *The Theory of Money and Credit* (1912).

I attended Westminster Theological Seminary in Philadelphia for one year, 1963–64. There, my thinking became Reformed, though not yet Presbyterian. I abandoned my hyperdispensationalism as a result of a course I audited on the book of Romans. It was taught by John Murray. His exposi-

tion of Romans 11 converted me to postmillennialism. I also audited his course on sanctification. There, he introduced me to the three-part concept of sanctification: definitive, progressive, and final. While I did not at that time perceive that this tripartite structure also applies to covenantal collectives, it later re-shaped my thinking about economics.

I began writing for *The Freeman* in graduate school. My first article was in February 1967. I continued to write for *The Freeman* for the next 26 years.

My book, *Marx's Religion of Revolution*, appeared in 1968.<sup>1</sup> I used biblical social theory and Austrian School economics to refute Marx's system. *An Introduction to Christian Economics* appeared in 1973.<sup>2</sup> It was a compilation of articles. In the spring of 1973, I began to write my economic commentary on the Bible for the *Chalcedon Report*. I finished that project in February 2012, two weeks before my August 1977 vow expired. I had committed 10 hours a week, 50 weeks a year, to that project, to end on my 70th birthday. I had raised the funds to publish this through my Institute for Christian Economics, which I launched in 1975. I did not take a salary or book royalties. I shut it down in December 2001, because I saw that I could publish everything I wrote for free on the Internet. My fund-raising days ended after 25 years.

## B. The Biblical Covenant

The most important influence in my thinking after I began writing my economic commentary was Ray Sutton's development of the five-point covenant model. An early variant appeared in Meredith Kline's 1963 commentary on Deuteronomy, *Treaty of the Great King*. He in turn got the idea for this from George Mendenhall, who wrote about it in 1953. Sutton's book was far more developed than Kline's. I helped him edit the manuscript in 1986 and 1987. It went through several major revisions before my Institute for Christian Economics published it in 1987: *That You May Prosper: Dominion By Covenant*. Sutton presented the covenant model in this form:

1. God (transcendent yet immanent)
2. Hierarchy
3. Ethics

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1. [Http://bit.ly/gnmrro](http://bit.ly/gnmrro).

2. [Http://bit.ly/gnintro](http://bit.ly/gnintro).

4. Sanctions
5. Continuity

A reader recommended this re-structuring:

1. Transcendence/presence
2. Hierarchy
3. Ethics
4. Oath
5. Succession

The acronym is THEOS, the Greek word for God.

In my 1980 book, *Unconditional Surrender, God's Program for Victory*, I instinctively adopted the first three: God, man, and law. In the third edition, published in 1988, I added time. In the 2011 edition, I completed it by adding sanctions. I hope that this is the final addition. Here are the five inescapable components of covenant theology.

1. God
2. Man
3. Law
4. Sanctions
5. Time

This structure is visible in the Pentateuch.

1. Genesis (origins)
2. Exodus (authority)<sup>3</sup>
3. Leviticus (law)<sup>4</sup>
4. Numbers (sanctions)
5. Deuteronomy (inheritance)<sup>5</sup>

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3. The book is divided into five sections: (1) sovereign God (1–17); (2) judicial appeals courts (18); (3) laws (21–23:13); (4), oath (23–24); (5) inheritance (25–40). The Ten Commandments are two sets of five points each: priestly, kingly.

4. The book is divided into five sections: (1) five sacrifices (Lev. 1–7); (2) priestly, hierarchical cleansing of God's house and man's house, including the land—a means of deliverance (Lev. 8–16); (3) laws of separation (Lev. 17–22); (4) covenant-renewal festivals and covenant-breaking acts (Lev. 23–24); (5) inheritance (Lev. 25–27). The five sacrifices are structured in terms of the covenant.

5. The book is divided into five sections: (1) transcendence (1:1–5); (2) hierarchy

I put all this into one short (for me) book: *God's Covenants* (2014).<sup>6</sup> I also discussed the five covenants in history: dominion, individual, family, church, and state.

This laid the foundation for my identification of the five inescapable factors in all social theory.

1. Sovereignty
2. Authority
3. Law
4. Sanctions
5. Succession

It took me all of that time to come up with my outline for Christian economics. Only after I finished the commentaries did I formulate my theory. It comes in two parts, judicial and economic. The judicial principles are the foundations for Christian economics.

### **Judicial (theocentric)**

1. God owns everything.
2. God delegates ownership.
3. God prohibits theft.
4. God evaluates performance.
5. God mandates growth.

### **Judicial (representative)**

1. Ownership establishes responsibility.
2. Responsibility is personal.
3. Theft is illegal.
4. Oaths are binding.
5. Owners transfer ownership.

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(1:6–4:49); (3) ethics (5–26); (4) sanctions (27–30); and (5) continuity (31–34).

6. [Http://bit.ly/5covs](http://bit.ly/5covs).



## **Economic**

1. Owners allocate assets.
2. Prices identify costs.
3. People prefer more.
4. Scarcity imposes costs.
5. Growth reduces scarcity.

Here, in 45 words, are the foundations of Christian economics. I came up with this three-part formulation in early 2014. It is my goal to elaborate this in a multi-volume book on Christian economics, along the lines of *Human Action*, but much broader in scope. Mises considered only what he called *catallactics*: market exchange. Economics is far broader than market exchange. The free market operates in terms of exchange: substitution and free pricing. Ask yourself: “Can a man sell his wife?” Put differently: “Does a husband own his wife?” The answer to both questions is “no.” Therefore, the family is not governed by the laws of the free market, either the judicial laws or the economic laws.

## **Economic patterns of market exchange**

1. Owners allocate assets.
2. Money conveys authority.
3. Production is specialized.
4. Accounting guides production.
5. High bid wins.

## **C. Fundamental Law**

The dominion covenant (Gen. 1:26–28) defines mankind. Therefore, all social thought must begin here. By “must,” I mean a moral imperative. I also mean an epistemological imperative. But few Christians begin here. No humanists begin here.

Implicitly, all social thought does begin here. But social theorists are not self-conscious about this. They implicitly assume concepts of sovereignty, authority, law, sanctions, and time, but only rarely do they spell out in detail what their definitions of these categories are, and never in terms of the five consecutive points of the biblical covenant. But every system of

social theory has all five points. It takes effort to discover this structure. Any Christian who comes to any rival system of social theory owes it to his reader to identify these five points, and then analyze the system by means of, and in terms of, the biblical structure and content of these categories. But this is never done. Neither the Christians nor the rivals are self-conscious about the biblical covenant model. Christian readers are not provided with the most important tool of analysis: the biblical covenant model.

I am using this book as an example of how Christian social theory should be conducted, both from the point of view of laying the foundations of a specific area of social theory and as a model of analysis. If I had understood this in 1960, I would have saved a great deal of time. I hope to save other Christian social thinkers a great deal of time.

When we begin with the covenant, we begin with fundamental law: biblical law. This is where all social theory should begin. There are specific aspects of how biblical law applies to any social institution. But before these can be adequately developed, the Christian should understand the overall structure of fundamental law. This is the integrating framework.

Fundamental law preceded social law, both temporally and structurally. We must start with God's judicial sovereignty. God, as the Creator, laid down the law. He enforces the law. The Creator is the final Judge. He judges in terms of His law.

This means that law cannot be neutral with respect to God. This is why all neutrality is a myth. The quest for universal laws that stand apart from the doctrine of creation and final judgment is futile. Every alleged neutral system of law always imports highly unneutral assumptions into the procedure. Sometimes this is self-conscious. Usually, it isn't.

In the field of economic theory, the most widely used back-door operation is found in economic advice. Economists offer conclusions about what economic theory reveals is the most efficient solution. But this concept of efficiency is always deeply biased. Why? Because modern economics officially rests on the assumption of methodological individualism. But this principle is violated by every policy recommendation. Why? Because, according to modern economic theory, it is impossible to compare individual subjective utilities. In the language of economist Lionel Robbins, the student of Ludwig von Mises, it is scientifically impossible to make interpersonal comparisons of subjective utility. I return to this theme often in this book.

Every policy recommendation breaks this law. There is no way to measure social utility.

In their quest for neutrality, meaning value-free economic theory, economists seek a starting point that does not invoke a theory of original ownership. The most popular approach to evading the issue of original ownership is to begin with scarcity. Adam Smith began this tradition. He began *The Wealth of Nations* (1776) with a discussion of scarcity. But in doing so, he weakened the case for the free market. Socialists were able to proclaim socialism as a morally superior economic system, because it does not start with the acceptability of any initial distribution of wealth. Not until Ludwig von Mises in 1920 refuted the idea that socialism can be used to organize economic life rationally did the socialists lose the advantage of occupying what they said was the high moral ground. But the economics profession, other than followers of Mises, simply ignored his argument, or dismissed it as irrelevant, until the collapse of the Soviet Union in 1991.

I do not begin with the division of labor. I begin with ownership. There are original ownership and delegated ownership. God has original ownership. Mankind has delegated ownership. This, in my version of Christian economics, a judicial fact is central: ownership. An implication of this fact—the division of labor—is secondary.

This means that fundamental law undergirds economic theory. We must start with sovereignty, which is a judicial concept. We start with God's sovereignty. This creation of the universe out of nothing is a manifestation of His sovereignty. The dominion covenant is an aspect of the laws of creation.

## Conclusion

In this book, I present the structure of economic thought. This structure is covenantal, whether Christian or non-Christian. The five-point covenant is an inescapable concept. It is never a question of covenant vs. no covenant. It is a question of which covenant.

In the footnotes, you will find many references to my series, *An Economic Commentary on the Bible*. The books are available here as free downloads:

<http://www.garynorth.com/public/departments158.cfm>

What you will read here is like nothing else you have ever read. This is the first time that the biblical covenant model has been applied to an academic discipline. This is a work of reconstruction. It is to serve as a model for reconstructions in the other social sciences and humanities. I am laying the foundations for a re-thinking of economic theory and therefore of economic action.

I have known for half a century that this reconstruction would have a limited market. The economists do not care about theology, and the theologians do not care about economic theory. I went ahead with this project anyway. I am not responsible for the response of the market. I believe in supply-side economics. Supply may not create its own demand, but without supply, customer demand will not be aware of what is possible. Entrepreneurs must decide for them. Then the customers decide whether the entrepreneurs were correct.

The movie scene that drove this into my consciousness was in *Chariots of Fire* (1981). The sprinter Harold Abrahams has just been defeated by Eric Liddell in the 100-meter dash. (This never actually happened.) Abrahams is despondent. His girl friend tries to console him. (With a girl friend that good looking, I would have been easily consoled.) He says: "If I can't win, I won't run." She replies: "If you don't run, you can't win."

I plan to continue to run.

# **INTRODUCTION**



# INTRODUCTION

## Introduction

This book seeks to provide answers to two questions, which are treated as one question: “What do economists know, and how can they know it?” It is therefore a book on the epistemology of economic reasoning. This is not a popular topic. It never has been.

Let us begin at the beginning. What is economics? This seems like a simple question. It *is* a simple question. It does not have a simple answer.

James Buchanan won the Nobel Prize in economic science in 1986. Over two decades earlier, he had asked this question: “What is economics?” Here was his answer, or at least his affirmation of Jacob Viner’s answer. “Economics is what economists do.” Then what do economists do? To answer this, Buchanan then cited Viner’s associate at the University of Chicago, Frank H. Knight. “Economists do economics.”<sup>1</sup> I was amused by this circular explanation when I first read it as a first-year student at Westminster theological Seminary in Philadelphia in early 1964. I was probably the only seminary student in the United States who subscribed to the *Southern Economic Journal*.

The earliest definition was Xenophon’s. Over three centuries before the birth of Christ, he defined “economics” as “household management.”<sup>2</sup> This definition prevailed for the next 18 centuries. This is from the *Online Etymological Dictionary*.

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1. James Buchanan, “What Should Economists Do?” *Southern Economic Journal* (Jan. 1964). Reprinted in Buchanan, *What Should Economists Do?* (Indianapolis, Indiana: Liberty Fund, 1979), p. 18.

2. Xenophon, *The Economist*. ([Http://bit.ly/XenEcon](http://bit.ly/XenEcon))

1530s, “household management,” from L. *oeconomia*, from Gk. *oikonomia* “household management, thrift,” from *oikonomos* “manager, steward,” from *oikos* “house” (cognate with L. *vicus* “district,” *vicinus* “near;” O.E. *wic* “dwelling, village;” see *villa*) + *nomos* “managing,” from *nemein* “manage” (see numismatics). The sense of “wealth and resources of a country” (short for political economy) is from 1650s.<sup>3</sup>

Xenophon’s original meaning is correct. Economics has to do with stewardship. The owner manages property. But for whom does he manage it? *On whose behalf?* This is the central question of Christian economics, as well as Christian everything else: “On whose behalf?” *Who is the original owner?* The correct answer is this: the God of the Bible. The shift of meaning of economics, and therefore stewardship, which took place in the 1650s, marked the advent of modern economic theory.<sup>4</sup> This launched a series of debates over the crucial issue: “On whose behalf?” These debates are still going on. They will continue to go on.

This raises second issue: hierarchy. *To whom do I report?* Is there a representative in between me and the owner? Do I deal directly with the owner? Is there a higher court of appeal above me? In political theory, this used to be called the divine right of kings. It meant this: no higher court of appeal. Unless there is a divine right of me, there has to be some institution above me. In terms of Christian social theory, there are more than one. This is because the concept of the divine right of anything in the creation is not biblically valid. There are always multiple authorities in history. Each has its sphere of legitimate authority.

This raises a third issue: law. *What are the terms of the stewardship?* There is no stewardship apart from legal obligations of the steward. There is no responsibility apart from contracts and custom. The steward owes something to somebody. There are multiple somebodies—an inescapable implication of multiple authorities.

This raises a fourth issue: sanctions. When the focus of economics shifted from the household to the nation-state, this mandated a new set

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3. [Http://bit.ly/Oikon](http://bit.ly/Oikon)

4. William Letwin, *The Origins of Scientific Economics: English Economic Thought 1660–1776* (Cambridge, Massachusetts: M.I.T. Press, 1963).



of questions. They center on this issue: *What are economic success indicators?* The steward must have success indicators. Without these, he does not know if he is on the right track. But the appropriate success indicators in a household are different from success indicators in a nation-state. The success indicators of a nation-state are different from success indicators in a free market. Success indicators are hypothetical if there are no sanctions. The success indicators must have a system feedback: motivation to honor the success indicators.

Finally, there is the issue of inheritance or legal succession. *How is legal responsibility transferred through time?* Men are mortal. They die. They are replaced.

So, there are five fundamental economic issues, all of which are inescapably related: (1) Who is the owner? (2) Who is the steward? (3) What are the terms of this stewardship? (4) Which success indicators must stewards use? (5) What are the means of succession? These are the issues of sovereignty, authority, law, sanctions, and time. They are inescapable in all social theory. They apply in unique ways in economics, and therefore also in economic theory.

These issues are covenantal. They are therefore legal. This means that economics in practice rests on a legal order. But it goes much deeper than this. Economic law is a development of the legal order, which in turn is derived from a moral order, which in turn is derived from a covenantal order. Conclusion: economic practice is never neutral. Therefore, economic theory cannot be neutral. Economic practice cannot be value-free. Therefore, economic theory cannot be value-free. *Any attempt at value-neutrality is misleading.* The values will be imported from some other realm. They will be sneaked in through the epistemological back door.

## A. Five Covenants, Five Points

My work ever since 1987 has been a series of explorations of the five points of the biblical covenant—God, man, law, sanctions, and time—as applied to the five oath-bound covenants: dominion, individual, family, church, and state. This systematic research and publication program began with the publication of Ray R. Sutton's book, *That You May Prosper: Do-*

*minion By Covenant*. I helped him edit it. My Institution for Christian Economics published it.<sup>5</sup>

I self-consciously used this paradigm to write 29 of the 31 volumes of my comprehensive study, *An Economic Commentary on the Bible*. I had already structured my commentary on the Ten Commandments, *The Sinai Strategy*, which was volume three of the series, in terms of this five-point structure, but I wrote it in 1986.

The present volume is the first one to consolidate my findings. It is not a treatise on the way that economies and economic institutions work. It is rather a treatise on the theoretical foundations that undergird the actual economy. It is also not a work on epistemology: “What can we know, and how can we know it?” I may eventually write such a book. I have explored the epistemology of post-1870 economic theory in previous writings.<sup>6</sup> The central issue in this volume is this: *the imputation of economic value*. First, whose imputations count most? Second, how do individual imputations produce reliable information for accountable decision-makers who act on behalf of covenantal organizations?

## **B. The Two Main Mistakes of Academic Economic Theory**

All varieties of textbook-based economic theory rest on two conceptual mistakes. These mistakes are so comprehensive in scope and so traditional in operation that economists do not give them a second thought. First, there is the mistake of the narrow scope of economics. All textbook-based theories of economics apply overwhelmingly to the institution of the market for legally exchangeable goods and services. Second, all applications beyond this limited institutional sphere are derived from patterns of behavior that apply to this sphere: “more of the same.” Economists assume that these patterns of behavior also prevail in other spheres. They expect this transfer of patterns of behavior to different legal and cultural domains to provide

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5. [Http://bit.ly/rstymp](http://bit.ly/rstymp).

6. Gary North, “Economics: From Reason to Intuition,” in North (ed.) *Foundations of Christian Scholarship: Essays in the Van Til Perspective* (Vallecito, California: Ross House, 1976); North, *Sovereignty and Dominion: An Economic Commentary on Genesis* (Dallas, Georgia: Point Five Press, 2012), ch. 5; North, *Authority and Dominion: An Economic Commentary on Exodus* (Dallas, Georgia: Point Five Press, [1990] 2012), Appendix H.

explanatory power. But these transferred explanations of behavior rarely work well.

Let me give what should be an obvious example. There is no market-based system for buying and selling wives. There used to be. There is a book about this, but it was not written by an economist: *Wives for Sale*.<sup>7</sup> It is not a well-known book. The practice of auctioning off wives in the public square went on for two centuries in Great Britain, ending only in the early 1900s. It was not a legal market, but laws against it were not always enforced. It would be legitimate to apply economic theory to this market retroactively: subjective value theory, marginal benefit and marginal cost theory, and so forth. But these analytical tools throw little light on the concept of pricing in marriage relationships in general. There is no concept of ownership in marriage, and hence no theory of exchange. There is no legal open entry and competitive bidding.

Economics in its original sense of *household management* is at odds with textbook economics. What passes for economics today is an implicit denial of economics as defined from 350 B.C. to 1650 A.D. Students are not told this. The authors ignore it, because it has been ignored for over 350 years. But any theory of Christian economics should not ignore it. This is because all institutions are judicially related to one or more of the three covenantal institutions: family, church, and state. All institutions are part of the general dominion covenant (Gen. 1:26–28). All are related to the individual covenant.

Therefore, modern economics rests on deception. It rests on a self-imposed limitation: a refusal to develop a comprehensive theory of resource allocation. Economists claim that their theory is comprehensive. It is not. It is narrowly bounded. It offers no guidance, meaning no theoretical model, for understanding the issues of ownership and stewardship outside of market transactions.

## C. Mises on Praxeology and Calallactics

Early in the first chapter of *Human Action* (1949), Ludwig von Mises discussed what he called *praxeology* [PRAXeology], the general science of human action and choice. He coined the term. It has not been used outside

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7. Samuel Menefee, *Wives for Sale: An Ethnographic Study of British Popular Divorce* (London: Palgrave Macmillan, 1981). [Http://bit.ly/WivesForSale](http://bit.ly/WivesForSale).

the narrow circles of his disciples. He believed that praxeology is a true science. But he faced a problem. He did not specify what it is, precisely, or how it works outside of the narrow confines of market arrangements. “The modern theory of value widens the scientific horizon and enlarges the field of economic studies. Out of the political economy of the classical school emerges the general theory of human action, *praxeology*. The economic or catallactic problems are embedded in a more general science, and can no longer be severed from this connection. No treatment of economic problems proper can avoid starting from acts of choice; economics becomes a part, although the hitherto best elaborated part, of a more universal science, *praxeology*.”<sup>8</sup>

What did he mean by “catallactic”? He meant the free market social order: the realm of exchange. He described this in detail in chapter 14. “The subject matter of catallactics is all market phenomena with all their roots, ramifications, and consequences.”<sup>9</sup> More specifically, “Catallactics is the analysis of those actions which are conducted on the basis of monetary calculation. Market exchange and monetary calculation are inseparably linked together. A market in which there is direct exchange only is merely an imaginary construction. On the other hand, money and monetary calculation are conditioned by the existence of the market.”<sup>10</sup>

Catallactics is a subset of praxeology. “The scope of praxeology, the general theory of human action, can be precisely defined and circumscribed. The specifically economic problems, the problems of economic action in the narrower sense, can only by and large be disengaged from the comprehensive body of praxeological theory.”<sup>11</sup> Mises presented his theory of praxeology in terms of individual ranking of values. Men make decisions at the margin, pursuing their highest value. They exchange conditions over time.

But there was a problem. *He never elucidated this theory of praxeology outside of catallactics.* In his most famous and most important contribution to economics, his theory of the irrationality of socialist economic planning, he stated that socialist economic planning is economically irra-

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8. Ludwig von Mises, *Human Action: A Treatise on Economics* (New Haven, Connecticut: Yale University Press, 1949), Introduction, Sect. 2.

9. *Ibid.*, ch. 14, Sect. 1.

10. *Idem.*

11. *Idem.*

tional. Central planners cannot plan rationally apart from prices generated on a free market. “Thus, in the socialist commonwealth, every economic change becomes an undertaking whose success can be neither appraised in advance nor later retrospectively determined. There is only groping in the dark. Socialism is the abolition of rational economy.”<sup>12</sup> Socialism is irrational because there are no monetary prices that correspond with supply and demand. There is no market. There is no private ownership. “Calculation *in natura*, in an economy without exchange, can embrace consumption goods only; it completely fails when it comes to dealing with goods of a higher order. And as soon as one gives up the conception of a freely established monetary price for goods of a higher order [i.e., capital goods—G.N.], rational production becomes completely impossible. Every step that takes us away from private ownership of the means of production and from the use of money also takes us away from rational economics.”<sup>13</sup>

We could also say, “irrational is as irrational does.” The planners are blind. They are not economically rational. But then what can we say about the nature of this irrationality? How can we specify its irrational characteristics in a scientific way? We can make lists of gluts and shortages, but we can explain these only by way of the logic of market exchange and monetary prices. Without the market, there is no way to analyze the nature of socialism’s irrationality. There are no theories of irrational behavior that apply in a consistent, predictable way. There is no theory of socialist economics. Yet socialists do act. They just do not act rationally. So, praxeology has nothing to say about socialism, other than this: it is irrational. This places it outside the realm of rational economic analysis.

Without economic calculation there can be no economy. Hence, in a socialist state wherein the pursuit of economic calculation is impossible, there can be—in our sense of the term—no economy whatsoever. In trivial and secondary matters rational conduct might still be possible, but in general it would be impossible to speak of rational production any more. There would be no means of determining what was rational, and hence it is obvious that produc-

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12. Mises, *Economic Calculation in the Socialist Commonwealth* (Auburn, Alabama: Mises Institute, [1920] 1990), p. 23.

13. *Ibid.*, p. 17.

tion could never be directed by economic considerations. What this means is clear enough, apart from its effects on the supply of commodities. Rational conduct would be divorced from the very ground which is its proper domain. Would there, in fact, be any such thing as rational conduct at all, or, indeed, such a thing as rationality and logic in thought itself?<sup>14</sup>

This leads to an inescapable conclusion. *There is no science of human action inside a purely socialistic commonwealth.* There are no axioms, no corollaries. There is no way to analyze the specific hierarchy of errors. There is no way to explain action in such a commonwealth. There are no profits or losses. There is only chaos. There is no science of chaos.

Then what of the family? The church? The state? Are there subdivisions in the science of human action? Are these subdivisions capable of being analyzed in the way that market transactions are? In a world without profit and loss revealed by means of monetary prices and double-entry book-keeping, how can the science of human action be applied? These are not trick questions. They are the heart of economic science.

What Mises identified as catallactics has been the domain of economists ever since the seventeenth century. Here is where most of the advances have been made by economists. They have made only sporadic advances regarding those institutions outside of the market exchange process. These advances consist of insights into market-oriented decision-making within non-market institutions. I think of public choice theory. It applies a handful of market-deduced insights regarding the quest for individual self-interest, but inside the domain of civil government. The public choice economist searches for concealed non-monetary exchanges that would otherwise have taken place through market exchanges, except that they would have been illegal. But there is no broad theory of human action inside the confines of civil government, family government, and church government. So, economics as the study of household management does not exist. The household is not an institution based on monetary exchange, competitive bidding, and a market for the capitalization of future streams of income. In this sense, it is like the socialist commonwealth. By the standards of praxeology, these non-market institutions are irrational.

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14. *Ibid.*, p. 18.

I argue that they are not irrational. They are stewardship institutions. There will be a day of final accounting. There is ongoing accounting, which conveys accurate information regarding the final day of accounting.

## D. Epistemology

Epistemology asks two questions, which are usually treated as one: “What can we know, and how can we know it?”

This question is almost never asked by economists. Historians have written extensively on epistemology. It has a different name: historiography. As an undergraduate history major in 1963, I had to take a course in historiography. I collected dozens of books on this. I own almost no books on economic epistemology. That is because there are so few. I have never heard of a graduate level economics course on epistemology. I have not heard of one on methodology, which is close to epistemology. There are books on this, but they do not go into such issues as realism vs. nominalism, which is at the heart of any theory of value. The crucial issue of economics is the relationship between value and price. Value is subjective, we are told, but prices are objective. How are these related? Economists cannot say, so they do not discuss this. This silence does not mean that they do not operate constantly on the assumption that they have provided an answer. They assume that the problem has been solved, somewhere, by someone. It hasn’t.

For all the seeming precision of mathematical equations and statistical correlations, economists have yet to show how, in theory, these equations in any way relate to the statistical correlations. The old statement, “correlation is not causation,” is relevant here. This is the ancient problem of *theory*, which is in theory constant, and *history*, which is always changing. It is the debate of the pre-Socratic philosophers, Parmenides (theory) and Heraclitus (history). The debate has yet to be reconciled. Economists are in the middle of it, yet they seem oblivious to its existence, let alone their immersion in it. One aspect of epistemology which is occasionally mentioned is the logic of deductive reasoning—axioms and corollaries—vs. inductive reasoning: facts-based., facts-derived theory.<sup>15</sup> Most economists pretend

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15. I discussed this dualism in 1976: “Economics: From Reason to Intuition.” in Gary North (ed.), *Foundations of Christian Scholarship: Essays in the Van Til Perspective* (Vallecito, California: Ross House, 1976), ch. 3. I have reprinted this in the Appendix.

to be adherents of inductive reasoning. They aren't. They are notoriously governed by their theories of how the world just has to work. The school of opinion known as behavioral economics, which appeared in the 1970s, relies heavily on psychology to explain economic behavior. The problem is, they have yet to publish a comprehensive theory to integrate their findings.

The heart of their problem is this. They argue that economic value is subjective. It is imputed by acting individuals. This was the great insight of Austrian economist Carl Menger in 1871. The problem is, once you accept this, you must abandon all economic aggregates. You must abandon all policy recommendations. Why? Because the imputations of value by individuals are said to be autonomous. There is no common scale of economic value. If there were, it would have to be objective. It would have to be measurable. No such value scale exists outside of the mind of an autonomous economic actor. This fact undermines virtually all of modern economics. It converts economics into a cacophony of competing opinions. It undermines all claims that economics is a science. This has been known ever since 1938, when two economists debated it publicly: Roy Harrod, Keynes' colleague and disciple, and Lionel Robbins, Mises' disciple. I shall return to this theme repeatedly in this book. I have been hammering on this ever since 1982 in my book, *The Dominion Covenant: Genesis*, the original first volume in my 31-volume economic commentary on the Bible.

## E. Mises on Epistemology

This book is my answer to an assertion by Mises. Mises wrote:

Theology and the metaphysics of history may discuss the ends of society and the designs which God wants to realize with regard to society in the same way in which they discuss the purpose of all other parts of the created universe. For science, which is inseparable from reason, a tool manifestly unfit for the treatment of such problems, it would be hopeless to embark upon speculations concerning these matters.<sup>16</sup>

I disagree with his view of science. His view is the common view in this, the era of Immanuel Kant. The assertion of a permanent epistemo-

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16. Mises, *Human Action*, ch. 8, sect. 1.



logical separation of the theological-metaphysical realm—assuming that it even exists—from the realm of science is systematic on the part of modern scientists. University textbooks in every academic discipline reflect this separation. Economics was the first social science to adopt the assumption of theological and ethical neutrality.<sup>17</sup>

Mises extended his critique to include the idea of God's providence. In defending the idea of autonomous individuals in an autonomous social order, he wrote that "it is not necessary to have recourse to a doctrine, certainly offensive to a truly religious mind, according to which the original creation was so defective that reiterated superhuman intervention is needed to prevent its failure."<sup>18</sup> I reject his suggestion that the distant and aloof god of an alleged form of deism which in fact has never had any adherents is somehow the creedal affirmation of "the truly religious mind." I also reject his affirmation that either man or society is autonomous.

In this book, I present an explicitly Trinitarian approach to economic theory. I wrote a preliminary consideration of the structure of Christian economics in *Inherit the Earth: Biblical Blueprints for Economics* in 1987.<sup>19</sup> That book was shorter than this one. It did not deal systematically with all five oath-bound covenants: dominion, individual, family, church, and state. Like this book, that book was structured in terms of the five points of the biblical covenant.<sup>20</sup>

There have been a handful of economists who have argued in favor of one or another economic system in terms of its alleged conformity to Christianity. None of them has gone to the Bible as the starting point for his reasoning. None of them has been epistemologically self-conscious, challenging the presuppositions of modern economic theory in terms of biblical revelation. Most important, none of them has based his claims on 31 volumes of verse-by-verse expositions of biblical texts that deal with economics or issues intrinsic to economic reasoning. I have.

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17. Letwin, *Origins of Scientific Economics*.

18. Mises, *Human Action*, ch. 8, sect. 2.

19. Gary North, *Inherit the Earth: Biblical Blueprints for Economics* (Ft. Worth, Texas: Dominion Press, 1987). (<http://bit.ly/gninherit>)

20. Ray R. Sutton, *That You May Prosper: Dominion By Covenant*, 2nd ed. (Tyler, Texas: Institute for Christian Economics, 1992). (<http://bit.ly/rstymp>)

If we date the origin of modern economic theory with the School of Salamanca in the sixteenth century,<sup>21</sup> then economic theory originally rested on natural law theory, not the Bible. If we date the origin with the mercantilists of the late-seventeenth century, then modern economic theory rests on the assumption of the autonomy of the mind and the power of mathematical reasoning. English mercantilism was self-consciously opposed to any appeal to religion or morality. The founders were in reaction against the English Civil War between Puritans and the King's forces (1642–49). They were also reacting against the Thirty Years' War in Germany between Protestants and Catholics (1618–48). These men had lost faith in the ability of men to come to any agreed-upon conclusions regarding either religion or morality. They tried to create a morally neutral science of economics on the basis of man's universal and autonomous logic.<sup>22</sup>

If we date economic theory with David Hume's mid-eighteenth century essays on trade, in which Hume reacted against the mercantilists' defense of government-controlled trade, we see that his methodology was equally committed to man's autonomous mind. The same is true of Adam Smith's *Inquiry into the Wealth of Nations* (1776). The moralism and deism of his *Theory of Moral Sentiments* (1759) were completely absent from his later book. It was the second book, not *The Theory of Moral Sentiments*, which launched the great debates over economics.

Smith began *The Wealth of Nations* with a discussion of the division of labor. This was a conceptual blunder with negative consequences. It was a strategic blunder with even worse consequences. There is nothing unique about the division of labor under the free market compared with socialism. What is unique under capitalism is private property. Smith had begun the first lecture of the first series in his *Lectures on Jurisprudence* (1760) with an affirmation of private property. But this document was not published until 1978.<sup>23</sup>

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21. Murray N. Rothbard, "Late Medieval Origins of Free Market Economic Thought," *The Journal of Christian Reconstruction*, II (Summer 1975). (<http://tinyurl.com/RothbardMedieval>); Rothbard, "New Light on the Prehistory of the Austrian School," in Edwin G. Dolan (ed.), *The Foundations of Modern Austrian Economics* (Kansas City: Sheed & Ward, 1976), pp. 52–74. Alejandro A. Chafuen, *Christians for Freedom: Late-Scholastic Economics* (San Francisco: Ignatius, 1986).

22. Letwin, *Origins of Scientific Economics*.

23. Tom Bethell, *The Noblest Triumph: Property and Prosperity Through the Ages* (New York: St. Martin's, 1998), p. 97.

The opening salvo against Smith's defense of capitalism came from William Godwin in 1793: *Enquiry Concerning Political Justice*.<sup>24</sup> He attacked the idea of private property. The connected questions of property and ownership became the supreme intellectual issues in economics over the next two centuries. In the twentieth century, they became the supreme political issues: capitalism, fascism, socialism, and communism. Yet Smith devoted very little space to a discussion of private property in *Wealth of Nations*. This weakened the work of his successors. It also opened the door for socialist critics to offer rival views of economic cause and effect.

## F. Trinitarian Economics

It is the great benefit of the Austrian School economists that they do begin with individual motivation and decision-making, namely, human action. This is why the Austrian School's approach to economics is more closely aligned with Christian economics than any other rival system of economics. More than any other interpretive school of economics, the Austrian School begins with subjectivism, meaning subjective value theory, and extends it to every aspect of the market process. There are limits epistemologically to this approach, but these limits are not nearly so debilitating conceptually as the assumption of corporate or aggregate economics. In other words, microeconomics is the heart of economics, not macroeconomics. In saying this, however, I am saying it in terms of the biblical covenantal structure of economics, which begins with God and not man. I am saying this as someone who believes that man is made in the image of God, a creature who thinks God's thoughts after Him, and who is totally responsible to God for his thoughts, motivations, and actions.

### 1. *The Image of a Trinitarian God*

Man is made in the image of God. This is true individually, and it is also true corporately. Christian economics teaches that God is both one and three. Mankind is therefore both individual and corporate. So, when we speak of economics, we speak of both microeconomics, which rests on the assumption of individual responsibility and legal authority, and also macroeconomics, which rests on the assumption of corporate responsibility and

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24. *Ibid.*, p. 103.

legal authority. We say that God is both one and many. We should say that there is an *equal ultimacy* of the one and the many. This is what theologians sometimes call the doctrine of the *ontological* Trinity. It deals with the essence of God's being.

Nevertheless, theologians also speak of a hierarchy of authority within the being of God. There is a Father, a Son, and a Holy Ghost. This is sometimes called the doctrine of the *economic* Trinity. This has nothing to do with prices and exchange. It has to do with the original Greek meaning of *eco*, namely, family or household. Economics is the law (*nomos*) of the household. Within the Trinity itself, there is a hierarchy. There is a system of authority. There is therefore the possibility of an inter-Trinitarian covenant or series of covenants. This is not much discussed by theologians, but it underlies all covenant theology. When God said "Let us make man in our own image," this was not hyperbole. This was not a "plural of majesty," as unitarians call it. This was a corporate decision.

If there is equal ultimacy of the one and the many in the Trinity, why isn't there an equal ultimacy of the one and the many in the methodology of economics? Why isn't macroeconomics equally ultimate to microeconomics? The Christian economist should reply that they are equally ultimate covenantally, meaning judicially. The law of God and the historical sanctions of God are equally ultimate, according to the Mosaic law. That is to say, judicially they are ultimate. But economics is more about individual motivation than judicial structure. With respect to motivation, because of the nature of eternal sanctions, methodological individualism has greater motivational power, and therefore greater methodological power, than holism or collectivism. This is why Jesus constantly referred in His parables to individual motivation. Several of them were what I call pocketbook parables. They had to do with money.

## ***2. Judicial Representation***

Here is a preliminary conclusion: economic science rests more heavily on methodological individualism than political science does. Here is one application of this insight. There are methodological limits to that school of economic thought known as public choice theory. Public choice theory rests on this assumption: people who act in their capacity as agents of the civil government are not motivated differently from people who are agents

of a small business which they own or which their family owns. They are equally governed by self-interest, says the public choice economist. They are, indeed. This is a fundamental implication of the doctrine of the final judgment. But this does not mean that civil office holders are as motivated by financial gain as an entrepreneur is. The covenantal structure of the civil government is different from the covenantal structure of a profit-seeking business. The rules are different. The sanctions are different.

The state is far more about judicial affairs than economic affairs. It is more about the exercise of power than about the accumulation of wealth. It therefore displays the characteristics of corporate action, which is individual action on behalf of a separate covenantal jurisdiction. In the case of the civil covenant, personal motivation is strongly corporate. Again, this has to do with power more than money, and *power is corporate*. So, while we should not ignore personal motivation of many actors when we analyze the exercise of unitary civil authority, we should not elevate it over corporate motivation. When a person exercises corporate authority, he is not supposed to “look out for number one” (himself). Rather, he is to look out for the group. This is obvious in the case of the family covenant. It also applies to the civil covenant and the church covenant.

This sense of *covenantal obligation* in history is inherently strong in every office-holder. Why? Because God judges—evaluates and imposes sanctions—all of those who serve as judges. He judges them in terms of a higher ethical standard than He judges individuals who do not possess judicial/covenantal authority. There is one passage in the Bible above all others that teaches this: Leviticus 4.<sup>25</sup> The fundamental principle of ethical responsibility is this: *with greater knowledge comes greater personal responsibility* (Luke 12:47–48).<sup>26</sup> This applies to judges—in family, church, and state—more than to other positions of institutional authority. Why? Because men in a covenantal office represent God in His office as the supreme judge: the sanctions-bringer. This is why men are warned throughout the Bible not to use false weights and measures. In civil government, this is a metaphor for false judgment. Judges must judge impartially (Lev. 19:15).<sup>27</sup> They must not

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25. Gary North, *Boundaries and Dominion: An Economic Commentary on Leviticus*, 2nd ed. (Dallas, Georgia: Point Five Press, [1994] 2012), ch. 4.

26. Gary North, *Treasure and Dominion: An Economic Commentary on Luke*, 2nd ed. (Dallas, Georgia: point Five Press, [2000] 2012), ch. 28.

27. North, *Boundaries and Dominion*, ch. 14.

seek bribes. They must uphold God's law. They know this. It is part of the work of the law written in their hearts (Rom. 2:14–15).<sup>28</sup>

I want to make crystal clear what I am saying here. Christian economics is fundamentally judicial. It is therefore fundamentally moral. It is not value-free. So, I begin my analysis with judicial categories:

1. God owns everything.
2. God delegates ownership.
3. God prohibits theft.
4. God evaluates performance.
5. God mandates growth.

The economic categories are applications of these judicial categories. This is why I begin with God's sovereignty. This is a *legal category*, not an autonomous economic category.

## G. The Bible Is a Blueprint

In books and articles written by Protestant evangelical academic scholars, we read this phrase: "The Bible is not a blueprint on. . . ." The author will then list his academic discipline: economics, sociology, psychology, or whatever.

What does this phrase mean? It has objective meaning. It also has subjective meaning. Its objective meaning is this: the Bible does not provide supernaturally authoritative principles that govern the theoretical foundations of an academic discipline, nor does it in any way govern the discipline's applications in practice. Its subjective meaning is this.

I received an advanced economic degree from a university that is accredited by humanists. It was officially secular. Supernaturally revealed was by excluded as an authoritative source of propositional truth. I have not deviated from the outlook of that training. So, when I examine my academic discipline, I do not let supernatural revelation affect my presuppositions. Therefore, I say with authority, that the Bible is not a textbook on [fill in the field], because if

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28. Gary North, *Cooperation and Dominion: An Economic Commentary on Romans*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 3.

it were a textbook, I then have sold my spiritual birthright for a mess of pottage. I do not want to face this possibility, so I say with all of the authority that I possess because of my training, the Bible is not a textbook on [fill in the field].

I have seen this in book after book: “The Bible is not a textbook on economics.” My favorite example is the 1984 book, *Wealth and Poverty: Four Christian Views of Economics*.<sup>29</sup> I was one of the four. The others were defenders of Keynesianism’s mixed economy, state central planning, and small-community agriculture with property held in common. Each of the other three authors insisted that the Bible is not a textbook in economics. That was because the Bible explicitly establishes a private property system that denies the legitimacy of each of the other three positions. I, in contrast, cited dozens of passages that explicitly affirm the legitimacy of private property. I have written 31 volumes of economic commentaries on the Bible that demonstrate the truth of this position: “The Bible offers a blueprint for economics.”

## Conclusion

This book begins with the issue of ownership. It does so because the concept of ownership is an aspect of the doctrine of creation. Every academic discipline should begin where the Bible does: with the doctrine of origins. Every academic discipline rests on a specific concept of origins. Because scholars like to pretend that their disciplines are ethically neutral, they find it convenient to avoid straightforward discussions of origins. This controversial and complex issue points back to theology, or at least to cosmology. Scholars regard both issues as peripheral in the construction of the social sciences. So, they build their systems in terms a set of assumptions about origins, but only rarely are these assumptions admitted publicly and used explicitly to develop the overall discipline. But there is no escape from the concept of origins and its implications. These implications are smuggled into each academic discipline through the back door.

It is time to get the doctrine of origins front and center.

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29. Robert Clouse (ed.), *Wealth and Poverty: Four Christian Views of Economics* (Downers Grove, IL: InterVarsity Press, 1984). (<http://bit.ly/ClouseWAP>)





## **Part I**

# **THE ECONOMIC STRUCTURE OF THE DOMINION COVENANT**



## INTRODUCTION TO PART I

In every field of thought, we are required by God to begin with two premises: (1) God is absolutely sovereign; (2) nothing in the creation is autonomous. These are implications of the biblical doctrine of creation. God created the universe out of nothing.

The economy is not autonomous. Economic theory must therefore not begin with any concept of man or society as autonomous. This declaration is the heart, mind, and soul of this book.

Economics is the study of production and consumption in a world governed by scarcity. Scarcity is defined as follows: “At zero price, there is greater demand than supply.” When this is the case, scarce resources are allocated by price. The question is: What kind of price? Money? Power? Good looks? Inescapably, all prices are set by competitive bidding.

The economy is under the authority of God. This authority is manifested covenantally. Covenants are established by men under God. Men bind themselves legally by an oath that involves penalties for disobedience. These are called self-maledictory oaths. They implicitly call down God’s negative sanctions on the oath-takers for any future disobedience. There are five of these covenantal oaths in history: dominion, individual, familistic, ecclesiastical, and civil. Each of these covenants has stipulations governing the economic process. Conclusion: the economy is not autonomous.

The dominion covenant is the overall covenant for all mankind. It was established by God on behalf of mankind before the first man was created. The confirming oath was made by God as a representative of all mankind. God said what mankind must do. Man did not confirm this oath. It was an implicit oath. It is like citizenship. No formal oath is taken by native-born

citizens, but it is implied. A citizen is allowed to vote at some age. But it takes no public oath of allegiance to obtain a voting card.<sup>1</sup>

The economy is primarily the outgrowth of the family, though to a lesser extent, individuals. This is because property is owned mostly by families. Both church and state are supported by revenues generated by families and individuals, including the modern judicial individual, the limited liability corporation. Thus, economics is governed primarily by laws governing the family and individuals.

The fundamental issue of economics is God's original ownership. The subordinate issues are man's stewardship, private property, scarcity, and economic growth. Economics is the study of how owners allocate scarce resources that are under their legal authority.

The great debate among humanistic economists is this: Who owns what? Competing schools of economic thought generally divide into two factions: defenders of private property and defenders of state property. This is a debate over sovereignty, although the debaters rarely admit this. Most of them seem unaware of this fact.

Christian economics has its version of these same two factions, but Christian economists have usually come down heavily on the side of private property. I have written 31 volumes of Bible commentaries to demonstrate why this conclusion is warranted biblically.

The fundamental question for economic theory is almost never debated by economists, even by Christians who are economists: To whom has God delegated trusteeship in history?

Thus, in Chapter 1, I begin with God's ownership. God has a lawful claim on everything, including all men. He has delegated ownership mainly to families and individuals, but also to civil governments and churches, which have lawful claims as agencies of God. We must go to the Bible in our search for legal principles of jurisdiction over property. This, economists have not done in the past in a systematic fashion. They have turned to supposedly common ethical principles of supposedly autonomous natural law. I do not.

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1. In the United States, a public oath is required of all foreign-born candidates for citizenship. They swear the oath immediately prior to being granted citizenship.

# 1

## THE JUDICIAL SOVEREIGNTY OF GOD

### Introduction

When we begin our discussion of Christian economics, we must begin with this conceptual outline:

1. God owns everything.
2. God delegates ownership.
3. God prohibits theft.
4. God evaluates performance.
5. God mandates growth.

These are *judicial categories*. They have to do with original ownership, delegated temporary ownership to mankind, a legal defense of specific units of property, God's temporal and final judgments, and the extension of the kingdom of God in history. All economic thought implicitly reflects this judicial structure. We cannot think economically apart from these judicial categories.

Point one is the legal issue of sovereignty. What is sovereignty? It is *autonomous power*. It answers to no one. There is no court of appeal higher than the court of the sovereign. Being absolutely sovereign because of its absolute autonomy, the court therefore also possesses *authority*. This court is legitimate. Those under its jurisdiction have a moral requirement to obey. Obedience is to be a manifestation of self-government under law.

Sovereignty is the ability to impose one's will both by force (power) and legitimate authority, which deserves obedience on moral grounds. Sovereignty establishes that which the subordinates owe the sovereign. Sover-

eignty can compel the payment of whatever is owed, whenever that which is owed is not paid. In the deepest sense, *sovereignty is personal*.

Sovereignty identifies the answer to this question; “Who is in charge here?” This is point one of the biblical covenant: the God who is transcendent and also present.

The sovereign is not required to explain his reasons for doing anything. He explains himself only by His grace: a gift unmerited by the recipient. The Book of Job is the premier book in the Bible on sovereignty. Job demanded an explanation from God (chapters 2–37). He was not entitled to one, yet he was given one. What was it? “I’m God, and you’re not” (chapters 38–41).<sup>1</sup>

All human thought necessarily begins with an underlying presupposition regarding sovereignty. This is stated explicitly or else is implicitly presumed: either the sovereignty of God or the sovereignty of some aspect of the creation. In the modern world, the most widely believed alternative to the sovereignty of God is the sovereignty of man, either individual or collective.

The world of Darwinian humanism officially begins with an assumption: the absolute sovereignty of an unplanned, evolving, impersonal universe. Yet the word “sovereignty” is carefully avoided. Instead, the doctrine of sovereignty is smuggled into the humanists’ worldview by means of the same issue by which the doctrine of sovereignty is openly proclaimed in Christianity: the account of origins.

### *1. Bait and Switch*

This is the first step in what police describe as a bait-and-switch operation. A bait-and-switch operation is a strategy by which a seller persuades shoppers to buy that which they had no intention of buying when they walked into the store. The seller’s advertising campaign promises to sell a desirable item at a very low price. Once the customer walks into the store, the salesman tells him that the store is out of stock of the sought-after item. He then uses his sales skills to sell the customer a more expensive product. This tactic is illegal in most local jurisdictions in the United States. It is classified as a fraud. Why? Because it steals time from customers.

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1. Gary North, *Predictability and Dominion: An Economic Commentary on Job* (Dallas, Georgia: Point Five Press, 2012), ch. 6.

The bait in the modern concept of origins is the desire of covenant-breaking man to eliminate the God of the Bible from this world. Covenant-breaking man seeks cosmic autonomy. *Man's cosmic autonomy is the central theme in a vast advertising campaign, which is promoted by the modern educational system.* The world is said to have begun with the autonomous and totally impersonal Big Bang, rather than with God's creation of the universe out of nothing. The concept of something coming out of nothing in no way repels the modern cosmologist. After all, the infinitely dense and infinitely tiny substance that originally expanded within a tiny fraction of a second, which took place about 13.7 billion years ago, became the universe. It came out of nothing, or so most modern evolutionary cosmologists believe.<sup>2</sup>

The modern cosmologist systematically rejects any suggestion that a sovereign being created the universe with a purpose in mind. Even the suggestion that the autonomous universe had its own autonomous purpose is rejected. This idea was Darwin's original target for destruction. It is today called "intelligent design." It is anathema to orthodox Darwinists, just as it was for Darwin. So, *it is the concept of **original purpose**, not the concept of **something from nothing**, which repels the modern cosmologist.* The cosmic expansion of the uncreated, unexplained, impersonal, and autonomous substance that comprised the source of everything that came later is said to be all there ever was and all there will ever be. This is the bait: a world without a sovereign God who has created heaven, hell (Luke 16), and the lake of fire (Rev. 20:14–15).

The universe is said to be very big. The universe is also said to be very old. The bigness of the universe is used to affirm its oldness.<sup>3</sup> The earth is a mere speck in this very big, very old universe. This *speck theory* is also an aspect of the bait. It is bait because it reduces man's immediate environment to *cosmic insignificance*. In doing this, the cosmologists are attempting to push the creator God out of the universe by means of the universe's age and size. Man is thereby reduced to cosmic insignificance.

This step is crucial, because the first chapter of Genesis affirms that man is the image of God (Gen. 1:26). The second chapter describes a hier-

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2. A few cosmologists believe in an oscillating universe, with the universe always existing: expanding and contracting forever. "New Theory Provides Alternative to Big Bang," *Science Daily* (April 30, 2002). This is hardly a new theory. It goes back thousands of years. The mathematics is new.

3. The prevailing theory linking time with size is the red-shift phenomenon.

archy in which the sovereign Agent places a representative man under a law, and then announces the sanction of death for violating this law. Such a view of man's origins rests on a doctrine of God's sovereignty, which stems from His omnipotence in creating the universe and His omniscience in evaluating it, day by day, on his own authority: "It is good." *God is both original creator and final judge*. He is final judge because He is the original creator. So, to escape his fear of final judgment, humanist man is required to accept mankind's cosmic insignificance. But only briefly.

At some point in time—approximately 3.5 billion years ago, according to the latest widely accepted theory (sure to be revised)—life on earth evolved out of a lifeless environment. Life, like the universe, was originally uncreated, purposeless, and autonomous. The appearance of life, like the Big Bang, was a discontinuous event: the second discontinuous event.

This is the bait. Then comes the switch. Over time, life evolved until the third cosmic discontinuity took place: the evolution of man. Man is said to be unlike anything that preceded him. Man can plan. He is purposeful. He shapes the present in terms of a vision of the future. *With man, purpose entered what had been a purposeless environment*. This makes man fundamentally different from the rest of his environment, and possibly unique in the entire universe. Man arose out of purposelessness, but he now imposes change on his environment in terms of his purpose. Purpose is therefore original with mankind. *Original purpose is seen by humanists as the central factor in defining sovereignty*. In this regard, they agree with Christians. The debate is over who the original sovereign is: God or man?

## 2. *Origins and Sovereignty*

So, what begins with an affirmation of cosmic purposelessness, which is an assertion of the absence of cosmic sovereignty, soon becomes an affirmation of the unique sovereignty of man, at least on our little speck of the universe.<sup>4</sup> This is *sovereignty by default*.

Every post-Darwin academic discipline begins with this version of man's origins. The doctrine of cosmic origins shapes everything that follows. *The doctrine of cosmic origins conveys the doctrine of sovereignty*. This is why

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4. Gary North, *Sovereignty and Dominion: An Economic Commentary on Genesis* (Dallas, Georgia: Point Five Press, [1982] 2012), Appendix A: "From Cosmic Purposelessness to Humanistic Sovereignty."



the Bible begins, “In the beginning God created the heaven and the earth” (Gen. 1:1). These words convey a specific doctrine of sovereignty: God, not the universe or any aspect of it, is sovereign.

In all academic versions of economic thought, the sovereignty of man is the operating presupposition. Economists rarely discuss economics in terms of a seemingly political or even philosophical idea, which “sovereignty” surely is. The main exception was free market economist William H. Hutt. In 1935, he coined the term *consumer sovereignty*.<sup>5</sup> In free market circles, this phrase has caught on to a limited extent.

The question of sovereignty is inescapable. It can be concealed, but it cannot be avoided. The great debate between socialists and capitalists has been over the nature of the sovereign entity which should—an ethical issue—allocate economic resources, including labor: either the hypothetically impersonal free market or the politically personal civil government.

Resource allocation has long been a self-consciously ethical issue for socialists. It is a self-consciously procedural-technical issue for free market economists. Free market economists have insisted that economic science must be value-free, meaning value-neutral. Socialists have always claimed that ethics is fundamental to both economic theory and practice. Socialists have therefore positioned themselves as occupiers of the moral high ground, a claim which for over a century constituted a major source of political strength for their position. Only with the collapse of the Soviet Union in 1991 and the spectacular growth of China’s economy after the 1978 economic reforms did the socialists’ invocation of morality lose its grip on Western intellectuals. This indicates that Western intellectuals had been pragmatic the entire time. What they really believe in is power, and the state concentrates power. When they finally discovered in the 1990s that concentrated political power produces economic weakness, they abandoned socialism. They have not abandoned their commitment to exercising political power.

The issue of sovereignty did not go away after 1991. The debate moved from the primary sovereignty of collective political man to the sovereignty of market-sanctioned individual men and the secondary sovereignty of politics.

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5. W. H. Hutt, “The Nature of Aggressive Selling,” *Economica* (August 1935); cf. Hutt, “The Concept of Consumers’ Sovereignty,” *Economic Journal* (March 1940).

By raising the question of origins, I am moving the debate back to the fundamental issue: the sovereignty of autonomous God vs. the sovereignty of self-professed autonomous man.

## A. Ownership

If Christian economics is to be distinguished from humanistic economics, Christian economists must begin with the doctrine of creation. This is true of every science, including all of the social sciences. To begin anywhere else is to begin with man as autonomous. This is where all modern humanistic sciences begin. Christians must make a self-conscious break from the epistemology of humanism. They do so by beginning where the Bible begins: “In the beginning God created the heaven and the earth” (Gen. 1:1).<sup>6</sup> Christian economists must also acknowledge that the specific action of creation was accomplished by the second person of the Trinity, later incarnated as Jesus Christ.

Giving thanks unto the Father, which hath made us meet to be partakers of the inheritance of the saints in light: Who hath delivered us from the power of darkness, and hath translated us into the kingdom of his dear Son: In whom we have redemption through his blood, even the forgiveness of sins: Who is the image of the invisible God, the firstborn of every creature: For by him were all things created, that are in heaven, and that are in earth, visible and invisible, whether they be thrones, or dominions, or principalities, or powers: all things were created by him, and for him: And he is before all things, and by him all things consist (Col. 1:12–17).

This leads us to the distinguishing feature of Christianity, separating it from all other religions: the doctrine of the Trinity.

### 1. *The Trinity*

Here is where Christian economics departs from Jewish economics, which does not exist as a separate academic discipline, and Islamic eco-

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6. North, *Sovereignty and Dominion*, ch. 1.

nomics, which does (in Islamic societies). “And 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 fowl of the air, and over the cattle, and over all the earth, and over every creeping thing that creepeth upon the earth” (Gen. 1:26). The words are clear: “our image.”<sup>7</sup> With the advent of Jesus Christ, the second person of the Trinity, God the Son, Christianity was able to extend the implications of the Old Testament. This extension includes insights into the nature of the sovereignty of God.

God is both one and many. He is three persons in one being: Father, Son, and Holy Spirit. This means that there is an underlying cosmic foundation for all issues that reflect both the unity and plurality of man. Man is made in God’s image. Mankind therefore reflects both the unity and plurality of the Godhead.

God makes plans, as we see in His declaration of intent to create mankind. This planning operation was a joint process. There was cooperation and discussion. The creation of man is explicitly revealed by the text to have been preceded by a joint declaration: “Let us.” The same is true of God’s decision to destroy men’s cooperation in building the tower of Babel. “Go to, let us go down, and there confound their language, that they may not understand one another’s speech” (Gen. 11:7). This indicates that there was a *reconciliation of plans* before man’s creation and before Babel’s destruction took place. This concept of *plan reconciliation* is extremely important in developing an explicitly Christian economic theory.

God’s planning preceded the creation. Paul wrote: “Blessed be the God and Father of our Lord Jesus Christ, who hath blessed us with all spiritual blessings in heavenly places in Christ: According as he hath chosen us in him before the foundation of the world, that we should be holy and without blame before him in love” (Eph. 1:3–4). The concept of planning must be front and center in Christian economic theory.

## 2. Creation and Providence

God is the owner of the universe because of two things: His original creation of the universe and His providential administration of it subse-

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7. Both Judaism and Islam speak of this plural language as a supposed “plural of majesty.” In other words, they have no theologically consistent answer for it. Christianity does.

quently. The completion of the creation on day six, coupled with God's declaration of its goodness, constitutes the starting point of any discussion of economics. "And God saw every thing that he had made, and, behold, it was very good. And the evening and the morning were the sixth day" (Gen. 1:31).<sup>8</sup> This verse establishes God as a uniquely *transcendent* God: separate from and dominant over the creation. It also identifies God as the source of all imputations of value. The doctrine of *God as sovereign imputer* is crucial for any discussion of economic value, as we shall see.

God used the dust to create Adam. "And the LORD God formed man of the dust of the ground, and breathed into his nostrils the breath of life; and man became a living soul" (Gen. 2:7). God did not speak man into existence, unlike His creation of the cosmos on days one to five. He also intervened directly to create Eve out of Adam's body (Gen. 2:21–22). Put explicitly, *God used existing resources to complete the creation*. He adopted a system of ends and means. He then progressively limited Himself to what was available in the creation. He added His own breath to the earth to create Adam. Next, he used Adam's body, which was alive, to create Eve, but without adding His breath. This leads to a conclusion: *God has progressively restricted His intervention into history by restricting Himself to using previously created means*. He intervenes in history more and more indirectly. A good example is the entrance of the Israelites into Canaan. The miracle of the providentially and miraculously supplied manna ceased forever (Josh. 5:12). *God substitutes previously created means for miracles*. This does not reduce the degree of providence. It does lure covenant-breakers into denying providence (Rom. 1:18–22).<sup>9</sup>

Providence refers to God's active sustaining of the universe through time. God's providence is the basis of all continuity. The continuity of the universe is not autonomous in any aspect. Christians affirm that God is present with His universe through time. He is not part of it, but He is present with it.<sup>10</sup> *The presence of God is the foundation of all continuity*.<sup>11</sup>

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8. North, *Sovereignty and Dominion*, ch. 5.

9. Gary North, *Cooperation and Dominion: An Economic Commentary on Romans*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 2.

10. Transcendence/presence is point one of the biblical covenant. Ray R. Sutton, *That You May Prosper: Dominion By Covenant*, 2nd ed. (Tyler, Texas: Institute for Christian Economics, 1992), ch. 1. (<http://bit.ly/rstymp>)

11. Continuity is point five of the biblical covenant. *Ibid.*, ch. 5.

With respect to God's providential administration of the world, Job 38–41 is a relevant passage. God answers Job's question—"Why me, Lord?"—with a long list of things He has seen and done. "Where wast thou when I laid the foundations of the earth? declare, if thou hast understanding" (Job 38:4).<sup>12</sup> But no passage more forcefully declares God's sovereignty over the creation than Isaiah 45. The entire chapter constitutes an affirmation of the sovereignty of God, but these verses especially.

I have made the earth, and created man upon it: I, even my hands, have stretched out the heavens, and all their host have I commanded. I have raised him up in righteousness, and I will direct all his ways: he shall build my city, and he shall let go my captives, not for price nor reward, saith the LORD of hosts (Isa. 45:12–13).

The twin doctrines of creation and providence are the conceptual foundations of this declaration: "For every beast of the forest is mine, and the cattle upon a thousand hills" (Ps. 50:10).<sup>13</sup>

The twin doctrines of creation and providence establish a fundamental distinction between God as Creator and any aspect of the creation. God is in no way dependent on the creation. The creation is in every way dependent on God. God is autonomous, establishing His law for Himself and the creation. The creation is not autonomous in any way.

### ***3. Neither Pantheism nor Deism***

God is not part of His creation. The creation is not an extension of God's being. It is fundamentally different from God. God created it out of nothing. He did not cut off a piece of himself to form it. So, man does not contain a spark of divinity. In no sense is man divine, nor is any aspect of the creation divine. *All forms of pantheism are wrong.* God is in no way immersed in His creation. The Bible's doctrine of God's creation of the universe out of nothing mandates this conclusion.

Similarly, the doctrine of God's providence militates against any version of deism. God establishes law for the creation. He also sustains it, moment

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12. North, *Predictability and Dominion*, ch. 6.

13. Gary North, *Confidence and Dominion: An Economic Commentary on Psalms* (Dallas, Georgia: Point Five Press, 2012), ch. 10.

by moment. Paul wrote of Christ, “And he is before all things, and by him all things consist” (Col. 1:17). The deistic view of the universe, namely, that God created the world and then departed from it, leaving it to operate in terms of autonomous law, is incorrect. *All forms of deism are wrong.* God is both transcendent to His creation and present with it. This assertion distinguishes Christianity from deism, which makes transcendence a function of distance.

Deism’s god is so different from the creation that it has no contact with it: *separation*. Deism’s god is an outside god who ignores the universe. This is a hands-off god. Pantheism’s god is so much like the creation that it cannot judge the creation or autonomously shape it: *immanence*. Pantheism’s god is an inside god who cannot autonomously redeem the universe. This is a hands-in god. The Bible denies both positions. The Bible’s God is a hands-on God.

The creation is subordinate to God. It reports to God. God does not report to the creation, except by grace (Job 38–41).

*God has a legal claim on the creation.* This claim authorizes Him to set the terms of all leases. As the sole owner, God does not transfer permanent ownership of any aspect of the creation to a creature.

## B. Stewardship

The God of the Bible established ownership of the cosmos as a team. The equal ultimacy of the three persons of the Trinity with respect to the being of God is affirmed by Christianity. This equal ultimacy is referred to by theologians as the doctrine of the *ontological Trinity*. But there is more to the doctrine of the Trinity than equal ultimacy of the three persons. There is also hierarchy. The three persons of the Trinity have different functions in relation to the creation. This, the theologians refer to as the *economical Trinity*.

The New Testament does not speak of the second person of the Trinity separate from Jesus Christ, who incarnates the second person. It does speak of the Holy Spirit as a separate person of the Godhead, but not the Son. The Son is spoken of only with respect to Jesus.

Jesus made it clear that He perfectly represents God the Father. “Jesus saith unto him, Have I been so long time with you, and yet hast thou not

known me, Philip? he that hath seen me hath seen the Father; and how sayest thou then, Shew us the Father?" (John 14:9).

Jesus made it clear that His work was done on behalf of the Father.

And he said unto them, How is it that ye sought me? wist ye not that I must be about my Father's business? (Luke 2:49).

For the Father judgeth no man, but hath committed all judgment unto the Son: That all men should honour the Son, even as they honour the Father. He that honoureth not the Son honoureth not the Father which hath sent him (John 5:22–23).

I can of mine own self do nothing: as I hear, I judge: and my judgment is just; because I seek not mine own will, but the will of the Father which hath sent me (John 5:30).

But I have greater witness than that of John: for the works which the Father hath given me to finish, the same works that I do, bear witness of me, that the Father hath sent me. And the Father himself, which hath sent me, hath borne witness of me. Ye have neither heard his voice at any time, nor seen his shape (John 5:36–37).

God the Father has delegated tasks to Jesus Christ. Together, they have delegated tasks to the Holy Spirit.

And I will pray the Father, and he shall give you another Comforter, that he may abide with you for ever; Even the Spirit of truth; whom the world cannot receive, because it seeth him not, neither knoweth him: but ye know him; for he dwelleth with you, and shall be in you. I will not leave you comfortless: I will come to you (John 14:16–18).

This is the issue of the delegation of authority. The persons of the Trinity perform different tasks. God the Father is supreme in terms of *functional hierarchy*. He gives the orders. The perfection of Jesus Christ in history was based on His perfect fulfillment of these orders.

Jesus's primary task was judicial: to fulfill God's law. "Let your light so shine before men, that they may see your good works, and glorify your

Father which is in heaven. Think not that I am come to destroy the law, or the prophets: I am not come to destroy, but to fulfil” (Matt. 5:16–17). So, there is a hierarchy of work: from God the Father to the Son, and from the Son to His followers.

Jesus is the designated steward. This is fitting, for He was the creator under God the Father.

For by him were all things created, that are in heaven, and that are in earth, visible and invisible, whether they be thrones, or dominions, or principalities, or powers: all things were created by him, and for him: And he is before all things, and by him all things consist (Col. 1:16–17).

He is therefore also the redeemer of the church. He acts as a steward for God over the church.

And he is the head of the body, the church: who is the beginning, the firstborn from the dead; that in all things he might have the preeminence. For it pleased the Father that in him should all fulness dwell; And, having made peace through the blood of his cross, by him to reconcile all things unto himself; by him, I say, whether they be things in earth, or things in heaven (Col. 1:18–20).

In Christ, we have the model of the faithful steward. God the Father has trusted Him to fulfill His tasks on behalf of the Father. Jesus claimed to have done this faithfully. This was confirmed publicly by God the Father in His announcement that He was well pleased with the Son’s performance (Matt. 3:16–17; 12:18; 17:5).

### **C. Boundaries**

The legal boundary around the forbidden tree was the archetype of private property. First, God announced, “This tree is mine!” Second, after man’s Fall, God placed the boundary of the angel with the flaming sword around the garden, to keep men away from the tree of life (Gen. 3:24).

In the third commandment, which corresponds to the third point of the biblical covenant, God places a judicial boundary around His name. “Thou



shalt not take the name of the LORD thy God in vain; for the LORD will not hold him guiltless that taketh his name in vain” (Ex. 20:7).<sup>14</sup>

This is the basis of the doctrine of holiness, which refers to God’s special dealing with men and things. He *sets them apart*, which is the meaning of holiness in the Bible. It is also the basis of the biblical concept of *sacred space*. Sacred space was originally manifested by the forbidden tree. After God’s judgment, it was manifested by the garden itself. Holiness was the meaning of the Levitical priesthood, which guarded the temple (Num. 3), which was holy space. The holy of holies, in which the Ark of the Covenant resided, was sacred space; so, only the high priest could enter it, and only once a year (Heb. 9:7). The interior of Ark of the Covenant was sacred space; to look inside brought death (I Sam. 6:19).

In the New Covenant, the church is sacred. It is called the Israel of God (Gal. 6:16) and the bride of Christ (Rev. 21:2). This indicates the existence of *lawful boundaries*—moral and legal—which must not be broken.

Time also is bounded. In creation week, God worked each day to begin and complete a project. He added something to the creation each day (Gen. 1). Then the work week was completed on day six.

There is a time for everything, Ecclesiastes teaches (Eccl. 3:1–8).<sup>15</sup> There will be an end to time.

For the Lord himself shall descend from heaven with a shout, with the voice of the archangel, and with the trump of God: and the dead in Christ shall rise first: Then we which are alive and remain shall be caught up together with them in the clouds, to meet the Lord in the air: and so shall we ever be with the Lord. Wherefore comfort one another with these words. But of the times and the seasons, brethren, ye have no need that I write unto you. For yourselves know perfectly that the day of the Lord so cometh as a thief in the night (I Thes. 4:16–5:2).

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14. I did not see this in the 1986 edition of *The Sinai Strategy*, which I wrote before Ray Sutton wrote *That You May Prosper* (1987). I make the point clear in the 2006 edition: *The Sinai Strategy: Economics and the Ten Commandments*, 2nd ed. (Harrisonburg, Virginia: Dominion Educational Ministries, Inc., [1986] 2006), ch. 3. (<http://bit.ly/gnsinai>)

15. Gary North, *Autonomy and Stagnation: An Economic Commentary on Ecclesiastes* (Dallas, Georgia: Point Five Press, 2012), ch. 7.

When will this day arrive? Jesus said; “But of that day and hour knoweth no man, no, not the angels of heaven, but my Father only” (Matt. 24:36). Not only is time bounded by God, God alone knows where this boundary is.

There was a beginning (Gen. 1:1); there will be an end. The concept of *linear time* is basic to biblical religion. This concept is the application of the biblical principle of boundaries to the concept of time. Time belongs to God as surely as any other aspect of the creation belongs to Him. Time is scarce. More than any other scarce resource, there is greater demand for time than there is supply. Jesus in the parable of the barn-builder—capital accumulator—identified the essence of foolishness: “But God said unto him, Thou fool, this night thy soul shall be required of thee: then whose shall those things be, which thou hast provided?” (Luke 12:20).<sup>16</sup>

The boundary between heaven and hell is unbreachable. Jesus in His parable of the rich man in hell and the poor man in heaven made this clear.

But Abraham said, Son, remember that thou in thy lifetime receivedst thy good things, and likewise Lazarus evil things: but now he is comforted, and thou art tormented. And beside all this, between us and you there is a great gulf fixed: so that they which would pass from hence to you cannot; neither can they pass to us, that would come from thence (Luke 16:25–26).

## D. Imputation

This biblical doctrine is not much discussed, yet it is central in any concept of economics. Imputation is the way that modern economists explain economic value.

### 1. Evaluation

In Genesis 1, God pronounces judgment on His work at the end of five out of six days (not day two). He pronounces His day’s work as being good. God assesses the work of His creative word, day by day. He compares His work with some sort of standard. Here is the origin of all evaluation: the

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16. Gary North, *Treasure and Dominion: An Economic Commentary on Luke*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 25.

application of a fixed standard to the realm of creation. Theologians call this activity *casuistry*: the application of moral standards to human action.

God has a moral standard: *perfection*. “Be ye therefore perfect, even as your Father which is in heaven is perfect” (Matt. 5:48). God pronounces judgment at special times<sup>17</sup> and at the end of time.

And I saw a great white throne, and him that sat on it, from whose face the earth and the heaven fled away; and there was found no place for them. And I saw the dead, small and great, stand before God; and the books were opened: and another book was opened, which is the book of life: and the dead were judged out of those things which were written in the books, according to their works. And the sea gave up the dead which were in it; and death and hell delivered up the dead which were in them: and they were judged every man according to their works (Rev. 20:11–13).

God evaluates everything all the time. This is what the covenant-breaker denies. “He hath said in his heart, God hath forgotten: he hideth his face; he will never see it” (Ps. 10:11). The Psalmist warns evil men not to believe this.

They slay the widow and the stranger, and murder the fatherless. Yet they say, The LORD shall not see, neither shall the God of Jacob regard it. Understand, ye brutish among the people: and ye fools, when will ye be wise? He that planted the ear, shall he not hear? he that formed the eye, shall he not see? (Ps. 94:6–9).

Imputation is associated with work, from Genesis 1 until Revelation 22. There is a standard; there is work in terms of this standard; then there is evaluation; then there is a declaration; there is the imposition of sanctions. The Bible is theocentric: God’s standard, God’s work, God’s evaluation, God’s declaration, and God’s sanctions. The temptation in the garden of Eden had to do with a rival standard, rival work, and God’s negative evaluation and negative sanctions. The Bible teaches that some of the things

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17. God’s voice pronounced His pleasure with Jesus (Matt. 3:16–17; 12:18; 17:5).

which God does sovereignly, man should do subordinatesly.<sup>18</sup> Adam and Eve refused to accept this.

God is omniscient. He sees all things. God is also omnipotent. What He has decreed, He will bring to pass. At the end of time, He will render judgment.

## 2. Decree

The meaning of decree is “to establish the future.” God decrees the future. Then He brings it to pass. Probably the clearest statement of this is Isaiah 45.

For thus saith the LORD that created the heavens; God himself that formed the earth and made it; he hath established it, he created it not in vain, he formed it to be inhabited: I am the LORD; and there is none else. I have not spoken in secret, in a dark place of the earth: I said not unto the seed of Jacob, Seek ye me in vain: I the LORD speak righteousness, I declare things that are right. Assemble yourselves and come; draw near together, ye that are escaped of the nations: they have no knowledge that set up the wood of their graven image, and pray unto a god that cannot save. Tell ye, and bring them near; yea, let them take counsel together: who hath declared this from ancient time? who hath told it from that time? have not I the LORD? and there is no God else beside me; a just God and a Saviour; there is none beside me. Look unto me, and be ye saved, all the ends of the earth: for I am God, and there is none else. I have sworn by myself, the word is gone out of my mouth in righteousness, and shall not return, That unto me every knee shall bow, every tongue shall swear (Isa. 45:18–23).

Isaiah extended this declaration with respect to His spoken word.

For as the rain cometh down, and the snow from heaven,  
and returneth not thither, but watereth the earth, and

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18. This has to do with the communicable attributes of God. Some attributes are non-communicable: omniscience, omnipotence, and omnipresence.

maketh it bring forth and bud, that it may give seed to the sower, and bread to the eater: So shall my word be that goeth forth out of my mouth: it shall not return unto me void, but it shall accomplish that which I please, and it shall prosper in the thing whereto I sent it (Isa. 55:10–11).

## **E. Kingdom**

Then what does His decree refer to? His kingdom, both in history and eternity. Again, citing Isaiah,

For unto us a child is born, unto us a son is given: and the government shall be upon his shoulder: and his name shall be called Wonderful, Counsellor, The mighty God, The everlasting Father, The Prince of Peace. Of the increase of his government and peace there shall be no end, upon the throne of David, and upon his kingdom, to order it, and to establish it with judgment and with justice from henceforth even for ever. The zeal of the LORD of hosts will perform this (Isa. 9:6–7).

This means that *God will receive a positive rate of return in history on His investment*. His kingdom expands in history at the expense of Satan's kingdom. Whatever God wins, Satan loses. Economists call such a win-lose relationship a *zero-sum* arrangement: nothing is added; whatever is won by one person is lost by the other.

Paul taught that Christ's bodily resurrection in history is proof of God's program of kingdom extension.

But now is Christ risen from the dead, and become the firstfruits of them that slept. For since by man came death, by man came also the resurrection of the dead. For as in Adam all die, even so in Christ shall all be made alive. But every man in his own order: Christ the firstfruits; afterward they that are Christ's at his coming. Then cometh the end, when he shall have delivered up the kingdom to God, even the Father; when he shall have put down all rule and all authority and power. For he must reign, till he hath put all enemies under his feet. The last enemy that shall be de-

stroyed is death. For he hath put all things under his feet. But when he saith, all things are put under him, it is manifest that he is excepted, which did put all things under him. And when all things shall be subdued unto him, then shall the Son also himself be subject unto him that put all things under him, that God may be all in all (I Cor. 15:20–28).<sup>19</sup>

This is the fulfillment of Psalm 110:1: “The LORD said unto my Lord, Sit thou at my right hand, until I make thine enemies thy footstool.” It is an aspect of *inheritance*: from God the Father to God the Son, and then, at the end, from God the Son to God the Father. “Then cometh the end, when he shall have delivered up the kingdom to God, even the Father.”

## Conclusion

Christian economic theory begins with the idea of creation out of nothing by a Trinitarian God. The doctrine of the Trinity affirms the plurality of the Godhead, the equal ultimacy of the persons, and the hierarchy of functions among them. Who God is, what He has done in history, and what He has revealed about Himself in the Bible jointly determine the correct structure of economic theory. Any system of economic theory that does not begin with the idea of creation out of nothing by a Trinitarian God is not Christian. At best, it is baptized humanism.

The fundamental error of modern economics is shared by economists of many different traditions, methodologies, and conclusions. The fundamental error is this presupposition, which is regarded as an axiom: *the autonomy of man*. This axiom has five negative corollaries:

1. A sovereign God does not have a legal claim on everything in history.
2. Man does not answer in history to such a creator God.
3. A sovereign God does not determine the limits of the environment, especially mankind.
4. God does not bring sanctions in history.
5. The kingdom of man is the only kingdom in history.

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19. Gary North, *Judgment and Dominion: An Economic Commentary on First Corinthians*, 2nd ed. (Dallas, Georgia: Point Five Press, [2001] 2012), ch. 17.

To the extent that modern economists think consistently with these five presuppositions, economic theory is incorrect.

What I am saying is simple: *Christian economics is the **only** consistent form of economics*. I am not arguing that Christian economic theory is one system among many. I am arguing that all systems of economic theory that are not explicitly Christian are imitations of the truth, as surely as all rival religions to Christianity are imitations of the truth.<sup>20</sup> The reason why free market humanistic economists reject Christian economics is not because they reject all of its conclusions. They do not reject all or even most of its conclusions. They reject it because they reject Christianity's claim of being the only true religion and therefore supremely authoritative in every area of life, including economics.

Rival systems of economic theory lead to inescapable contradictions logically. They lead to erroneous conclusions about the nature of economic cause and effect. Only insofar as economists think inconsistently with these five presuppositions do they make accurate assessments of economic cause and effect. So, to the extent that they are consistent, they are wrong. To the extent that they are accurate, they are inconsistent with their presuppositions, whether implicit or explicit.

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20. Here, I am imitating Cornelius Van Til in his apologetic methodology. He did not argue that Christianity is the most likely option among many religious systems. He argued that it alone is true.

## 2

# THE JUDICIAL AUTHORITY OF MAN

## Introduction

Point two of the biblical covenant is hierarchy/authority.<sup>1</sup> Point two also has to do with God's covenant with man. We can see this with respect to the Book of Exodus. It is the second book in the Pentateuch. It is also supremely the book of the covenant. Speaking of Moses, Exodus declares: "And he took the book of the covenant, and read in the audience of the people: and they said, All that the LORD hath said will we do, and be obedient" (Ex. 24:7). Exodus deals with the rival claims of two self-professed gods: the God of Israel and the Pharaoh.<sup>2</sup>

Authority is another word for *delegated sovereignty*. With respect to economics, authority is a *judicial category*. This is because it is subordinate to God's original sovereignty.

1. Ownership establishes responsibility.
2. Responsibility is personal.
3. Theft is illegal.
4. Oaths are binding.
5. Owners designate heirs

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1. Ray R. Sutton, *That You May Prosper: Dominion By Covenant*, 2nd ed. (Tyler, Texas: Institute for Christian Economics, 1992), ch. 2. (<http://bit.ly/rstymp>)

2. Gary North, *Authority and Dominion: An Economic Commentary on Exodus* (Dallas, Georgia: Point Five Press, 2012), Part 1, *Representation and Dominion* (1985), ch. 1.



This means that authority is a matter of representation. This representation is at bottom judicial. As we shall see, there are also economic aspects of this representation. Ownership is legally a matter of hierarchical representation: *trusteeship*. This is a stewardship function. As we shall see, there are also economic aspects of this representation. This also is a hierarchical stewardship function: *sharecropping*. It also is economically representative outward to the public at large: the *auctioneer* function. I deal with all three in this book.

Economics reflects the continuing rivalry between two gods and two covenantal administrations. As is the case with all other modern academic disciplines, economic science rests on a presupposition: *the sovereignty of man*. Economists rarely state this explicitly, but they do so implicitly. They begin with man: either individual man or man as a social being. This tradition of beginning with man as sovereign goes back to Aristotle. As I explained in Chapter 1, this presupposition is incorrect.

In contrast, a consistently Christian economic theory must begin with a self-conscious and formal affirmation of the exclusive sovereignty of God. This God is a Trinity. Any attempt to develop Christian economic theory by beginning with man, either individual or corporate, is a compromise with humanistic economic theory.

But if God is absolutely sovereign, then in what way is man empowered by God to exercise dominion? Answer: through God's delegated power and delegated authority. *Mankind necessarily acts on behalf of God and in God's name*. Individual men and societies can and do rebel against this obligation, but this obligation always defines man. There is no escape. "And 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 fowl of the air, and over the cattle, and over all the earth, and over every creeping thing that creepeth upon the earth" (Gen. 1:26).<sup>3</sup> This original decree defines man in relation to God and the creation.

Covenant-breaking men seek to substitute a would-be god as the sovereign agent, usually mankind. With the exception of Muslims, when covenant-breaking men acknowledge the existence of any supernatural god, it is a partially sovereign god who either serves man or at least cooperates with man as a fellow creature. Both god and man in this outlook affirm, "We're in

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3. Gary North, *Sovereignty and Dominion: An Economic Commentary on Genesis* (Dallas, Georgia: Point Five Press, 2012), ch. 3.

this together.” The God of the Bible never affirms this, except to Himself as a Trinity. With respect to the creation, God does not cooperate with man. Rather, He decrees. This fact, Job initially affirmed: “Naked came I out of my mother’s womb, and naked shall I return thither: the LORD gave, and the LORD hath taken away; blessed be the name of the LORD” (Job 1:21). Job then refused to confirm his confession. His constant questioning of God testified to a very different view of God. It is unwise to imitate Job in this regard.

## **A. The Image of God**

Man as a species is made in the image of God (Gen. 1:26). Man is therefore derivative. As a creature under God, he is not original in any sense. He is not originally creative. He is re-creative. He is required to think God’s thoughts after him, as befits a creature. Paul spoke of “casting down imaginations, and every high thing that exalteth itself against the knowledge of God, and bringing into captivity every thought to the obedience of Christ” (II Cor. 10:5).

### ***1. Transcendence/Presence***

God is transcendent over the creation. He is autonomous. Man is not autonomous. He is subordinate to God. Hence, man is not transcendent over the creation, but he is dominant over it. Similarly, God is present with the creation. He is omniscient, omnipresent, and omnipotent, all of which are incommunicable attributes. Man reflects this. He is present in some location in the creation. Adam was commanded to dress the garden. This suggests care for it, with an eye to its improvement. Every man has his area of responsibility where he is present in the sense of providing protection and transformation.

Because God is both one and many, mankind’s acting as God’s agent is one and many. Men act as individuals directly under God without intermediaries. They act as individuals in the dominion covenant’s four primary relationships of responsibility: individual, familial, ecclesiastical, and civil. They act as collective groups, which also have responsibilities four ways: upward, downward, outward, inward.

God holds groups responsible, as Leviticus 26 and Deuteronomy 28 insist. Men are corporately responsible for what their rulers do, whether civil or ecclesiastical (Lev. 4).<sup>4</sup> Groups come under God's sanctions in history.

One implication of these facts regarding responsibility is that Christian social philosophy must not begin with either the autonomous individual or the autonomous society. Methodological individualism is as incorrect as methodological holism. Methodological individualism is the preferred methodology of defenders of the free market. Methodological holism is the preferred methodology of socialists. There is also a mixed methodology, which favors the so-called mixed economy. The key error in all these approaches is the assumption of man's autonomy. Humanistic social thinkers imagine that individual behavior and social patterns are either the product of individual actions or collective actions, with man as the sovereign planner, either through the free market or the civil government.

Christian social theorists should begin with *methodological covenantalism*. They should see society as the product of eternally responsible individuals, who make decisions in terms of the laws governing four oath-bound covenants under God's direct sovereignty and sanctions: individual, familial, civil, and ecclesiastical.

## 2. Stewardship

God is the original owner, due to His office as the Creator. Ownership for man is always derivative and subordinate. Adam answered to God for the administration of every aspect of the creation. The covenantal sign of this subordination was the prohibition against eating from a specific tree.

Man is not autonomously sovereign in any sense in any area of life. He possesses lawful authority in specific areas of life. This authority has been delegated by God and therefore is accompanied by responsibility.

And that servant, which knew his lord's will, and prepared not himself, neither did according to his will, shall be beaten with many stripes. But he that knew not, and did commit things worthy of stripes, shall be beaten with few stripes. For unto whomsoever much is given, of him

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4. Gary North, *Boundaries and Dominion: An Economic Commentary on Leviticus*, 2nd ed. (Dallas, Georgia: Point Five Press, [1994] 2012), ch. 4.

shall be much required: and to whom men have committed much, of him they will ask the more (Luke 12:47–48).<sup>5</sup>

Man answers as a species to God, as the Fall of man indicates. Original sin is passed on to all of Adam's heirs, as is death. "Wherefore, as by one man sin entered into the world, and death by sin; and so death passed upon all men, for that all have sinned" (Rom. 5:12). Individual men also answer to God as individual creatures. "For all have sinned, and come short of the glory of God" (Rom. 3:23). "For whosoever shall keep the whole law, and yet offend in one point, he is guilty of all" (James 2:10). This *dual responsibility*, corporate and individual, is an aspect of man's creation as the image of God. God is both one and many; so is mankind.

Man is therefore best described as a steward. A steward acts on behalf of the owner. He is a legal agent of the owner. He has a general assignment. It is his task to implement the owner's plans according to the guidelines revealed by the owner.

Adam was a guardian of the garden. He was to guard it from any invader. He failed to do this. He was a guard who did not challenge the invader. Instead, he joined forces with the invader against the owner.

### 3. *Dominion*

Adam was to dress the garden. The dressing of the garden involved taking an existing asset and improving it. There was nothing imperfect about the pre-Fall garden, but it was supposed to be developed by Adam, Eve, and any heirs. This indicates the existence of a fundamental reality: *the opportunity for improvement*. This is basic to the creation and man's role in it. That which was ethically perfect still required development: man and the garden.

Man did not create the garden. He inherited it. It was a legacy from God. It involved a responsibility to improve it and guard it.

The garden was a training ground. Men were to move out of the garden to subdue the whole earth as agents of dominion. Four rivers had their headwaters in Eden (Gen. 2:10–11). These were suitable for men to move downriver to the world outside the garden.

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5. Gary North, *Treasure and Dominion: An Economic Commentary on Luke*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012) ch. 28.

#### **4. Responsibility**

There is no benefit from God that does not carry with it responsibility (Luke 12:47–48). This responsibility has four relationships: upward to God, outward to other men, downward to all things legally under one's authority, and inward. In the biblical covenant, upward responsibility is the most important. It points to God as the supreme agent of the hierarchy. Jesus Christ served God the Father. He served the people around Him as healer and teacher. He served the disciples who were under His authority. He did so as someone seeking the fulfillment of His own office as ruler and redeemer.

#### **5. Extension**

He announced after His resurrection,

All power is given unto me in heaven and in earth. Go ye therefore, and teach all nations, baptizing them in the name of the Father, and of the Son, and of the Holy Ghost: Teaching them to observe all things whatsoever I have commanded you: and, lo, I am with you always, even unto the end of the world. Amen (Matt. 28:18–20).

Jesus made it clear that His followers are to do the same in each of these institutional relationships: serving God by serving rulers above, people outside the church, those under their authority, and themselves.<sup>6</sup> They are to extend His dominion through time. “But seek ye first the kingdom of God, and all these things shall be added unto you” (Matt. 6:33).

### **B. Hierarchy of Values/Ends**

There is a supreme end for covenant-keeping individuals: “But seek ye first the kingdom of God, and his righteousness; and all these things shall be added unto you” (Matt. 6:33).<sup>7</sup> Jesus said this to a multitude of people who were listening to Him teach: the sermon on the mount. He was comparing various earthly attainments. “Therefore take no thought, saying, What

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6. Gary North, *Priorities and Dominion: An Economic Commentary on Matthew*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 48.

7. *Ibid.*, ch. 15.

shall we eat? or, What shall we drink? or, Wherewithal shall we be clothed? (For after all these things do the Gentiles seek:) for your heavenly Father knoweth that ye have need of all these things" (Matt. 6:31–32).<sup>8</sup> He was not comparing salvation from hell with the extension of God's kingdom.

### 1. *Pietism and Humanism*

Hundreds of millions of Christians assume that God's kingdom is less important than people's salvation from eternal negative sanctions. They think that people's avoidance of hell is more important to God than the extension of His kingdom. They assume that the gospel—the good news of Jesus Christ—is primarily the good news of individual deliverance from hell rather than the extension of God's kingdom in history. *This is operational humanism*. It puts men first. The Bible's doctrine of the sovereignty of God teaches otherwise. His kingdom, not man's salvation, is primary. Ours is a theocentric universe, not an anthropocentric universe.

When discussing the Trinity, we should speak of *the equal ultimacy of the one and the many*. We should do the same with respect to individual redemption in history and social redemption in history. To redeem is to buy back. Jesus' redemption is comprehensive. It applies to everything that is under Satan's squatter kingdom.<sup>9</sup> Redemption in Christ should be manifest in history, not just eternity.

There is therefore a hierarchy of ends. Redemption in Christ, both personal and corporate, is the supreme goal in history. Redemption is the means by which God the Father extends the kingdom of Jesus Christ in history. "No man can come to me, except the Father which hath sent me draw him: and I will raise him up at the last day" (John 6:44). But this is a mutual relationship. "Jesus saith unto him, I am the way, the truth, and the life: no man cometh unto the Father, but by me" (John 14:6). This is a process of *kingdom replacement*: God's kingdom over man's kingdom. It is therefore a process of *kingdom subordination*. This is not believed by most people or even most Christians. They place other goals higher than the goal

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8. *Idem*.

9. Gary North, *Is the World Running Down? Crisis in the Christian Worldview* (Tyler, Texas: Institute for Christian Economics, 1988), Appendix C: "Comprehensive Redemption." (<http://bit.ly/gnworld>)

of corporate redemption. So, their value scales reflect a different system of priorities from God's.

## 2. *Ranking: Ordinal vs. Cardinal*

Individuals are responsible for their ranking of goals, whether lifetime goals or goals in the next five minutes. They rank them *ordinally*: first, second, third, etc. They do the same with their various values. They have a scale of values. There is no system of value-ranking that provides a measure of *exactly how much more* a person values one goal over another—what is called *cardinal* ranking. No one can do more than rank them *ordinally*.<sup>10</sup> Any suggestion that an individual or a committee can compare numerical measurements of human preference is an implicit affirmation the omniscience of man. *There is no cardinal measure of subjective value*, not even for the individual who evaluates his choices in terms of a scale of values.

Men have ends. They also have access to means. They select means in terms of their hierarchy of ends. Men are constrained by time and by limited resources.

## C. Purposeful Action

Human action is purposeful action. Ludwig von Mises developed a comprehensive deductive economic system based on this simple concept.<sup>11</sup> But Mises then used this approach to exclude God from any consideration in economic reasoning or historical events. He argued that God, being perfect and therefore content, cannot act. Perfection is antithetical to action.<sup>12</sup> Yet God does act, and He is perfect. We must therefore go beyond Mises' humanism. There is purpose in the universe because God created it purposefully and sustains it providentially.

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10. Ludwig von Mises, *Human Action: A Treatise on Economics* (New Haven, Connecticut: Yale University Press, 1949), ch. 4, sect. 4.

11. Mises, *Human Action*.

12. *Ibid.*, ch. 2, sect. 11. Elsewhere, he wrote: "Perfect satisfaction and its concomitant, the absence of any stimulus to change and action, belong properly to the concept of a perfect being. This, however, is beyond the power of the human mind to conceive. A perfect being would not act." Ludwig von Mises, *Epistemological Problems in Economics*, 3rd ed. (Auburn, Alabama: Mises Institute, [1960] 2003), p. 25. (<http://bit.ly/MisesEPE>)

The question is this: Whose purposes are authoritative? The biblical answer: God's purposes. Therefore, men are to subordinate their purposes to God's purposes for them. God's purposes provide the standards of purpose, both individual and corporate. These standards are *ethical*. But they are also *eschatological*: the last things. They are therefore *historical*: getting from now until then. This is *progressive sanctification*, both individual and corporate. Here, I focus on history.

### 1. Sequential Action

In days two through five, God spoke sections of the universe into existence. On day one, He created the heavens and the earth out of nothing, meaning into nothing. Thereafter, each act of creation took place within an environment that had been re-shaped daily through sequence. We must always declare that the days of creation were sequential. Deny this, and you deny the biblical doctrine of creation.<sup>13</sup> Day by day, that which had been created served as the context for that which was created next. The creation's sequence was based on the causal principle of *necessary but not sufficient*. What preceded each day's creation was necessary, but it was not sufficient to produce that day's creation or the next day's creation. Something had to be added from outside the cosmos. In this sense, the biblical doctrine of creation is at odds with the doctrine of cosmic evolution, whose causal principle is *necessary and sufficient*. In Darwinism, nothing emerges explicitly today that was not available implicitly yesterday. The cosmos is all there is.

The week of creation was purposeful because the universe is not autonomous. This idea is the great affront of the biblical doctrine of creation to the Darwinist. He insists that the cosmos was not originally purposeful precisely because it was autonomous. In the Darwinian worldview, purpose arrived in the universe only with advanced forms of life. Life arose out of

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13. This is the great theological and conceptual error of the so-called framework hypothesis, which was Meredith G. Kline's attempt to get away from the plain teaching of Genesis 1. His colleague at Westminster Seminary, Edward J. Young, wrote the essays that were compiled as *Studies in Genesis 1* (Nutley, New Jersey: Presbyterian & Reformed, 1964) to reaffirm the fixed sequence of the days of creation. Some evolution-accepting Christians think Kline's thesis will make Genesis 1 more acceptable to evolutionary scientists. So far, it has only kept Christians with an interest in science from pressing the claims of the Bible on those scientists who reject the Bible and the God of the Bible.



purposeless change. As far as Darwinists know, man alone has long-run purposes, which can be achieved only by complex planning. For the Darwinist, purpose was a great cosmic discontinuity in an autonomous universe. For the Christian, the creation of the universe was a great discontinuity, which was completely separate from the autonomous Creator. Purpose is eternal. The universe is not. The universe is now without end, but it had a beginning not too long ago. *Purpose is therefore more fundamental than the universe.* It precedes action because it preceded the creation.

Purpose preceded the curse of the world by God (Gen. 3:17–19). Scarcity existed before the Fall, because man is finite.<sup>14</sup> He is not omnipotent. Time constrains him. He cannot do everything he wants to do immediately. He acts sequentially. In this sense, he imitates God's days of creation. His lack of omniscience constrains him. He learns sequentially. His lack of resources constrains him. He accumulates resources sequentially. Ever since the Fall, the world has resisted him.

As the image of God, man is purposeful. As the image of God, who acted sequentially in the creation week, man acts sequentially. He intervenes into the processes of his environment in order to create something that does not yet exist. Man is subordinately creative under God in ways that animals are not.

Higher animals display purposeful behavior. This is how we define "higher." The closer to man that an animal is in the chain of created being, the more it displays purposeful behavior. Purposeful behavior is a series of sequential actions in which learning takes place, thereby changing the actor's future sequence of actions in what seems to be a similar environment. The main change in the environment is the animal's mastery of new information regarding causation. It learns to manipulate its environment in order to achieve its goals. It learns new connections between ends and means. It remembers them.

God is transcendent, yet in achieving His ends on creation days two through six, He used means that were available in the creation. On day six, He used the earth to create Adam's body, breathing His spirit into it. He used Adam's rib to create Eve. This was an aspect of His role as a cosmic planner. "And God said, Let us make man in our image, after our likeness"

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14. Gary North, *Sovereignty and Dominion: An Economic Commentary on Genesis* (Dallas, Georgia: Point Five Press, [1982] 2012), ch. 12.

(Gen. 1:26a).<sup>15</sup> This plan preceded its implementation. Its implementation was through created means.

## 2. *One/Many*

Like the Trinity, man is both one and many. There are individuals. There are corporate entities. Responsibility is therefore both individual and corporate. So, *purpose is both individual and corporate*. Men act in an environment, and this environment is in part social. Man is a social being. An individual selects his purposes and a specific concept of causation in terms of what he has learned from his membership in multiple groups. *The concept of the autonomous individual is as incorrect as the concept of the autonomous group*. Christian epistemology must affirm both unity and diversity. Any discussion of economic causation must begin with both the acting individual and the acting group. It must begin with a discussion of the formation of individual plans as being, from the beginning, the product of previous plans that were themselves reconciled plans. God said, “Let us make man in our image.” There was joint planning and therefore *plan reconciliation* before there was action.

In discussing human action, we must begin with God as Trinity, as revealed in Genesis. We must not begin with Robinson Crusoe or any other solitary decision-maker. Crusoe is an heir of all of the implemented plans that influenced his thinking. He is responsible before God for a kingdom-enhancing formulation of new plans and their implementation. He is not autonomous. He is an heir of capital supplied by God. The most valuable form of capital is accurate knowledge, coupled with the wisdom and courage to implement it.<sup>16</sup> This process of implementation is an aspect of imputation.

## D. Imputation

The doctrine of imputation in theology refers to God’s judicial assessment of a person’s guilt or innocence, or an institution’s guilt or innocence.

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15. North, *Sovereignty and Dominion*, ch. 3.

16. Carl Menger wrote: “Nothing is more certain than that the degree of economic progress of mankind will still, in future epochs, be commensurate with the degree of progress of human knowledge.” Menger, *Principles of Economics* (Auburn, Alabama: Mises Institute, [1871] 2007), p. 74.

God evaluates all actions in terms of His standards, and He then makes a declaration. He does this as a Trinity: both one and many. God also imputes meaning to all events in terms of His comprehensive standards.

As God's agents, men impute both meaning and value to things and events. They pass judgment. They are responsible as individuals and as participants in organizations. They are one and many, as creatures made in God's image. Like God, they also use standards.

Imputation is a present procedure. Each person assesses value subjectively in terms of the options that he believes are available to him. He decides what to do with his assets in the broadest sense. He chooses one path of action based on this assessment. Yet this imputation must be future-oriented. Every action moves us into the future. We evaluate expected outcomes in advance.

Imputation is also a retroactive procedure. God evaluated His work at the end of five of the six days: "It is good." Men are to assess the success of past efforts in terms of their assessment of God's final judgment. They are to think God's future thoughts after Him. So, they must forecast the future in order to evaluate the past. The future—final judgment—may be very distant. The past may be immediate. Imputation is a form of rendering judgment. The model is a courtroom. The jury or judge renders judgment after all of the testimony has officially been presented.

### 1. *Subjective/Marginal Value*

Each person is responsible before God for adopting and implementing his personal hierarchy of values and therefore also the *hierarchy of goals* that he adopts in pursuit of his values. So, ranking values and goals is a subjective procedure. A person must adopt a hierarchy of priorities. This is based on a hierarchy of values.

He must select an immediate goal. He has to do something. Life is a series of decisions. Decisions are based on priorities. People must do *this* rather than *that*. To attain any goal, we must pay a price: give up something. We live in a world of cursed scarcity (Gen. 3:17–18).<sup>17</sup> To obtain some of *that*, I must give up some of *this*. Life is marked by a constant series of exchanges.<sup>18</sup>

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17. North, *Sovereignty and Dominion*, ch. 12.

18. Mises, *Human Action*, ch. 4, sect. 4.

As we gain more of one scarce resource, we find that we want less of it, compared to how much we want another item. When we are thirsty, the first drink of water is satisfying. But as we drink more, we reach satiation. This is not merely a biological response. It is a universal response to the increased consumption or hoarding of any asset. Each additional unit provides less satisfaction than the one before. At the margin of our scale of values, satisfaction per additional unit falls in relation to the immediately preceding unit. Economists call this *marginal value theory*. It is based on individual subjective imputation. “I prefer this to that.”

## 2. Objective Value

God imputes value: “It is good.” He does this subjectively, based on His own personal scale of values. Yet we must affirm that this subjective evaluation is simultaneously objective. Why? Because God is sovereign. Something is good or bad *objectively* because God says so *publicly*, if only to Himself as Trinity. So, economic value is both subjective and objective. Methodological covenantalism affirms both objective value and subjective value, based on God’s autonomous imputation of value to specific events or resources.

To say that economic value is autonomously objective is to adopt the humanistic Greek concept of *realism*. This is an extension and application of Greek humanism. Realism is represented by the classical Greek idea of the Idea: an independently existing, unchanging metaphysical realm that serves as the model (one) for the constantly changing realm of historical and physical facts (many). This includes the idea of the good. This is the tyranny of “the one,” i.e., that which does not change, the thing by which change must be evaluated. Because it is autonomous, it is authoritative. It possesses final authority, for it represents or incarnates the unchanging standard of value. This concept leads to political tyranny. There must be a supreme interpreter of the objective good if this good is to secure its manifestation in history. This interpreter must possess a lawful monopoly, for it alone perceives what is good and declares this publicly and authoritatively. Yet this collective “it” is in fact a compilation of the many—a committee—except in the case of a monarch or dictator. Whatever this agency of declaration is, there is no appeal beyond it. It possesses what in sixteenth-century Europe was called divine right: no superior court of appeal.

On the other hand, to say that there is no objective value is to adopt the concept of *nominalism*. This is represented by Occam's medieval school outlook: the assertion that mankind names reality, and reality is whatever men declare. Yet each man may assess the realm of facts differently from his neighbor. There are multiple standards, for there are multiple imputers. This is the error of "the many." It leads to epistemological fragmentation.

Politically, it leads to warlord society: *might makes right*. The equally authoritative autonomous value scales and priorities of autonomous individuals come into conflict whenever individuals come into conflict, which means most of the time. There is no final declaration of the good, because there is no original/final good beyond the imputations and assessments of individuals. Value has no objective existence. There is no peaceful way to reconcile autonomous priorities. James wrote: "From whence come wars and fightings among you? come they not hence, even of your lusts that war in your members? Ye lust, and have not: ye kill, and desire to have, and cannot obtain: ye fight and war, yet ye have not, because ye ask not" (James 4:1–2).

Economic theory ever since the 1870s has been officially subjectivist and marginalist, but in practice all economists defend certain economic policies. This leads to the rarely acknowledged clandestine importation of objective value theory back into economics. This importation is mandatory for social policy. In order for an economist to declare, in the name of economic science, that one policy is superior—preferable—to another, he must move from nominalism (subjectivism) to realism (objectivism), from the open-ended many to the statistically limited one. He must conclude that someone's value judgment does not count.

### 3. *Interpersonal Comparisons of Subjective Utility*

A person can assess the value to him of obtaining an additional unit of a scarce resource. He can assess its value ordinally, although not cardinally. He can *rank* its value to him; he cannot *measure* its value to him.

If this inability to measure economic value is true of an individual who assesses his own scale of values, how much more true is it of an individual who is trying to assess someone else's scale of values compared to his own,

or two people's scale of values compared to each other, or a million people's value scales?

You are not responsible for my scale of values, and I am not responsible for yours. You are not inside my head, and I am not inside yours. If you tell me, "I love my wife more than you love yours," all we can do to evaluate who loves his wife more is to see how we treat our wives in public. But this tells us nothing certain about the intensity of our respective love. A man could be very polite to his wife yet utterly cold to her emotionally. There is no objective measure of love. Neither is there an objective measure of satisfaction.

This applies to human beings' assessments. It does not apply to God. Jesus' assessment of the degree of sacrifice by the rich men and the poor widow indicates that God can assess subjective value and subjective cost.

And he looked up, and saw the rich men casting their gifts into the treasury. And he saw also a certain poor widow casting in thither two mites. And he said, Of a truth I say unto you, that this poor widow hath cast in more than they all: For all these have of their abundance cast in unto the offerings of God: but she of her penury hath cast in all the living that she had (Luke 21:1–4).<sup>19</sup>

*What God can do perfectly, men can do provisionally.* Men can say with a great degree of confidence that the value of an additional amount of income for a rich man is worth less to him than the same increase for a poor man. We cannot say how much more. We have no available measure.

If this ability did not exist, then lawful representatives in governments—ecclesiastical, familial, and civil—could not make any valid policy judgments: this policy rather than that policy. Yet God holds them responsible for making policy judgments. So, He has given men the ability to make rough estimations of other people's subjective utilities. Leaders can legitimately act on this assumption: "It is better to be rich and healthy than it is to be poor and sick." Most people accept this assessment. A corporate policy that can be shown to tend toward poverty and sickness should therefore be avoided.

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19. North, *Treasure and Dominion*, ch. 50.

Modern subjectivist economics officially denies that it is possible to make scientifically valid interpersonal comparisons of subjective utility.<sup>20</sup> Yet, when pushed to the inescapable conclusion, namely, that this would deny the scientific relevance of all public (state) policy, all but philosophical anarchists abandon the position. They secretly import objective value theory back into their economic theories.<sup>21</sup> Even the anarchists usually succumb. Most of them speak of monetary inflation as the cause of price inflation, but price inflation implies an index number, and all index numbers are based on the interpersonal comparison of subjective utilities.

In Christian economics, economic value is both subjective and objective, because God's imputation is both subjective and objective. Christian economists need not import objective value theory through the back door. They should be open about this.

## E. Inheritance

Because men are mortal, they must find ways to preserve their legacy through time. Owners pass down (hierarchy) assets to their heirs. Legal authority over these assets is thereby transferred. The capital or wealth which they transfer as owners to their heirs will then be used by others, possibly in terms of the testamentary document written by the testator, but more likely according to the will of the heirs.

The heirs can either be individuals or legal agents acting on behalf of a corporate body. Their responsibility may be individual or shared as administrators of the corporate entity. Inheritance is therefore both one and many. So is responsibility.

Because stewardship is necessarily covenantal, inheritance is covenantal. It should therefore conform to the requirement of the covenant: *confession over name*. More precisely, stewards should confess Christ's name over the family's name. This means that the heirs should be co-members of the covenant. They should make the same confession and take the same oaths in each of the four covenantal administrations: personal, familial, ecclesiastical, and civil.

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20. Lionel Robbins, *The Nature and Significance of Economic Science* (London: Macmillan, 1932), ch. 6.

21. North, *Sovereignty and Dominion*, ch. 5.

There can be cases of *common-grace confession* where inheritance is legitimate. There may be an organization that is doing something productive that no confessionally consistent organization is doing. This might have to do with medical research. In such cases, inheritance is legitimate on the basis of the absence of any confessional heir.

## Conclusion

Economics operates in terms of a cosmic hierarchy: God > man > nature. Economic theory must reflect this or else drift into error. We see this most clearly in the concept of stewardship. Christian economics makes man a steward of God. This means that God possesses sovereignty. Man possesses authority, which could also be called delegated sovereignty or subordinate sovereignty. God delegates to individuals and corporate entities responsibility for administering His property for His kingdom's benefit.

There is a conflict between rival kingdoms over title to the world's assets. This is the conflict between the kingdom of God and the kingdom of man. Economic science has been marked by a self-conscious commitment to the kingdom of man. Historically, the debate over economics has been between those defending the kingdom of individual man vs. the kingdom of collective man. This is the division between the many and the one, between methodological individualism and methodological holism. What has not been self-consciously presented by Christian economists is a case for methodological covenantalism.

Methodological covenantalism in its Trinitarian form has a concept of stewardship that rests on the five pillars of the covenant: the sovereignty of God, the authority of man, the right to private property, predictable economic sanctions, and the triumph of God's kingdom in history. With respect to the ultimate stewardship—Christ's stewardship of the world for His Father—Paul was clear. Incorporating the imagery of Psalm 110, the "footstool psalm," he wrote of the resurrection:

But every man in his own order: Christ the firstfruits; afterward they that are Christ's at his coming. Then cometh the end, when he shall have delivered up the kingdom to God, even the Father; when he shall have put down all rule and all authority and power. For he must reign, till he hath put all enemies under his feet. The last enemy that shall be



destroyed is death. For he hath put all things under his feet. But when he saith, all things are put under him, it is manifest that he is excepted, which did put all things under him. And when all things shall be subdued unto him, then shall the Son also himself be subject unto him that put all things under him, that God may be all in all (I Cor. 15:23–28).<sup>22</sup>

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22. Gary North, *Judgment and Dominion: An Economic Commentary on First Corinthians*, 2nd ed. (Dallas, Georgia: Point Five Press, [2001] 2012), ch. 16.

### 3

## THE ECONOMIC ASSIGNMENT TO MAN

### Introduction

The dominion covenant established the general responsibility of mankind as a species. God told mankind to multiply. This is an aspect of extending man's jurisdiction: an aspect of kingdom-building. This means extending man's judicial boundaries. Boundaries are point three of the biblical covenant.

And 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 fowl of the air, and over the cattle, and over all the earth, and over every creeping thing that creepeth upon the earth. So God created man in his own image, in the image of God created he him; male and female created he them. And God blessed them, and God said unto them, Be fruitful, and multiply, and replenish the earth, and subdue it: and have dominion over the fish of the sea, and over the fowl of the air, and over every living thing that moveth upon the earth (Gen. 1:26–28).<sup>1</sup>

Part of this requirement is biological: population growth. Part of it is ecological: administering the animal and vegetable worlds. With this responsibility comes the means of achieving the ends. *There is no covenantal responsibility without ability.* So, we know that it was possible for mankind to fulfill this requirement, had mankind's covenantal representatives not

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1. Gary North, *Sovereignty and Dominion: An Economic Commentary on Genesis* (Dallas, Georgia: Point Five Press, 2012), chaps. 3, 4.

rebelled against God. Because this assignment was given again to Noah (Gen. 9:1–3),<sup>2</sup> we know that the means of fulfilling it are available, despite the biological and ecological curses of Genesis 3:17–19.<sup>3</sup>

Ever since the rebellion of Satan, there have been two kingdoms in conflict: the kingdom of God and the kingdom of Satan. Men must choose which covenantal order in which they will serve. There is no neutrality. They must join one or the other. Jesus said: “No man can serve two masters: for either he will hate the one, and love the other; or else he will hold to the one, and despise the other. Ye cannot serve God and mammon” (Matt. 6:24). Mammon offers man a promise: “More for me in history.”<sup>4</sup> So does God. “But seek ye first the kingdom of God, and his righteousness; and all these things shall be added unto you” (Matt. 6:33).<sup>5</sup> The difference between these promises is three-fold: (1) mammon offers only temporal blessings; (2) God offers eternal blessings as well; (3) the blessings of God’s kingdom are secondary sanctions for success in seeking the kingdom of God. That is, the kingdom of God is central; the blessings are given to confirm the covenant (Deut. 8:17–18),<sup>6</sup> to motivate people to serve God, and to provide capital for further extending God’s kingdom. To whom much is given, much is expected (Luke 12:47–48).<sup>7</sup>

The emphasis in the Bible is on production. It takes production beyond one’s immediate needs to extend the kingdom of God. It therefore takes thrift. *Consumption is presented in the Bible as a secondary goal.* It is a motivation to serve God. It is also a means to a greater end: to demonstrate in the sight of men that God is faithful to the laws of His covenant, which are reliable.

Behold, I have taught you statutes and judgments, even as the LORD my God commanded me, that ye should do so in the land whither ye go to possess it. Keep therefore and

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2. *Ibid.*, ch. 18.

3. *Ibid.*, ch. 12.

4. Gary North, *Priorities and Dominion: An Economic Commentary on Matthew*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 14.

5. *Ibid.*, ch. 15.

6. Gary North, *Inheritance and Dominion: An Economic Commentary on Deuteronomy*, 2nd ed. (Dallas, Georgia: Point Five Press, [1999] 2012), chaps. 21, 22.

7. Gary North, *Treasure and Dominion: An Economic Commentary on Luke*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 28.

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? (Deut. 4:5–8).<sup>8</sup>

## A. Production

The Bible begins with an affirmation of the Creator/creature distinction. God started on day one with nothing except His own being. “In the beginning God created the heaven and the earth” (Gen. 1:1).<sup>9</sup> Then, day by day, He added new resources by speaking them into existence. Combined with the resources of the previous days, these new phenomena became capital. This capital is to be used by man to increase his productivity as a steward of God.

### 1. Value-Added Production

Insofar as man is to reflect God, he is to be re-creative. He manifests this creativity through production: increasing the supply of valuable goods and services. The essence of this activity can be described as value-added. Adam started with something morally perfect and not under a curse. He was required to make it better. Today, men start with something flawed and under a curse. They are required to make it better.

During the creation week, God conserved what He had made the previous day. Then He added more, integrating it with what was already in existence. *Original creativity took place in a context of preservation.* This is the nature of all progress: positive change within the context of stability. *Without stability as a means of comparison, there is no measure of progress.* Randomness would rule. In the creation week, there was no trade-off. There was no surrender of something by God in order for Him to obtain something else. Over the first week, the value of the capital increased. There was

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8. North, *Inheritance and Dominion*, ch. 8.

9. North, *Sovereignty and Dominion*, ch. 1.

more of it, day by day. *More is better than less.* Finally, with the creation of man, God's image, the potential value of this capital base was made ready for maximum expansion.

God added value each day. He operated in terms of a hierarchy of values. There was temporal sequence in implementing these values, day by day. Here was the rule: *first things first.* He implemented His own decree. He added value because He acted consistently with His scale of values and His decree for that day's work. He then imputed value retroactively to His work, day by day: "It is good." He made this assessment in terms of the consistency of His work with His decree. He had achieved perfectly what He had decreed. He looked ahead in the morning, worked through the day, and evaluated in the evening. The process of adding value involves all four factors: standards, a plan, implementation, and evaluation. The value of the work depends on all four factors. *The process of adding value is inherently future-oriented.*

Man was (and is) the capstone of the creation. His creativity, not the raw material of the universe, was the most important resource. This was because God is more important than the creation. So is His image—something that did not sit well with Satan, who presumably had been created, along with the other angels, prior to man. The immensity of the universe is impressive, but not so impressive as man. *God's imputed meaning for mankind is of far greater value than lifeless matter.* Lifeless matter cannot impute either meaning or value. Man can and does. He does so as a delegated agent of God, thinking God's thoughts after Him in a creaturely fashion.

## 2. Representation

God is represented in history and eternity by man. Angels also represent God, but they are not agents of dominion. Mankind is. This means that men are required to accumulate wealth, including knowledge, on behalf of God. This is the meaning of stewardship. This is seen best in Jesus' parable of the talents. This appears in Matthew 25:1–30.<sup>10</sup> This is immediately followed by Jesus' description of the final judgment (vv. 31–46).

Productivity is mandated by God. Men must be productive, because this is part of the dominion covenant. *One of the greatest errors of all humanistic economic theory is to regard labor as a net liability.* Specific kinds of labor must be paid for, but labor as such is basic to man. The built-in preference of

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10. North, *Priorities and Dominion*, ch. 47.

man is to labor, to be productive. This is why children imitate their parents' work. Leisure is not man's default preference. Production is. It is part of the nature of man, because it was God's original design for man. We hear this phrase: "I would do this for free if I had to." This is not economically irrational. Labor is cursed, because man rebelled. But leisure is also cursed.

### *3. Specialization*

Individuals vary. Each has a specific set of gifts. The doctrine of specialization is taught clearly in Romans 12 and First Corinthians 12: the church is made up of members. Paul used the analogy of the human body to describe the church. Of course, the family is based on the division of labor. A woman was given to man. She was "fit" for him, meaning designed to complement his work. This reflects the doctrine of the Trinity. The doctrine of the Trinity is two-fold: (1) ontological Trinity, meaning the equality of the persons of the Godhead; (2) economic Trinity, meaning a hierarchy of authority. God the Father is over God the Son in terms of function. The Holy Ghost is under both: "who proceedeth from the Father and the Son."<sup>11</sup> There are differences of function.

Specialization requires economic cooperation. Without cooperation, output per person is minimal. The special gifts of each individual are not able to flourish under such autarky. In the division of labor economy, each person has tasks that he is required to perform as part of a contract of one kind or other, either formal or informal. The more that the division of labor extends, the more that these tasks are spelled out in contracts. The less personal is the cooperation, the more formal these arrangements must become. These arrangements set forth the stipulations of the production process. These are formally enforceable agreements.

### *4. Imputation*

This process of imputation is mankind's analogical equivalent of God, who pronounced judgment on His own work at the end of five of the six days of creation. God had a plan. He implemented this plan, day by day. Then He ratified His plan, day by day. This was the exercise of judgment. It was an exercise of evaluation.

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11. This is known as the filioque.

Individuals impute economic value to scarce resources. This act of imputation became the cornerstone of the Austrian School of economics in 1871, when Carl Menger of the University of Vienna wrote his book, *Principles of Economics* (1871). Menger argued that economic value does not come from inputs, whether labor or raw materials. Economic value is imputed by consumers, meaning final customers. Their competing bids in an open market establish final prices. These final prices ratify or thwart the output decisions made by producers. Prices in the production process are the result of entrepreneurs who forecast future prices. Then they buy production goods in order to produce final output. Some of these people reap profits. Others reap losses. The production process is future-oriented.

### 5. Future-orientation

God looked to the future during the week of creation. He looked toward the sixth day, when He would make man. This element of future-orientation is important for our understanding of the meaning of the creation. God's plans for the future, as revealed by His words, were central. He created the stars on day four so that as-yet uncreated mankind could measure the seasons (Gen. 1:14–16). In other words, the creation sequence was purposeful.<sup>12</sup> Theologians and philosophers call this *teleology*. The essence of Darwinism is its anti-teleological interpretation of the origins of the cosmos.<sup>13</sup>

We act in the present to deal with our expectations regarding an unknown future. There is no escape from our limited knowledge. We are finite. We are also under a curse, which will someday be removed. "For now we see through a glass, darkly; but then face to face: now I know in part; but then shall I know even as also I am known" (I Cor. 13:12). Our productivity begins in the present, based on an inheritance from the past, to be achieved in the future. The outcome is dependent on the resource inputs, but the economic value of the outcome is dependent on the imputations and decisions of others: buyers. This is consistent with the creation week. "And God saw every thing that he had made, and, behold, it was very good. And the evening and the morning were the sixth day" (Gen. 1:31).<sup>14</sup>

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12. North, *Sovereignty and Dominion*, ch. 2.

13. *Ibid.*, Appendix A: "From Cosmic Purposelessness to Humanistic Sovereignty."

14. *Ibid.*, ch. 5.

Successful plans must offer a sequence of appropriate steps. Because production takes place over time, it consumes time. *Time is not a zero-price resource.*<sup>15</sup> We must allocate it: doing one thing rather than another. We must therefore pay for it: the forfeited other thing. *Time is the only purely irreplaceable resource in history.* Time does not run back.

## **B. Authority**

Every production process rests on a chain of command. The top of this chain of command is God, who is a Trinity.

### **1. Trinity**

The authority in economy reflects the Trinity in relation to the creation: specialization of function. Each person in the Trinity has a job to do. Theologians call this aspect of the doctrine of the Trinity, the economical Trinity. This is achieved through a chain of command. God in turn delegates to men their authority over the creation (Gen. 1:26–28).

### **2. Funding**

The nature of a hierarchy is shaped by the source of its funding as much as by the organization's legal structure. This is because of the two-fold nature of all representation: legal and economic.

The senior officer or agent issues commands, but without access to money to use as rewards, his threat of negative sanctions is limited. This is because he cannot police men's actions at zero price. No one is omniscient. It is therefore easier to conceal wrongdoing, especially economic wrongdoing, than to discover it. So, positive sanctions are required to gain people's cooperation. The organization must therefore gain access to resources that can be used to reward cooperation. There are two ways to gain such funding: compulsion and voluntarism. Compulsion may be legal or illegal. Voluntarism may be profit-seeking or a form of begging.

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15. *Ibid.*, ch. 11.



### 3. Standards

The owner must specify his goals for the use of his property. He must also specify the limits of the property's use. For example, if the goal is maximization of profits per sale, the steward will be tempted to use up capital by not keeping it in repair. So, the owner must specify limits on the use of capital.

A famous example of Soviet production was a command that was given to a plant that produced nails. In one year, the criterion of success was the number of nails produced. The result: lots of nails that looked like long thumb tacks. The next year, the central planners specified weight per nail. This time, the output was mostly nails that looked like railroad spikes. Whether this was a true story or not does not matter. It expresses the problem.

### 4. Evaluation

The plans must be enforced, both during the production process and retroactively. The retroactive evaluation is best seen in Jesus' parable of the talents. It appears in Matthew 25, the section on God's final judgment. It introduces the discussion of final judgment. A landowner is about to depart for a long journey. He hands over coins to three stewards. When he returns, he evaluates the success of each of the stewards. He rewards each in terms of their output.<sup>16</sup>

The person in authority is the person who must conduct the assessment, or else delegate this task to a subordinate. There is no system of authority without sanctions. But evaluation must precede the imposition of sanctions. In the free market system, the reviewing process is governed by accounting standards: profit, loss, and the balance sheet. Success or failure is far easier to evaluate than in non-profit organizations. *Techniques of substitution allow a numerical profit-and-loss procedure.* A money economy provides the units of account. The price system makes possible retroactive assessment. This makes possible an extensive division of labor.

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16. North, *Priorities and Dominion*, ch. 47.

## 5. *Inheritance*

The parable of the talents offers the biblical guidelines. The steward who was most productive received the greatest reward. The second steward received a smaller reward. The third steward came under negative sanctions. His coin was transferred to the most productive steward. The loser not only lost the coin, he saw it go to the most productive competitor. This capitalized the most productive steward. In Luke's version of the parable, the economically productive stewards receive judicial control over cities (Luke 19:17–19).<sup>17</sup>

The message is clear: *success in one task leads to greater authority*. There is an extension of the kingdom of God in history by way of individual successes. Over time, the successes multiply. They compound. Failures lead to the de-capitalization of the inefficient. The process leads to kingdom displacement. This process operates in the profit-seeking world. It also operates in the non-profit world. But it is easier to administer in the profit-seeking world because of double-entry bookkeeping.

## C. Property

This is the judicial issue of ownership: the legal authorization to use, lose, sell, rent, donate, or destroy a specific scarce resource, meaning a resource for which there is greater demand than supply at zero price. Biblically, ownership is *the right to include and exclude*. God possessed the legal right to grant to Adam access to the garden. He also had the right to forbid access to a specific asset.

### 1. *Name*

The third commandment refers to God's name, which men are not to use in vain (Ex. 20:7).<sup>18</sup> Applying this principle to an individual, his reputation must be protected by law, as surely his money is. Shakespeare understood this application of God's law.

Good name in man and woman, dear my lord,

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17. North, *Treasure and Dominion*, ch. 46.

18. Gary North, *Authority and Dominion*, Part 2, *Decalogue and Dominion* (1986), ch 23.

Is the immediate jewel of their souls:  
 Who steals my purse steals trash; 'tis something, nothing;  
 'Twas mine, 'tis his, and has been slave to thousands:  
 But he that filches from me my good name  
 Robs me of that which not enriches him  
 And makes me poor indeed.<sup>19</sup>

*Property is an extension of a person's name, by which he secures ownership.* He signs contracts of various kinds. He establishes bank accounts. There can be legal claims by him and against him. These legal claims establish personal responsibility on his part for the administration of his assets. This connection between name, assets, and responsibility is fundamental. It establishes a legal claim on the civil government: protection of private property.

This use of a name applies also to corporate institutions: families, churches, businesses, and other entities that are legally responsible for the administration of assets. Ownership is therefore corporate as well as individual: one and many.

If I own something, I possess the legal authority to disown it. I can give it away. I can sell it. This broad right of disownership is the legal basis of contract. *There is no ownership apart from the right of disownership.* Therefore, the concept of collective ownership through politics makes no sense. If I cannot sell my share of a collective good, I do not have an ownership claim.

## 2. Representation

An inescapable factor in production is the acknowledgment of hierarchy. Someone must be in charge. Someone must reward and punish. Production began with God. It has been financed by God: capital. The economic mark of man's subordination to God is the tithe. Abram tithed to the priest, Melchizedek. "For this Melchisedec, king of Salem, priest of the most high God, who met Abraham returning from the slaughter of the kings, and blessed him; To whom also Abraham gave a tenth part of all; first being by interpretation King of righteousness, and after that also King of Salem, which is, King of peace" (Heb. 7:1–2). Christ the high priest is

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19. *Othello*, III:3.

modeled after Melchizedek (Heb. 5:6). Covenant-keeping people owe a tithe on their increase as a sign of their covenantal subordination.<sup>20</sup> This is the bare minimum. “Woe unto you, scribes and Pharisees, hypocrites! for ye pay tithe of mint and anise and cummin, and have omitted the weightier matters of the law, judgment, mercy, and faith: these ought ye to have done, and not to leave the other undone” (Matt. 23:23).<sup>21</sup> All of the tithe is owed to the member’s local institutional church.<sup>22</sup>

An owner of an asset holds this asset as a steward. He holds it primarily on behalf of God. His is hierarchical representation. He holds it as an asset on behalf of those under his authority. This usually refers to his family, but in some cases, it may be on behalf of those in a trust. He may be a legal trustee. These are legal categories.

There are also economic categories. An owner holds assets as an economic agent of those who offer the highest bids for the output of these assets. The owner uses these assets to satisfy the demands of those customers who offer the highest bids. If the owner refuses to sell to the highest bidders, then he acts on behalf of those who bid less, but who receive the output. In doing this, the owner forfeits the use of whatever extra the highest bidders bid. The owner may decide to act in a charitable way. He sells for less. But he does not sell for less at zero cost to himself. He suffers a reduction of money income.

Economically, the market principle of *high bid wins* is a way for high bidders to gain cooperation from specific sellers. This forces the owner to consider *horizontal* representation. His customers are neither over him judicially nor under him judicially. They are his judicial equals. But by bidding, they compete against each other to establish the highest bid. To turn down this bid costs the seller money.

### 3. *Rights*

Property rights belong to individuals or organizations. They are legally specified bundles of legal immunities and protections. *Property rights*

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20. Gary North, *The Covenantal Tithe* (Powder Springs, Georgia: American Vision, 2011). (<http://bit.ly/gnccovtithe>)

21. North, *Priorities and Dominion*, ch. 46. Cf. North, *Covenantal Tithe*, ch. 9.

22. Gary North, *Tithing and the Church* (Tyler, Texas: Institute for Christian Economics, 1994). (<http://bit.ly/gntithing>)

*authorize exclusion.* They place legal boundaries around specific physical assets or relationships. They announce: “This is mine. Do not trespass.” The archetype of this arrangement is the forbidden tree in the garden. God symbolically announced His sovereignty over mankind by placing a legal boundary around the tree. He later did the same by placing an angel with a flaming sword at the entry point into the garden.

An analogous boundary of exclusion is the basis of the marriage vow between husband and wife. Another is the boundary of exclusion around the sacraments of baptism and the Lord’s Supper. These rights are defended by agencies of government: church or state or both.

Theft is an owner-unauthorized transfer of assets from someone or some agency which has legal title. Owners make decisions concerning the use of assets. They have been intrusted with ownership by God through society. Again, God’s goal is dominion. Man is acting as His agent. *Ownership establishes an enforceable hierarchy of responsibility.* Men will give a final account of their use of all assets intrusted to them. This was Jesus’ explicit teaching in His parable of the talents (Matt. 25:14–29).<sup>23</sup>

Anyone who interferes with this hierarchy of responsibility is acting as if he were God. He is asserting his sovereignty over the allocation of assets that God has sanctioned. Various Mosaic laws apply this principle to specific situations. The Mosaic laws prohibiting men from moving a landmark were part of the law against theft (Deut. 19:14;<sup>24</sup> 27:17<sup>25</sup>). So were the laws governing weights and measures (Lev. 19:36;<sup>26</sup> Deut. 25:13<sup>27</sup>). The various Mosaic laws governing weights and measures, and the law’s equation of weights and measures with the administration of civil justice, point to the importance of standards. The violation of these standards constitutes a violation of property rights. People make decisions in terms of standards. To violate them unilaterally is a form of theft.

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23. North, *Priorities and Dominion*, ch. 47.

24. North, *Inheritance and Dominion*, ch. 43.

25. *Ibid.*, ch. 67.

26. Gary North, *Boundaries and Dominion: An Economic Commentary on Leviticus*, 2nd ed. (Dallas, Georgia: Point Five Press, [1994] 2012), ch. 19.

27. North, *Inheritance and Dominion*, ch. 64.

#### 4. *Contracts*

A contract is analogous to a covenant. A covenant is a legal bond under God. It lawfully invokes God's name. It is established by an oath or representative oath-sign. It is a vow taken before God and is enforceable by God. If it is an institutional covenant—family, church, or state—it is legally enforceable by one or more of these governments.

A contract is also legally enforceable by civil government, although a contract does not lawfully include a self-maledictory oath. It specifies the terms of exchange, either in the present or the future. A contract enables people to make increasingly accurate forecasts regarding other people's future performance. By lowering the costs of forecasting accurately, a contract encourages greater cooperation, which means greater specialization, which means greater expected output from whatever resources are invested in a production process.

#### 5. *Inheritance*

The goal of inheritance in the biblical worldview is the extension of the kingdom of God in history. People are mortal. This means that individuals cannot maintain ownership after they die. This brings up the issue of inheritance. Inheritance laws governed the Mosaic economy. Among these was the law of the jubilee: the return of rural land to the families of the conquest generation under Joshua (Lev. 25). The basic law was this: "A good man leaveth an inheritance to his children's children: and the wealth of the sinner is laid up for the just" (Prov. 13:22).<sup>28</sup>

Jesus taught that covenant-keepers can transfer wealth to the world beyond the grave. "Lay not up for yourselves treasures upon earth, where moth and rust doth corrupt, and where thieves break through and steal: But lay up for yourselves treasures in heaven, where neither moth nor rust doth corrupt, and where thieves do not break through nor steal: For where your treasure is, there will your heart be also" (Matt 6:19–21).<sup>29</sup> They do this by transferring wealth to the needy in history. This enables them to lay up treasure in heaven. In medieval times, men on their deathbeds would

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28. North, *Wisdom and Dominion: An Economic Commentary on Proverbs*, 2nd ed. (Dallas, Georgia: Point Five Press, [2007] 2012), ch. 41.

29. North, *Priorities and Dominion*, ch. 38.

transfer ownership of land to an agency of the church, such as a monastery. They did this as a way of laying up treasure in heaven. They sacrificed their heirs' inheritance, not their own. They used the property for as long as they could, and then they disinherited their heirs. They believed that this would fulfil Jesus' requirement for a successful transfer of wealth to heaven. They sought to take their wealth with them. They designated heirs outside their families. This permanently transferred ownership to an institution that would maintain control indefinitely. This ended when civil governments confiscated these landholdings. Henry VIII began the practice in the late 1530s by confiscating monastic lands. He sold them to raise money. The French Revolution imitated him in 1789. In this case, the state kept the land and printed money, with the land supposedly held in reserve to back the currency. This led to hyperinflation, since monetary inflation raised the price of the land, which in turn authorised the state to print more money.<sup>30</sup>

## D. Plan Reconciliation

Planning is both individual and corporate. This is true for God: "Let us." It is also true of mankind. The production process requires a feedback system to reconcile plans rationally and voluntarily. It must therefore reconcile competing goals and values. There must be *agreement* before the plan is completed. There must also be *continuing plan reconciliation* as the plan is implemented. There must be *feedback* from the production process to decision-makers. There must then be plan reconciliation among these decision-makers.

### 1. Future-Orientation

In every cooperative venture, decision-makers have plans regarding the future. They have a vision of a future they prefer. They imagine a future when that which they face today and will face tomorrow is over. How will they like the result? These plans rarely mesh. So, in order to see to it that they do mesh, there must be plan reconciliation. The plans of the many must become one agreed-upon plan.

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30. Andrew Dickson White, *Fiat Money Inflation in France* (New York: Appleton-Century, [1896] 1933).

The most famous example in the Bible of plan reconciliation is the case of Joseph and his brethren. They initially wanted to kill him. Reuben intervened to save him (Gen. 37:21–22). They revised their plans. They sold him to a passing caravan. He was sold into slavery in Egypt, where he prospered under Potiphar. Then Potiphar changed his plans. He had Joseph cast into prison. Joseph prospered, running the prison. Then the head of the prison had to revise his plans when Joseph was elevated to second in command in Egypt. Joseph persuaded the Pharaoh to change his plans: store grain. The famine struck the entire region, including Canaan. His brothers had to revise their plans. They came to Egypt to buy food. Joseph initially tricked them by concealing his identity. Later, he revealed himself. Next, he brought his family into Egypt. This was a major plan-revision on Jacob's part. Next, his father died, and the brothers expected him to kill them. Only then did he identify God as the great reconciler. "But as for you, ye thought evil against me; but God meant it unto good, to bring to pass, as it is this day, to save much people alive" (Gen. 50:20). The numerous plan revisions in this story were part of a comprehensive plan of God, which was not revised.

The archetype of irreconcilable plans is the conflict between Moses and Pharaoh.<sup>31</sup> It took 10 plagues to change Pharaoh's mind and let the Israelites go, but his mind did not stay changed very long. He perished in the Red Sea with his chariots. The matter was settled by violence: God's. This reflected the ultimate irreconcilable plans: God's and Satan's. God's plans are sovereign. Satan's are not.

Here is *the supreme practical question* for all social theory: "Is there a system of predictable plan reconciliation that does not rely on either love, which is in very limited supply, or violence, which most people wish were in very limited supply?" The answer is provided by economic theory: *voluntary exchange*. This answer is an aspect of the social division of labor. People have varying values, goals, and abilities. Sometimes these are in conflict. People also have wide variations of knowledge regarding specific facts and relationships. To motivate some people to participate in the planning process and others in the plan-implementation process, the economic system must reward cooperation.

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31. Gary North, *Authority and Dominion: An Economic Commentary on Exodus* (Dallas, Georgia: Point Five Press, 2012), Part 1, *Representation and Dominion* (1985), ch. 1.



## 2. Feedback

What is needed is a system of mutual feedback between buyers and sellers. This feedback process must convey accurate information to all of the participants. It must also supply motivation for people to respond appropriately to accurate information. It must do all this in a cost-effective manner.

If the feedback system is to remain voluntary, then it must be *self-reinforcing*. For the system to work, it must operate without extensive monitoring by officials who threaten negative sanctions against poor performers. It must operate in terms of criteria that have wide acceptance, thereby furthering self-government. *Self-government lowers society's enforcement costs.*

There is no reference in the Bible to the price system as an economy's primary feedback process (note: not a "mechanism"). This feedback process was first explained in detail by Adam Smith in *The Wealth of Nations* (1776). The Bible mandates the legal order through which the pricing system comes into existence through voluntary agreement. The feedback system of free pricing through competitive bidding—buyers vs. buyers, sellers vs. sellers—does its work in producing profits or losses, which serve as feedback indicators: positive and negative sanctions.

The profit and loss system is the tool of the discovery process. Those who want to buy some item can determine how scarce it is by looking at its price compared to other goods' prices. This discovery process was the basis of the incident between Elisha and the king of Israel during the siege by the Syrians. "And there was a great famine in Samaria: and, behold, they besieged it, until an ass's head was sold for fourscore pieces of silver, and the fourth part of a cab of dove's dung for five pieces of silver" (II Kings 6:25). The king wanted to know if he should attack the Syrians. Elisha had already told him not to attack, so he did not repeat himself. Instead, he made a prophecy in the form of a forecast. "Hear ye the word of the LORD; Thus saith the LORD, To morrow about this time shall a measure of fine flour be sold for a shekel, and two measures of barley for a shekel, in the gate of Samaria" (II Kings 7:1). This was his way of saying to wait, for the siege would not only be lifted the next day, but great stores of food would become available. This came to pass (II Kings 7:8). Prices adjusted the next day because people in the city discovered that the Syrians had departed, leaving their food behind.<sup>32</sup>

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32. Gary North, *Disobedience and Defeat: An Economic Commentary on the*

When prices change, people are encouraged to adjust their plans. Price changes open up new opportunities or close old ones. Certainly, the departure of the Syrians opened up new opportunities for food buyers in Samaria. Their departure also closed old opportunities to sellers of food who had operated in a so-called seller's market the day before. Prices fell dramatically. The people of Israel did not know about Elijah's prophecy to the king the day before. If they had, and if the people had believed him, food prices would have begun to fall the day before in expectation of the coming deliverance. The people did not need to know about the previous day's prediction on the day of deliverance. The new array of opportunities was reflected in the new array of prices.

Price competition is a powerful tool of replacement. Producers can replace competitors by cutting sales prices. Buyers often switch allegiance in response to low prices. In the case of Joseph in Egypt, the Pharaoh possessed stores of grain when famine struck. So great was the famine that Jacob could not afford to buy food locally in Canaan. So, he sent his sons to Egypt to buy food, where prices might be cheaper (Gen. 42). Local grain salesmen in Canaan lost Jacob's business to the Egyptian government.

## E. Dominion

Deuteronomy 28:1–14 describes the blessings of God in response to covenantal faithfulness. The passage includes economic output. What is the requirement of covenantal faithfulness? Acknowledgment of God as the source of wealth. “But thou shalt remember the LORD thy God: for it is he that giveth thee power to get wealth, that he may establish his covenant which he sware unto thy fathers, as it is this day” (Deut. 8:18).<sup>33</sup> This acknowledgment must be manifested in word. “Hear, O Israel: The LORD our God is one LORD” (Deut. 6:4). It must also be manifested in deed. “Know therefore that the LORD thy God, he is God, the faithful God, which keepeth covenant and mercy with them that love him and keep his commandments to a thousand generations” (Deut. 7:9).

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*Historical Books* (Dallas, Georgia: Point Five Press, 2012), ch. 26:C.

33. North, *Inheritance and Dominion*, ch. 23.

## **1. Labor**

What are the Bible's rules for increasing output? One is to work for six days a week. Its companion rule is one day of rest per week. "Six days shalt thou labour, and do all thy work: But the seventh day is the sabbath of the LORD thy God: in it thou shalt not do any work, thou, nor thy son, nor thy daughter, thy manservant, nor thy maidservant, nor thy cattle, nor thy stranger that is within thy gates" (Ex. 20:9–10).<sup>34</sup>

Work is basic to success. Without it, poverty comes. "How long wilt thou sleep, O sluggard? when wilt thou arise out of thy sleep? Yet a little sleep, a little slumber, a little folding of the hands to sleep: So shall thy poverty come as one that travelleth, and thy want as an armed man" (Prov. 6:9–11).<sup>35</sup> The Proverbs return to this theme again and again.

## **2. Land**

The kingdom of God is geographical. It must be extended. This is a call to accumulate real estate. This is the second rule of expansion. God told Abram: "Arise, walk through the land in the length of it and in the breadth of it; for I will give it unto thee" (Gen. 13:17). Ownership of land in peace is one of God's greatest blessings. "But they shall sit every man under his vine and under his fig tree; and none shall make them afraid: for the mouth of the LORD of hosts hath spoken it" (Micah 4:4). The Mosaic law announced: "Behold, the heaven and the heaven of heavens is the LORD'S thy God, the earth also, with all that therein is" (Deut. 10:14). The psalmist clarified the nature of the delegation. "The heaven, even the heavens, are the LORD'S: but the earth hath he given to the children of men" (Ps. 115:16). Covenant-keepers are assigned the task of occupying the land as a way to manifest the comprehensive ownership of all things by God.

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34. North, *Authority and Dominion*, ch. 24.

35. Gary North, *Wisdom and Dominion: An Economic Commentary on Proverbs*, 2nd ed. (Dallas, Georgia: Point Five Press, [2007] 2012), ch. 12:A, p. 291.

### 3. *Capital*

Capital is the product of land plus labor over time.<sup>36</sup> It is the product of thrift.

Thrift is rarely mentioned in the Bible. Thrift is at the center of the proverb about the ant. “Go to the ant, thou sluggard; consider her ways, and be wise: Which having no guide, overseer, or ruler: Provideth her meat in the summer, and gathereth her food in the harvest” (Prov. 6:6–8).<sup>37</sup> We intuit it in the law of the sabbatical year’s rest of the ground. “Six years thou shalt sow thy field, and six years thou shalt prune thy vineyard, and gather in the fruit thereof; But in the seventh year shall be a sabbath of rest unto the land, a sabbath for the LORD: thou shalt neither sow thy field, nor prune thy vineyard” (Lev. 25:3–4).<sup>38</sup> This law implicitly mandated thrift for six years in order to eat in the seventh. The requirement of consuming less than what you produce was built into the Mosaic land laws. This law was also part of a system of fallow ground, which was an important means of preserving the land’s fertility.

Jesus spoke of the present sacrifice of wheat for the sake of future output. “Verily, verily, I say unto you, Except a corn [kernel] of wheat fall into the ground and die, it abideth alone: but if it die, it bringeth forth much fruit” (John 12:24). Any agricultural society understands this principle: deferred gratification. There must be thrift—forefeited present consumption—in order to gain increased future output. *To eat your seed corn is to sacrifice your future.* Jesus’ warning regarding the rich man who accumulated wealth points to the means of producing increased output: capital formation—in this case, barns. Without barns, agricultural produce is wasted.

And he spake a parable unto them, saying, The ground of a certain rich man brought forth plentifully: And he thought within himself, saying, What shall I do, because I have no room where to bestow my fruits? And he said, This will I

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36. Murray N. Rothbard, *Man, Economy, and State: A Treatise on Economic Principles*, 2nd ed. (Auburn, Alabama: Mises Institute, [1962] 2009), pp. 58, 373.

37. North, *Wisdom and Dominion*, ch. 12.

38. Gary North, *Boundaries and Dominion: An Economic Commentary on Leviticus*, 2nd ed. (Dallas, Georgia: Point Five Press, [1994] 2012), ch. 24.

do: I will pull down my barns, and build greater; and there will I bestow all my fruits and my goods (Luke 12:16–18).<sup>39</sup>

Capital formation also includes lending, meaning credit expansion through thrift. “The LORD shall open unto thee his good treasure, the heaven to give the rain unto thy land in his season, and to bless all the work of thine hand: and thou shalt lend unto many nations, and thou shalt not borrow” (Deut. 28:12).

Tools are crucial for economic growth. Tools increase our productivity. Someone has to save to pay for tools. Future-oriented groups possess more tools and more profitable tools than present-oriented people do.

## Conclusion

The fundamental law of mankind is to subdue the earth to the glory of God. Above all, this means using God’s rules as our primary tools of dominion.

In a world of cursed scarcity (Gen. 3:17–19),<sup>40</sup> this means that men must cooperate in the production process. There must be a division of labor. There must also be capital formation: the creation of tools. This requires thrift: greater output than consumption. This places production, not consumption, at the center of man’s economic life.

*Production, not consumption, is central because God is sovereign.* He is the cosmic owner. Men are required to serve God. They are subordinate to God. They are required to place God’s interests first. They are to consume only after they have served God by transferring to Him what is owed: the tithe. They are to consume only after God has been paid what He is owed. What is true of our dealings with subordinates is true of God’s dealings with us. “But which of you, having a servant plowing or feeding cattle, will say unto him by and by, when he is come from the field, Go and sit down to meat? And will not rather say unto him, Make ready wherewith I may sup, and gird thyself, and serve me, till I have eaten and drunken; and afterward thou shalt eat and drink?” (Luke 17:7–8).<sup>41</sup>

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39. Gary North, *Treasure and Dominion: An Economic Commentary on Luke*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 25.

40. North, *Sovereignty and Dominion*, ch. 12.

41. North, *Treasure and Dominion*, ch. 41.

Free market economists, from Adam Smith to the modern academic economists, place personal consumption at the center: individual self-interest. This is because they adhere to the principle of buyer sovereignty. But the buyer is not sovereign. He is merely an intermediary in God's hierarchy. God is sovereign. A man must first master production in order to be an independent buyer. Without production, he will die, unless he is supported by the production of others.

A consistent covenant-keeper lives to work. Work is the goal. Life on earth is not. Paul wrote: "For I am in a strait betwixt two, having a desire to depart, and to be with Christ; which is far better: Nevertheless to abide in the flesh is more needful for you" (Phil. 1:23–24). Service to God through service to others is the biblical structure of economic hierarchy. This means that *consumable wealth is a success indicator of profitable service*. To the extent that consumption becomes a person's goal of production rather than merely a success indicator, he has replaced God with mammon in his covenantal structure: "more for me in history."

## 4

# THE ECONOMIC CONSTRAINTS ON MAN

## Introduction

The fundamental economic constraint on man is that he is a creature. This is inherent in man's being. Not being God, man cannot create something out of nothing. He cannot speak anything into existence out of nothing. He does not possess any of the incommunicable attributes of God: omniscience, omnipotence, and omnipresence. Neither one man nor mankind can evolve into divinity. "What is man, that thou art mindful of him? and the son of man, that thou visitest him?" (Ps. 8:4).<sup>1</sup> "Woe unto him that striveth with his Maker! Let the potsherd strive with the potsherds of the earth. Shall the clay say to him that fashioneth it, What makest thou? or thy work, He hath no hands?" (Isa. 45:9). So, any attempt by man to attain these incommunicable attributes is a form of covenant-breaking.

The second constraint on man is his position as a steward in the hierarchy of creation. He oversees the earth on behalf of God. He cannot escape this hierarchy. It points to his position as a creature. To attempt to deny this hierarchy is a sin. Speaking of the king of Babylon (Isa. 14:4), Isaiah wrote:

How art thou fallen from heaven, O Lucifer, son of the morning! how art thou cut down to the ground, which didst weaken the nations! For thou hast said in thine heart, I will ascend into heaven, I will exalt my throne above the stars of God: I will sit also upon the mount of the congregation, in the sides of the north: I will ascend above the heights of

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1. Gary North, *Confidence and Dominion: An Economic Commentary on the Psalms* (Dallas, Georgia: Point Five Press, 2012), ch. 3.

the clouds; I will be like the most High. Yet thou shalt be brought down to hell, to the sides of the pit (Isa. 14:12–15).

The third inherent constraint on man is the finitude of creation. Creation is bounded. “And after these things I saw four angels standing on the four corners of the earth, holding the four winds of the earth, that the wind should not blow on the earth, nor on the sea, nor on any tree” (Rev. 7:1). This applies also to men’s institutions. “And he shall set up an ensign for the nations, and shall assemble the outcasts of Israel, and gather together the dispersed of Judah from the four corners of the earth” (Isa. 11:12).

The fourth constraint on man is the curse of the ground (Gen. 3:17–19).<sup>2</sup> This was an aspect of the Fall. It was not original in the creation. This curse accentuated the other constraints.

The fifth inherent constraint is the linearity of time. While a man can do more than one thing at a time, he cannot do all things simultaneously. This creates the problem of planning and resource allocation. Each person has to schedule his actions. There is a necessary sequence in all life. This includes production. God made Adam name the animals of the garden before He gave him a wife (Gen. 2:19–22).<sup>3</sup>

These constraints constitute the general economic issue of scarcity. Scarcity is defined as follows: “At zero price, there is greater demand than supply.” This fact produces prices. People bid competitively for scarce resources.

## A. Death

Man is a dominion agent. He lives to work. He works to extend his influence in history. This dominion impulse is inherent in man. He is God’s image. He reflects God’s office as Creator. Man is a re-creator. He is cut short by death.

The curse of death was consistent with God’s promised sanction: “But of the tree of the knowledge of good and evil, thou shalt not eat of it: for in the day that thou eatest thereof thou shalt surely die” (Gen. 2:17). This curse announced the death sentence. But the sanction was not immediately

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2. Gary North, *Sovereignty and Dominion: An Economic Commentary on Genesis* (Dallas, Georgia: Point Five Press, [1982] 2012), ch. 12.

3. *Ibid.*, ch. 10.



executed. Adam died definitively on the day of his rebellion. He did not die finally. He died progressively over time, as do we.

Death imposes a temporal boundary. This boundary places an irreversible limit on a man's work. There is nothing a man can do to escape this limit. So, whatever he creates in history he must leave behind. "As he came forth of his mother's womb, naked shall he return to go as he came, and shall take nothing of his labour, which he may carry away in his hand. And this also is a sore evil, that in all points as he came, so shall he go: and what profit hath he that hath laboured for the wind?" (Eccl. 5:15–16).<sup>4</sup> Were it not for God's grace, this epitaph for mankind would stand: "He labored chasing wind."

Modern man labors under this burden. Scientists are generally agreed that this world is running down. Time's arrow is relentless. Energy moves from a kinetic state to a dissipated state. Nothing can reverse this process for the universe as a whole. We are headed for the heat death of the universe, where no more change takes place. The frozen night will engulf all living things and all non-living things. A universe that came out of the meaningless, purposeless Big Bang will erode into an equally meaningless, purposeless frozen waste. This end is billions of years in the future. But the death sentence has been handed down by the silent cosmos. There is no escape. Ashes to ashes, dust to dust.<sup>5</sup>

The Darwinian view of time pressures those who want to make their mark through economic growth in one lifetime to rely on debt to do it. They seek to speed up the process of compound growth through leverage. A man may buy \$100,000 worth of a corporate stock for 20% down. He pays \$20,000, borrows \$80,000, buys the stock, and waits. The stock then doubles in price. He sells it for \$200,000, pays off the loan of \$80,000, and keeps \$100,000 profit. He earned that with only \$20,000, which means he made five to one on his investment. But leverage is a two-way street. If the stock's price falls by 20%, he loses all of his down payment. He must sell the shares to pay off his loan. The price is more likely to fall by 20% than double. To make a big profit, you must bear much uncertainty. Leverage giveth, and leverage taketh away.

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4. Gary North, *Autonomy and Stagnation: An Economic Commentary on Ecclesiastes* (Dallas, Georgia: Point Five Press, 2012), ch. 19.

5. Gary North, *Is the World Running Down? Crisis in the Christian Worldview* (Tyler, Texas: Institute for Christian Economics, 1988), ch. 2. (<http://bit.ly/gnworld>)

## B. Scarcity

Economists define scarcity as follows: “At zero price, there is greater demand than supply.” I have argued that scarcity is inherent in the creation: finitude<sup>6</sup> and linear time.<sup>7</sup> There is an inescapable allocation process for men and beasts. What makes scarcity far more relevant to economic theory is the curse. As with all of God’s sanctions in history, this one has an element of curse and an element of blessing. It is only in eternity that God’s sanctions are either purely curse or purely blessing.

### 1. *Nature Rebels*

The curse on Adam was not his finitude. He was finite before the Fall. The curse was that nature would henceforth increase his costs of dominion.

And unto Adam he said, Because thou hast hearkened unto the voice of thy wife, and hast eaten of the tree, of which I commanded thee, saying, Thou shalt not eat of it: cursed is the ground for thy sake; in sorrow shalt thou eat of it all the days of thy life; Thorns also and thistles shall it bring forth to thee; and thou shalt eat the herb of the field; In the sweat of thy face shalt thou eat bread, till thou return unto the ground; for out of it wast thou taken: for dust thou art, and unto dust shalt thou return (Gen. 3:17–19).<sup>8</sup>

The ground was under Adam’s authority. It has now been made to suffer, along with Adam’s heirs. God imposed the curse to bring sorrow to mankind, but it also has brought sorrow to the creation. Paul wrote:

For the earnest expectation of the creature [creation] waiteth for the manifestation of the sons of God. For the creature was made subject to vanity, not willingly, but by reason of him who hath subjected the same in hope, Because the creature itself also shall be delivered from the bondage of corruption into the glorious liberty of the chil-

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6. North, *Sovereignty and Dominion*, ch. 12.

7. *Ibid.*, ch. 13.

8. *Ibid.*, ch. 12.

dren of God. For we know that the whole creation groaneth and travaileth in pain together until now (Rom. 8:19–22).<sup>9</sup>

So, the hierarchy under man participates in the curse of man. This is an important aspect of hierarchy. There is a covenantal link between man and the creation. The creation shares in God's sanctions, both positive and negative.

Man is cursed by way of the creation. "Thorns also and thistles shall it bring forth to thee; and thou shalt eat the herb of the field" (Gen. 3:18). They battle for their place in a bounded environment.

## 2. Work

Man's work is hampered because of sin. God reminds men in their labor that there are consequences for rebellion. Man cannot escape the dominion covenant (Gen. 1:26–28).<sup>10</sup> He must work. He is compelled by inner drives as dominion man to extend his dominion. But the environment resists. This includes other men. "From whence come wars and fightings among you? come they not hence, even of your lusts that war in your members?" (James 4:1).<sup>11</sup>

The curse of scarcity has an element of grace in it. Men are now murderous. If they were left unrestrained by external resistance, they would pursue evil with all of their efforts. But nature does not allow this. Men must battle against thorns and thistles. This leaves them less time and fewer resources to battle against each other. *Cursed scarcity is a blessing in disguise.* To overcome it, men must cooperate in joint ventures and voluntary exchange.

Labor was not initially cursed. Adam labored in the garden, naming the animals. His labor after the Fall became difficult. "In the sweat of thy face shalt thou eat bread, till thou return unto the ground; for out of it wast thou taken: for dust thou art, and unto dust shalt thou return" (Gen. 3:19). The ground will receive and then consume man's lifeless remains—a reminder

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9. Gary North, *Cooperation and Dominion: An Economic Commentary on Romans*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 5.

10. North, *Sovereignty and Dominion*, chaps. 3, 4.

11. Gary North, *Ethics and Dominion: An Economic Commentary on the Epistles* (Dallas, Georgia: Point Five Press, 2012), ch. 36.

of the Fall, in which Adam and Eve subordinated themselves covenantally to an aspect of the creation in preference to the Creator. Having subordinated themselves covenantally to a creature, Adam and his heirs have been delivered himself and his posterity into the less than tender mercies of a now-resistant creation, which receives the inheritance of man's remains.

### 3. *Grace*

Scarcity forces men to cooperate with each other and with nature. The curse amplified the limitation imposed by the scarcity of finitude. The environment now resists men's plans. To overcome this resistance, men must cooperate. Ecclesiastes announced:

Two are better than one; because they have a good reward for their labour. For if they fall, the one will lift up his fellow: but woe to him that is alone when he falleth; for he hath not another to help him up. Again, if two lie together, then they have heat: but how can one be warm alone? And if one prevail against him, two shall withstand him; and a threefold cord is not quickly broken (Eccl. 4:9–12).<sup>12</sup>

The division of labor is the primary social solution to the problem of cursed scarcity. Nature is not neutral to man, contrary to Darwinism. Its operations are actively hostile to man. This includes the self-conscious hostility of wild animals. It also includes the unconscious but designed hostility of the plant world. This is because of the curse. Men must cooperate with each other in order to overcome the destructive effects of sin, which produces mutual hostility.<sup>13</sup>

Men must also deal with nature in such a way that its productivity is channeled to benefit men. They must overcome the thorns and multiply the fruit. This takes planning. It also requires science: an understanding of the causes and effects of men's activities in the realm of nature.

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12. North, *Autonomy and Stagnation*, ch. 14.

13. Mises goes so far as to say that the division of labor "transformed the animal man into a human being. . . ." Ludwig von Mises, *Human Action: A Treatise on Economics* (New Haven, Connecticut: Yale University Press, 1949), ch. 8, sect. 1.

## C. Sin

Point three of the biblical covenant is ethics. Sin is a violation of God's law. "Therefore to him that knoweth to do good, and doeth it not, to him it is sin" (James 4:17). Because of sin, men's actions are now bounded by God's law. This is the major boundary of life.

God's law empowers men. Without it, they fly blind. But this law is also a restriction on men. It is like a watch. A watch reduces the waste of time. This is a great benefit. We can plan our days more precisely. We can become more productive. The clock and then the wristwatch became important tools in the European West.<sup>14</sup> Yet at the same time, a watch places limits on the person who wears it and abides by it. His schedule reduces his flexibility. He must honor this schedule. If he violates it, there are negative sanctions.

The Bible is clear on this point: when a majority of members of any society consistently violate biblical law, the society suffers negative sanctions (Deut. 28:15–68). In contrast, obedience brings external blessings (Deut. 28:1–14).<sup>15</sup> So, biblical law is the basis of both positive and negative sanctions.

When societies obey, they get richer. This is supposed to lead them to greater obedience. This in turn produces greater wealth (Deut. 8:17–18).<sup>16</sup> This system is designed to extend the kingdom of God in history. The rule of law extends over an ever-greater domain. The wealth produced by obedience is capital for fulfilling the dominion covenant.

Sin thwarts this process. Negative sanctions thwart it. The reduced rate of capital formation thwarts it. This is an aspect of sanctions, point four of the biblical covenant. But it also has direct implications for the kingdom. People are supposed to become more familiar with God's law. Psalm 119 is the longest chapter in the Bible. It is devoted to praising God's law.

There is internal conflict: *righteousness vs. sin*. This extends to the general culture. It is an aspect of conflict. The ultimate conflict is the conflict between God and Satan. This is manifested in history by a conflict between rival kingdoms. Satan and God have the same goal: for their re-

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14. David S. Landes, *Revolution in Time: Clocks and the Making of the Modern World*, 2nd ed. (Cambridge Massachusetts: Harvard University Press, [1983] 2000).

15. Gary North, *Inheritance and Dominion: An Economic Commentary on Deuteronomy*, 2nd ed. (Dallas, Georgia: Point Five Press, [1999] 2012), ch. 69.

16. *Ibid.*, chaps, 21, 22.

spective kingdoms to inherit the earth in history. Each kingdom extends its authority at the expense of another. This competition is a form of warfare. Each of them seeks to displace the other in history. Economists call this a zero-sum game. The winner profits at the expense of the loser. This is not a game. It is a war. Yet it is an odd sort of war. Satan is completely dependent on God for everything he controls: time, intelligence, power, and subordinates.<sup>17</sup> He prospers economically in history, building up wrath for himself in eternity. This is a zero-sum contest. It is *winner takes all*. Satan loses everything of value. God wins everything of value. Satan is today unwilling to surrender unconditionally. This guarantees his defeat. Surrender to God must be unconditional.<sup>18</sup>

When the Hebrews lived in Egypt prior to the Pharaoh of the persecution, they prospered and grew, attracting large numbers of converts. Three generations did not allow the increase of numbers to 2.4 million people. Converts made up the bulk of the exodus generation.<sup>19</sup> Egypt prospered in this period. Yet the Pharaoh of the persecution saw a threat: the increased numbers of Hebrews (Ex. 1:8). He viewed the transformation covenantally, not economically: a zero-sum conflict of kingdoms, which it was. He enslaved the Hebrews by imposing a top-down tyranny in order to gain the benefits of the division of labor, yet also maintaining covenantal mastery over them (Ex. 1:9–14).<sup>20</sup> He substituted central planning for the free market. Continuing this policy, the Pharaoh of the exodus lost his kingdom and his life. At the exodus, the Hebrews inherited the gold and silver of Egypt's deceased firstborn males (Ex. 12:35–36). This was a zero-sum economic conflict. Central planning and enslavement had made it such. Pharaoh refused to surrender. So, he lost everything.

Sinful men would prefer to extend their power through violence (James 4:1).<sup>21</sup> God has cursed both mankind and nature in such a way that men must suppress their preference for violence in order to prosper economi-

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17. Gary North, *Dominion and Common Grace: The Biblical Basis of Progress* (Tyler, Texas: Institute for Christian Economics, 1987), pp. 31, 34–35. (<http://bit.ly/gndcrg>)

18. Gary North, *Unconditional Surrender: God's Program for Victory*, 5th ed. (Powder Springs, Georgia: American Vision, [1980] 2011),

19. North, *Authority and Dominion*, ch. 1.

20. North, *Authority and Dominion*, ch. 2.

21. North, *Ethics and Dominion*, ch. 34.

cally. This is the price of productive cooperation. The curse of scarcity provides grace.

## **D. Uncertainty**

Man does not see clearly into the future. "For now we see through a glass, darkly; but then face to face: now I know in part; but then shall I know even as also I am known" (I Cor. 13:12). This blindness imposes limits on our use of resources. We are not sure who will want to buy what in the future and at what price. I do not even know what I will want to buy in the future or at what prices. Neither do you. The future is clouded. Our efforts are limited. We peer into the future and see shadows.

How can a man survive, let alone prosper, under such circumstances? He has responsibilities, yet he does not know how he will be able to meet them. He does not know what the environment will bring. He does not know who will cooperate with him. In the modern phrase, he is flying blind.

We see through a glass, darkly. This is an aspect of the curse. Finitude is not the problem. This was true before the Fall: "The secret things belong unto the LORD our God: but those things which are revealed belong unto us and to our children for ever, that we may do all the words of this law" (Deut. 29:29). Sin is the problem. "And the serpent said unto the woman, Ye shall not surely die" (Gen. 3:4). Adam decided to test God by testing His word. He learned that God's word was correct. He learned from experience.

From Adam until today, sin blinds men. God has cursed covenant-breaking men with blindness regarding the future. Why? Because of their sin.

Also I heard the voice of the Lord, saying, Whom shall I send, and who will go for us? Then said I, Here am I; send me. And he said, Go, and tell this people, Hear ye indeed, but understand not; and see ye indeed, but perceive not. Make the heart of this people fat, and make their ears heavy, and shut their eyes; lest they see with their eyes, and hear with their ears, and understand with their heart, and convert, and be healed. Then said I, Lord, how long? And he answered, Until the cities be wasted without inhabitant, and the houses without man, and the land be utterly deso-

late, And the LORD have removed men far away, and there be a great forsaking in the midst of the land (Isa. 6:8–12).

Jesus repeated this passage in explaining to the disciples why He spoke in parables (Matt. 13:13–14). Paul cited it as his justification for not going to the Jews with the gospel, but to the gentiles instead (Acts 28:25–28).

This blindness affects men's ability to see the future. Nature buffets people. Wars disrupt them. Disasters overwhelm them. Throughout history until about 1800, the unforeseen disasters of life blindsided mankind. Humanity remained poor. Per capita wealth rarely increased for long. The bad things that people could not foresee usually offset the good things that they hoped for, planned for, and saved for.

## E. Poverty

Except in major wars, the West has not suffered poverty, biblically defined, since about 1800. It takes historical imagination for modern men even to empathize with poverty, biblically defined. The last Western famine was the Irish potato famine of the mid-1840s, when a million people starved or died from famine-related diseases, and a million emigrated, out of a population of 8 million. The best summary of modern poverty was made in the early 1930s by America's greatest humorist, Will Rogers. This was during the last worldwide economic depression. He quipped: "America is the first nation to go to the poorhouse in an automobile."

This is not to say that the West does not face a threat. If the inter-bank payments system were to fail because of panic over a coordinated terrorist air-borne anthrax on three cities—New York City, the City (banking district) of London, and Frankfurt—or a coordinated attack by suicide carriers of smallpox, there would be mayhem in every Western nation within a month. There would be a run on the banks. Credit cards would fail. Without credit cards, trucks do not roll. Truckers do not go into plague cities. This would not be mere poverty. This would mean millions of dead people within two months—hundreds of millions within a year. For a good visual introduction, view the first show in James Burke's 1978 series, *Connections*.<sup>22</sup>

Beginning in the late eighteenth century in England and the United States, poverty as described in the Bible began to cease. For reasons still

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22. <http://bit.ly/BurkeCon1>



unknown, slow, steady economic growth began. London in 1850 did not resemble London in 1800. By 1900, electricity, the internal combustion engine, and cheap oil began a transformation of the West that changed everything by 1950. The memory of 1950 remains, if only through television re-runs. Modern men could adjust to 1950. They could not easily adjust to 1900 unless they were very rich, and even then, they would be uncomfortable. Think “air conditioning.”

There is still poverty, but it is comparative. It is not absolute: the threat of starvation or plague. It is the threat of not having medical insurance, which tens of millions of Americans do not have. Yet, even in this case, it means waiting in an emergency room of a hospital for free care. It probably does not mean death. The threat of war still exists, but of a new kind: occasional terrorism in the West’s cities and guerilla wars elsewhere. Our world has overcome poverty, which existed in familiar forms from pharaonic Egypt until 1800.

Poverty in the Bible is presented as a curse, mainly in Deuteronomy 28, Moses warned Israel. Poverty would be part of a series of comprehensive setbacks. “The LORD shall send upon thee cursing, vexation, and rebuke, in all that thou settest thine hand unto for to do, until thou be destroyed, and until thou perish quickly; because of the wickedness of thy doings, whereby thou hast forsaken me” (v. 20). Invasion would confiscate their productivity (v. 33). “Thou shalt have olive trees throughout all thy coasts, but thou shalt not anoint thyself with the oil; for thine olive shall cast his fruit” (v. 40). “All thy trees and fruit of thy land shall the locust consume” (42). Poverty was not presented here as a permanent condition of humanity. Yet it was. Most people in history consumed about the same amount of food, of the same monotonous type, from childhood, which few survived, until old age, which few reached. Whenever a society broke out of poverty, its population grew, and then poverty per capita reappeared. This process was a constraint on most men until 1800.<sup>23</sup>

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23. By far the best economic history of this transformation is Gregory Clark, *A Farewell to Alms: A Brief History of the World* (Princeton, New Jersey: Princeton University Press, 2007). But the best economic analysis of what could not have caused this process is Dierdre McCloskey, *Bourgeois Dignity: Why Economics Can’t Explain the Modern World* (Chicago: University of Chicago Press, 2010).

## Conclusion

Scarcity is an inescapable factor in every area of life: finitude and linear time. Cursed scarcity has amplified original scarcity.

Adam Smith established a tradition which has been followed faithfully by subsequent free market economists. He began with the fact of scarcity. He devoted the first three chapters of *The Wealth of Nations* to the division of labor, which is a way to overcome scarcity. This was a conceptual error. God's original ownership is primary: creation. Man's stewardship under God is secondary: the dominion covenant. Private property is tertiary: the prohibition against eating from God's tree. Then comes cursed scarcity: the curse of the ground. Finally comes economic growth: the expansion of the kingdom of God, which is visible in the comparative wealth of nations.

Smith's decision to begin with scarcity was also a strategic error. Because Smith did not place private property before scarcity, defending it theologically, morally, and legally, he weakened his theoretical case for the free market. He made a very weak defense of private property. Nineteenth-century socialists therefore had a far easier time evading and denying the implications of free market economics, since free market economists, following Smith's lead, failed to establish the moral case for private ownership.

Socialists were able to occupy the moral high ground when presenting their case against private property. It was not very high ground, but it was the highest ground occupied in the economic debates of the nineteenth century. This appeal to morality made their case against the free market more compelling in their highly moralistic era.<sup>24</sup> It took over a century and a half for academic economists to develop a theoretical framework to explain the comprehensive implications of private property.<sup>25</sup> Even here, their defenses have rarely relied on an appeal to morality. They prefer defenses that rest on arguments for efficiency.

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24. Karl Marx was an exception. He did not invoke moral arguments. He regarded all morality as class morality: implements of class warfare. He dismissed morality as pertaining to society's superstructure. He regarded the mode of production as the real foundation of society. He had contempt for those he labeled utopian socialists, who preached a "new social Gospel." Marx and Engels, *Manifesto of the Communist Party* (1848), Section III.

25. Tom Bethell, *The Noblest Triumph: Property and Prosperity Through the Ages* (New York: St. Martin's, 1998), ch. 7.

The Bible teaches that the economic curses can be overcome by economic growth. But this growth is not autonomous. It comes in response to the establishment of a particular kind of social order: the private property order.

## 5

# OVERCOMING THE ECONOMIC CONSTRAINTS ON MAN

### Introduction

Economic growth is modern man's most widely accepted and widely praised national priority. It has been ever since Great Britain's mercantilist economists of the late seventeenth century began defending state-enforced trade restrictions in the name of expanding the nation's wealth. Adam Smith wrote *An Inquiry into the Wealth of Nations* (1776) as a refutation of their views, but equally in the name of national wealth. While tiny fringe groups declare the benefits of zero economic growth, almost no one believes them. No one should.

In 1750, almost no one believed that long-term economic growth is possible on a worldwide basis. It was believed that wealth, like empires, comes and goes. The history of mankind seemed to prove this pessimism. A Roman bureaucrat in Britain in the time of Christ, if offered by an angel the opportunity to return to Rome or live in London in 1750, probably would have chosen Rome: better weather, better roads, as good a sewer system, and much better food. Only if he was an avid reader would London have looked better: book stores. In 1400, before Gutenberg, ancient Rome would clearly have been a better choice. Only in the libraries at Oxford or Cambridge would there have been more readily available books, but their Latin would have been less eloquent. Language differences aside, an illiterate worker living in London in 1750 would have been in a more familiar economic setting in ancient Rome than in London in 1850.

In 1776, Smith's *Wealth of Nations* appeared. This book changed the opinions of intellectuals regarding the possibility of compound economic growth. By 1815, economic growth in the newly established United States seemed to be proving Smith's point. Had it not been for the war with France, which began in 1793, economic growth in England would have been apparent. By 1851, within the lifetime of someone born in 1776, economic growth had changed the lifestyles of tens of millions of Western Europeans. The modern paved highway, the steam engine, the cotton gin, the textile mill, the railroad, the steam ship, the telegraph, the McCormick reaper, and the sewing machine had appeared and had changed the way people lived. The great London Exhibition of 1851, attended by six million visitors, put thousands of technological marvels on display. This event publicly marked a shift in literate people's thinking about the future. They could now legitimately expect that their grandchildren would live in a far more comfortable world.

This was a true revolution: *a revolution of rising expectations*. It came first to the United States, then to Great Britain, then to every part of the world that traded with the West. Railroads transported this new outlook into the interior of every continent except Antarctica. The idea of progress, declared in principle by postmillennial Calvinists in the mid-seventeenth century, and echoed by French and Scottish Enlightenment rationalists in the mid-eighteenth century, became a visible reality by the mid-nineteenth century. By 1900, the idea of progress was the West's universal confession of faith. Thomas Edison's light bulb had become its symbol: the bright idea. Henry Ford soon provided the common man with a vehicle to the promised land.

Ford's secret was mass production through specialization and the division of labor. This had been Smith's insight in the first three chapters of *Wealth of Nations*. An extensive division of labor and the resulting specialization of production are the twin keys to wealth, Smith argued. Novelist Aldous Huxley in *Brave New World* (1932) made Ford the source of the religion of the future: Fordism. In terms of its affirmation of positive social change, "in the year of our Ford," replaced "in the year of our Lord" for 15 million Americans, 1908–1927: the era of the Model T.

It is difficult for modern men to believe that, prior to about 1600, almost no one believed in the idea of progress, let alone compound economic growth. Yet, beginning around 1800, England and the United States began

to experience about 1.5% growth per year. This rate accelerated after 1870.<sup>1</sup> Compound per capita growth of 1.8% per year is an incomparably powerful force for social change. Consider this: a few people old enough to have read a contemporary newspaper article about Col. Custer's last stand against the Sioux in 1876 saw two men walk on the moon in 1969.

The idea of progress is a Protestant idea, specifically seventeenth-century Calvinism. While there have been scholarly attempts to trace the idea back to the ancient Greeks, all have foundered on the Greeks' concept of cyclical history. Robert Nisbet made the attempt in *History of the Idea of Progress*.<sup>2</sup> This was the book in which he abandoned the use of footnotes, so it is not easy to trace his documentation. He relied heavily on the thin book by Ludwig Edelstein, *The Idea of Progress in Classical Antiquity*, which I regard as among the least persuasive pieces of historical scholarship published in my lifetime. The phrase, "grasping at straws," comes to mind. Nisbet would have been wiser to have relied on Stanley Jaki's books on Greek and Roman technology. Nisbet was familiar with Jaki's work, as footnotes in his earlier books indicate. Jaki made it clear that because the ancients had no concept of linear time, let alone historical progress, they were unable to develop science, as distinguished from technology.<sup>3</sup>

What I write here is an extension of what I wrote in my commentary on Deuteronomy.<sup>4</sup>

## A. Multiplication

Death is insurmountable individually, but it is surmountable in the aggregate. Population growth over time adds to the number of producers in

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1. Maria Brouwer, *Organization, Individualism and Economic Theory* (New York: Routledge, 2012), p. 4.

2. Robert A. Nisbet, *History of the Idea of Progress* (New York: Basic Books, 1980), ch. 1.

3. Stanley L. Jaki, *Science and Creation: From Eternal Cycles to an Oscillating Universe*, rev. ed. (Edinburgh: Scottish Scientific Press, 1986). For a summary, see Jaki, "The History of Science and the Idea of an Oscillating Universe," in Wolfgang Yourgrau and Allen D. Breck (eds.), *Cosmology, History, and Theology* (New York: Plenum Press).

4. Gary North, *Inheritance and Dominion: An Economic Commentary on Deuteronomy*, 2nd ed. (Dallas, Georgia: Point Five Press, [1999] 2012), ch. 21. This deals with Deuteronomy 8:10–18.

a society. There are only three ways that a society can experience population growth: (1) an increase in the birth rate, (2) a decrease of the number of deaths per time period; (3) immigration. The Mosaic law offered two of these specifically. First, it offered an increase in the birth rate. "There shall nothing cast their young, nor be barren, in thy land: the number of thy days I will fulfil" (Ex. 23:26).<sup>5</sup> Second, it offered a decrease in the death rate, i.e., increase in life expectancy. "Honour thy father and thy mother: that thy days may be long upon the land which the LORD thy God giveth thee" (Ex. 20:12).<sup>6</sup> This was repeated in the New Testament. "Children, obey your parents in the Lord: for this is right. Honour thy father and mother; (which is the first commandment with promise;) That it may be well with thee, and thou mayest live long on the earth" (Eph. 6:1–3). Third, the Mosaic law encouraged immigration through its policy of equality before the law. "One law shall be to him that is homeborn, and unto the stranger that sojourneth among you" (Ex. 12:49).<sup>7</sup> "And if a stranger sojourn with thee in your land, ye shall not vex him. But the stranger that dwelleth with you shall be unto you as one born among you, and thou shalt love him as thyself; for ye were strangers in the land of Egypt: I am the LORD your God" (Lev. 19:33–34).<sup>8</sup> Anyone could buy and inherit real estate in walled cities.

The Old Covenant openly encouraged large families. "Lo, children are an heritage of the LORD: and the fruit of the womb is his reward. As arrows are in the hand of a mighty man; so are children of the youth. Happy is the man that hath his quiver full of them: they shall not be ashamed, but they shall speak with the enemies in the gate" (Ps. 127:3–5).

Human creativity is not the ultimate resource, contrary to economist Julian Simon.<sup>9</sup> God's grace, as manifested through His Bible-revealed law, is the ultimate resource. But human creativity is the source of great wealth. So far in man's history, human creativity has by far been the most powerful

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5. Gary North, *Authority and Dominion: An Economic Commentary on Exodus* (Dallas, Georgia: Point Five Press, 2012), Part 3, *Tools of Dominion* (1990), ch. 55.

6. *Ibid.*, Part 2, *Decalogue and Dominion* (1986), ch. 25.

7. North, *Authority and Dominion*, Part 1, *Representation and Dominion* (1985), ch. 14.

8. Gary North, *Boundaries and Dominion: An Economic Commentary on Leviticus*, 2nd ed. (Dallas, Georgia: Point Five Press, [1994] 2012), ch. 19.

9. Julian Simon, *The Ultimate Resource* (Princeton, New Jersey: Princeton University Press, 1981).

force behind economic growth. An increase in population is the source of additional creative people. It is also the source of uncreative and vicious people. But in the structure of biblical covenantalism, the righteous are favored over the unrighteous. “A good man leaveth an inheritance to his children’s children: and the wealth of the sinner is laid up for the just” (Prov. 13:22).<sup>10</sup> So, population growth in the context of a society governed by biblical law leads to increased economic output.

To be a blessing rather than a curse, population growth must be accompanied by an increase in economic output. Per capita economic growth is basic to the biblical social order. It offers what alcoholics desire but cannot obtain. “Come ye, say they, I will fetch wine, and we will fill ourselves with strong drink; and to morrow shall be as this day, and much more abundant” (Isa 56:12). The Mosaic law provides the specifics of a judicial system that produces a social and economic order that experiences rising output.

## B. Overcoming Resistance

Prior to the Fall, God pronounced His work as good. The creation was all productivity, no waste. There were degrees of productivity. In response to Adam’s sin, God deliberately undermined nature’s pure productivity. There is today active inter-species warfare. Men and nature act to thwart the originally God-pleasing and man-pleasing productivity. It now requires active efforts by men to thwart these counter-productive aspects of the post-Fall cosmos.

### 1. *Nature*

Contrary to the Darwinian worldview known as deep ecology, mankind is not a cancer in nature. Man has always possessed valid authority over nature. Men are to make nature productive for the covenant-keeping purposes of man. This mandates a society in which God, rather than man, is seen as sovereign. Men must honor nature as the property of God. As stewards of the creation, men are not to destroy its productivity or consume all of its output. All of nature belongs to God. “For every beast of the forest is mine, and the cattle upon a thousand hills. I know all the fowls of the

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10. Gary North, *Wisdom and Dominion: An Economic Commentary on Proverbs* 2nd ed. (Dallas, Georgia: Point Five Press, [2007] 2012), ch. 41.



mountains: and the wild beasts of the field are mine” (Ps. 50:10–11).<sup>11</sup> This includes nature’s output.

Despite the curse, men are still required by God to extend His kingdom through their productivity and the productivity of nature. Productivity means output of greater value than the value of inputs. Value is imputed subjectively. God imputes value to all output. “And God saw every thing that he had made, and, behold, it was very good. And the evening and the morning were the sixth day” (Gen. 1:31).<sup>12</sup>

Productivity is an aspect of stewardship. Stewardship is a four-way phenomenon: upward (to God), downward (to nature), outward (to other men), and inward (self-interest). *Covenant-keeping productivity is therefore productivity on behalf of nature.* That which is good for covenant-keeping man is also good for nature. This is because of God’s covenant with man at the beginning (Gen. 1:26–28).<sup>13</sup> Nature operates under God’s laws and man’s laws. It also operates under man’s direct intervention and God’s direct intervention. Nature is not autonomous, any more than man is. It is even less autonomous. It is under both God and man. The phrase of Henry David Thoreau, “in Wildness is the preservation of the world,” is anti-Christian to the core.<sup>14</sup>

## 2. Society

Certain practices of men as individuals and as acting agents in society are needlessly destructive. These practices must be suppressed by civil law, by tradition, and by negative social sanctions. The Holy Spirit empowers covenant-keeping individuals and societies to place boundaries around such practices. By restricting the influence of these practices, society increases its output. Just as pulling up thorns and thistles increases the output of a garden, so does pulling up men who violate boundaries. “And the judges shall make diligent inquisition: and, behold, if the witness be a false witness,

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11. Gary North, *Confidence and Dominion: An Economic Commentary on Psalms* (Dallas, Georgia: Point Five Covenant, 2012), ch. 10.

12. Gary North, *Sovereignty and Dominion: An Economic Commentary on Genesis* (Dallas, Georgia: Point Five Press, [1982] 2012), ch. 5.

13. *Ibid.*, chaps. 3, 4.

14. The phrase appears in his 1862 essay, “Walking,” published a month after his death. It is frequently misquoted: “In wildness is the salvation of the world.”

and hath testified falsely against his brother; Then shall ye do unto him, as he had thought to have done unto his brother: so shalt thou put the evil away from among you" (Deut. 19:18–19).<sup>15</sup>

There are positive economic sanctions as well as negative economic sanctions. We can and should encourage productivity—as individuals, as members of voluntary associations, as church members, and as family members. Paul wrote to the church at Corinth, "Be ye followers of me, even as I also am of Christ" (I Cor. 11:1). He immediately praised them: "Now I praise you, brethren, that ye remember me in all things, and keep the ordinances, as I delivered them to you" (I Cor. 11:2).<sup>16</sup> Encouragement helps. In the Mosaic law, the law governing that form of temporary servitude which came as a result of someone's default on a zero-interest charitable loan mandated that the person be given capital.

And if thy brother, an Hebrew man, or an Hebrew woman, be sold unto thee, and serve thee six years; then in the seventh year thou shalt let him go free from thee. And when thou sendest him out free from thee, thou shalt not let him go away empty: Thou shalt furnish him liberally out of thy flock, and out of thy floor, and out of thy winepress: of that wherewith the LORD thy God hath blessed thee thou shalt give unto him. And thou shalt remember that thou wast a bondman in the land of Egypt, and the LORD thy God redeemed thee: therefore I command thee this thing to day (Deut. 15:12–15).<sup>17</sup>

### 3. *Economic Representation*

In a free market society, the producer has legal authority over his capital. He possesses this legal authority as a *judicial agent* of God. Because of the covenantal structure of stewardship, the owner inescapably acts as an *economic agent* of both God and society. Society includes those creatures under a person's lawful authority: ecology.<sup>18</sup> In short, the judicial concept

15. North, *Inheritance and Dominion*, ch. 44.

16. Gary North, *Hierarchy and Dominion: An Economic Commentary on First Corinthians*, 2nd ed. (Dallas, Georgia: Point Five Press, [2001] 2012), ch. 15.

17. North, *Inheritance and Dominion*, ch. 36:C.

18. North, *Sovereignty and Dominion*, ch. 18.

of *delegated ownership* inescapably leads to the concept of *economic representation*. This representation is fourfold: inward, outward, upward, and downward.<sup>19</sup> The seller may respond favorably to an offer to buy. To accept one offer is to reject all the others. Inescapably, the seller acts economically on behalf of one buyer or group of buyers at the expense of all the other would-be buyers who made low bids. This process of economic representation is inherent in all ownership, which is a system of judicial boundaries that necessarily involves inclusion and therefore exclusion.<sup>20</sup>

Similarly, the buyer also operates as a steward, because God has delegated ownership to him. He also acts as an economic representative. This representation is fourfold: upward, downward, outward, and inward. He makes offers to buy. To make one offer is to make an offer to exclude all the other sellers. This process of representation is inherent in all ownership: boundaries necessarily involving inclusion and therefore exclusion.

### C. Cooperation

Cooperation is one way to reduce conflict, which is a major covenantal curse. In a free market social order, cooperation increases wealth. The division of labor allows many people to increase their output and therefore their income through voluntary exchange and specialization of production. Rising wealth places a rising cost on conflict: the loss of productivity due to cooperation. Economics teaches that as the cost of anything rises, less is demanded. This includes conflict.

The primary economic sign of a biblical social order is *widespread private ownership*: many stewards, decentralized responsibility. This raises the issue of the division of labor. How can men best cooperate with each other in order to increase their output? What is the means of this cooperation? How can they coordinate this highly complex system of cooperation?

When a seller competes against another seller, we call this competition. This raises a crucial question: What are they competing for? Answer: the right to cooperate with a buyer. So, that which is competition in the case of seller vs. seller is simultaneously competition for the right to gain the cooperation of a buyer. The same is true of the competition among buyers. Competition among buyers is based on a desire to cooperate with a seller.

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19. Chapter 2:A:6.

20. Chapter 3:C:4.

*It is therefore impossible to have cooperation without competition.* Why? Because of ownership. Ownership involves the right to exclude. There is competition between people to be included in other people's endeavors. "Buy from me!" "Take my money!" These are bids for cooperation. Each competitive bid is necessarily an attempt to exclude a rival potential cooperator. The economic result of competition is increased cooperation. Put another way, *the means of cooperation is competition.* Every seller's offer to cooperate is an implied offer to a buyer to cease cooperating with a different seller. It is competition in a market for exclusion.

We understand this process with respect to the competition for a marriage partner. No one complains about the evil of this competition. Yet critics of the free market naïvely criticize competition, as if a system of exclusion were not present in every economic system.

### ***1. A System of Bidding***

Producers (buyers of money) compete against producers. Buyers (sellers of money) compete against buyers. The outcome of the competition is determined by the auction principle: *high bid wins*. Favoritism is reduced because buyers and sellers want to maximize their benefits from each transaction. Sellers want more money. Buyers want more goods or services. Each bidder achieves his goal by trading in an open market that is not marked by favoritism by either buyers or sellers. Favoritism is legal, but it comes at a price: not accepting to the highest bid. *The wider the market, the less the favoritism.* It is not who you know but what you bid that matters most in a free market.

Is "high bid wins" a primary principle of Christian economics? Yes. Why? Because the only institutional alternative is the principle of "might makes right." This principle replaces voluntary exchange with violence or the threat of violence. This principle violates the principle of private ownership, which is a fundamental principle of Christian economics.

Is it not lawful for me to do what I will with mine own? Is thine eye evil, because I am good? (Matt. 20:15).<sup>21</sup>

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21. Gary North, *Priorities and Dominion: An Economic Commentary on Matthew*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 40.

But Peter said, Ananias, why hath Satan filled thine heart to lie to the Holy Ghost, and to keep back part of the price of the land? Whiles it remained, was it not thine own? And after it was sold, was it not in thine own power? why hast thou conceived this thing in thine heart? thou hast not lied unto men, but unto God (Acts 5:3–4).<sup>22</sup>

## 2. A Price System

An offer to exchange is a price offer: *this* in exchange for *that*. Something must be surrendered. In the language of economists, there are no free lunches. Even the greatest of all free offers—the offer of salvation—had to be paid for. The price was high. “For if, when we were enemies, we were reconciled to God by the death of his Son, much more, being reconciled, we shall be saved by his life” (Rom. 5:10).

All value is imputed by God. “And God saw every thing that he had made, and, behold, it was very good. And the evening and the morning were the sixth day” (Gen. 1:31).<sup>23</sup> This means Trinitarian imputation: individual and corporate. This is a form of rendering judgment. The concept of God’s imputation includes economic value.

Men are made in God’s image, so they also must impute value as God’s economic agents. This is a form of rendering judgment. They do this as individuals. They also do this as members of groups. This imputation includes economic value. Therefore, all economic value is grounded in individual, subjective imputation in terms of a scale of values. Economic value is subjective.<sup>24</sup> But because economic value is also an aspect of God’s original valuation, it is also objective.<sup>25</sup>

The *objectivity* of economic value is manifested in *prices*. Men cannot compare each other’s subjective valuations, but they can compare each other’s objective bids. Out of individual subjective valuation comes objective valuation: an array of prices.

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22. Gary North, *Sacrifice and Dominion: An Economic Commentary on Acts*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 4.

23. North, *Sovereignty and Dominion*, ch. 5.

24. Chapter 2:D:1.

25. Chapter 2:D:2.

This process of objective valuation is that of an auction system. An auction is based on the legal principle of private property, which includes the right to buy and sell. *Ownership implies disownership*. An auction is a series of verbal bids—offers to buy—based on objective prices. This process is governed by the auctioneer’s phrase: “Do I hear. . . ?” The bids are public and objective. The fundamental rule of an auction is this: *high bid wins*. The fundamental principle of the pricing process is this: *supply and demand*. This involves open bidding among buyers at an auction and open entry of sellers at rival auctions. Buyers bid against buyers. Sellers bid against sellers. On an organized exchange for capital goods, the auction process involves simultaneous bids by buyers and sellers. These bids are recorded publicly as *bid* (“I’ll pay”) prices and *ask* (“I’ll accept”) prices. The gap between these two prices constitutes a *commission*: a transaction fee. If the bid price is not higher than the ask price, there will be no voluntary transaction.

The supreme example in the Bible of this bidding process is Satan’s temptation of Christ in the wilderness. Satan seeks to gain Christ’s subordination: a switch in Christ’s worship of God to worship of Satan. Here, I follow the sequence of three temptations presented in Matthew 4,<sup>26</sup> not the sequence in Luke 4.<sup>27</sup> First, Satan suggested that Christ turn stones into bread: words over matter. Christ rejected the offer. Then he suggested that Christ hurl Himself from the top of the temple: angels over gravity. Christ rejected the offer. Finally, he offered Christ the kingdoms of this world in exchange for His visible worship of Satan: the whole world in exchange for His soul. Christ rejected the offer. Satan continually raised the bid. Christ, as a steward of His soul and therefore His worship, refused to sell. Each refusal had a price: (1) no satisfaction of His hunger; (2) no acclaim as the world’s only floating Messiah; (3) no pre-resurrection inheritance of the world’s kingdoms—later rather than sooner. Christ offered a higher counter-bid every time: a refusal to collect the benefit offered. Christ gained. Satan lost.

### 3. Price Controls

State-enforced price controls produce either no results or negative results. If the price control is a *price ceiling*, and if prices would be higher on

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26. North, *Priorities and Dominion*, chaps. 1–3.

27. Gary North, *Treasure and Dominion: An Economic Commentary on Luke*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012) chaps. 3–5

a free market, then the official, legal prices send out erroneous signals. They make prices seem lower than they really are. This increases the quantity demanded by willing buyers. Demand is always demand *at some price*. The price ceiling creates a *shortage*: greater demand than supply at the official price.

If the price control is a *price floor*, and if prices would be lower on a free market, then the official, legal prices send out erroneous signals. They make prices seem higher than they really are. This increases the quantity supplied by willing sellers. Demand is always demand *at some price*. The price floor creates a *glut*: greater supply than demand at the official price.

The outcome of every price control is an increased supply of inaccurate information regarding the underlying conditions supply and demand.

## D. Accounting

To raise the issue of social coordination in the context of economics is to raise the issue of accounting. Accounting increases the ability of people to assess the results of previous attempts at cooperation: success or failure. Accounting techniques apply to information gathered in the past. Accounting is also a tool for forecasting the future.

### 1. Counting the Costs

Accounting is a development that is a formal way to deal with Jesus' warning:

For which of you, intending to build a tower, sitteth not down first, and counteth the cost, whether he have sufficient to finish it? Lest haply [it happen], after he hath laid the foundation, and is not able to finish it, all that behold it begin to mock him, Saying, This man began to build, and was not able to finish (Luke 14:28–30).<sup>28</sup>

Because prices are historical, so are accounting records. Accounting statements for specific organizations are very good indicators of past economic performance. Past economic performance, as revealed by accounting, is better for predicting future performance than having managers

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28. North, *Treasure and Dominion*, ch. 35.

flip a coin 500 times to decide to pursue past policies rather than new ones. Anyway, we presume that this is true. If it is not true, then senior managers should substitute random-number generating computer programs for detailed predictions based on accounting records whenever they face a *go/no go* decision. Even in some not-too-distant future, when managers may allow computers to make such decisions, managers presumably will make better decisions by means of computer programs that use accounting records rather than ignoring them.

The primary economic mark of a high division of labor society is money. *Money dramatically extends the division of labor.* Men produce in order to trade for money, which is the most marketable commodity. The use of money produces an array of prices. In an advanced division of labor society, the market-clearing interactions of sellers and buyers—buyers vs. buyers, sellers vs. sellers—are registered in the form of monetary prices.

The invention of double-entry bookkeeping in the late Middle Ages in Western Europe was therefore of enormous importance.<sup>29</sup> It gave the West a precise tool by which to evaluate the degree of success or failure in profit-seeking enterprises. Managers can assess the wisdom of pursuing specific investment or marketing strategies by way of a record of past results. They can identify the cost of production within a business.

## 2. *Economic Calculation*

Accounting enables men to make better judgments regarding the opinions of producers regarding future demand and supply. Today's price is the outcome of competing opinions among producers regarding the future. Prices today tell producers what they must pay to bid resources away from their competitors in order to meet expected future demand. Prices let producers know whether or not there are any widely ignored opportunities for future profit. Producers want to buy low and sell high. If there were no prices and no systems of accounting, economic planning would not be possible except by making irrational guesses.

This was Ludwig von Mises' criticism of socialism, published in 1920: "Economic Calculation in the Socialist Commonwealth."<sup>30</sup> Mises argued that without free market prices and accounting, especially in the capital

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29. Mises, *Human Action*, ch. 13, sect. 1.

30. Posted on [www.mises.org](http://www.mises.org).



goods markets, economic planners in socialistic economies could not make rational decisions regarding the allocation of resources. Most economists ridiculed or ignored his argument for seventy years until the Soviet economy collapsed in late 1980s. Then, in 1990, Robert Heilbroner, a socialist and multimillionaire author of the standard college textbook on the history of economic thought,<sup>31</sup> wrote in a popular literary magazine: “Mises was right.”<sup>32</sup>

### 3. Profit and Loss

The existence of numerical prices makes possible a system of *numerical representation*: monetary profit and loss. Profit and loss are economic sanctions. These sanctions are imposed by buyers, meaning *spenders of money*: the most marketable commodity. Buyers’ decisions to buy or not to buy necessarily impose sanctions on sellers. Some sellers win; others lose. Profits serve as success indicators: success in serving those buyers who make the highest bids. Losses serve as failure indicators.

Success indicators are not to become autonomous goals. They are guidelines to accumulate capital and thereby to advance to the next stage of productivity. They provide evidence of a person’s mastery of some phase of the production process. They are like grades in an examination. High grades are not a legitimate final goal. High grades are indicators of mastery of the procedural means to the goal, which is dominion on behalf of God. Great wealth serves the same function. The religion of mammon beguiles people. They substitute a success indicator for the goal.<sup>33</sup>

There is no escape from either positive or negative sanctions in life. Profit and loss are inescapable concepts, for they reflect two inescapable covenantal sanctions: saved and lost, meaning covenantal life and covenantal death. “I call heaven and earth to record this day against you, that I have set before you life and death, blessing and cursing: therefore choose life, that both thou and thy seed may live” (Deut. 30:19).

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31. *The Worldly Philosophers*.

32. Robert Heilbroner, “Reflections After Communism,” *The New Yorker* (Sept. 10, 1990), p. 92.

33. Gary North, *The Five Pillars of Biblical Success* (Powder Springs, Georgia: American Vision, 2008), pp. 18–19, 41–42, 52–56. (<http://bit.ly/gnsuccess>)

#### 4. *Information Coordination*

To make effective assessments of our ability to sustain our present course of action, we need prices and accounting. We need to cease pursuing any course of action that will deplete our resources to zero unless we are staging a “going out of business” sale.

We can better coordinate our plans with others’ plans when we can more accurately forecast the likely results of our actions. Accounting not only enables us to do this in the realm of business, it encourages us to do this, through either the fear of losses or the hope of profits.

### E. **Compounding**

The cure for economic poverty is economic growth. There are two keys to economic growth: entrepreneurship and future-orientation. The first is inescapable, but only a few people are good enough at it to make economic growth possible. The second is a society-wide phenomenon. A society marked by high future-orientation responds favorably to offers made by entrepreneurs to pay low rates of interest to fund projects. Lending funds entrepreneurship.

#### 1. *Entrepreneurship*

Dealing with uncertainty, which is man’s inability to see the future clearly, is a major aspect of ownership. How can a person or a society plan for the future when the future is so uncertain?

There are people who offer society a way through this darkness: entrepreneurs. The entrepreneur assesses present conditions in order to make accurate forecasts about the future.<sup>34</sup> We are all entrepreneurs. From a very early age, we learn entrepreneurship. A small child assesses the likelihood of a “yes” from one parent rather than the other before he asks the targeted parent to allow him to do something problematical. Ask the wrong parent, and you may get a “no.” By trial and error, small children learn to predict more accurately.

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34. Frank H. Knight, *Risk, Uncertainty and Profit* (Boston: Houghton Mifflin, 1921). (<http://bit.ly/KnightRUP>)

Humans do not possess omniscience. Moses wrote, "The secret things belong unto the LORD our God: but those things which are revealed belong unto us and to our children for ever, that we may do all the words of this law" (Deut. 29:29). Paul wrote, "For now we see through a glass, darkly; but then face to face: now I know in part; but then shall I know even as also I am known" (I Cor. 13:12). The future is uncertain. We must deal with this uncertainty as best we can.

The entrepreneur searches for profitable opportunities in a world of uncertainty. He looks for resources that are underpriced in terms of what he regards as the most likely future conditions of supply and demand. He buys low in order to sell high.<sup>35</sup> By buying low, he bids up the price of similar resources. A rising price alerts other entrepreneurs to a profit opportunity.

How does an entrepreneur gain his competitive edge? He may possess inside information. This gives him an advantage over others, who do not possess this information. He is better able to allocate today's resources in terms of his knowledge. More frequently, he may have a hunch about what resources are underpriced today. It is likely that he cannot specify in an orderly summary all of those factors on which his hunch is based. He says he just "feels" it. If he is a successful entrepreneur, he is wise to go with his hunches. If he has been unsuccessful, he would be wise to lie down and take a nap until his hunch fades.

He may have accurate insight into pricing that others have not yet discovered. If he uses his theory of causation to increase his profits, he can maintain his above-market rate of return until such time as conditions change. Perhaps his theory no longer will apply. Perhaps others will discover it and his profits disappear through competition.

Where is entrepreneurship discussed in the Bible? Several places. The most famous entrepreneur was Joseph. He interpreted Pharaoh's dream and predicted a famine. When asked by Pharaoh what to do about it, he proposed a program of warehousing grain. When the famine struck seven years later, Joseph sold this grain to the people in exchange for money, then for 20% of their crops on a permanent basis (Gen. 41).<sup>36</sup> He possessed "inside information": God's revelation.

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35. Ludwig von Mises, *Planning for Freedom*, 3rd ed. (South Holland, Illinois: Libertarian Press, [1952] 1974), ch. IX. See below, II:5:D.

36. North, *Sovereignty and Dominion*, ch. 33.

The Mosaic law governing the second-year tithe, the tithe of national celebration, authorized the attendees to sell their food and animals locally for money and then bring this money to the central city, where the tabernacle-Temple was located, and buy food for celebrating as a family (Deut. 14:25–26). This law implicitly authorized entrepreneurs to buy food in the hinterlands and transport it for future consumption in the feast week. It was buy low (hinterlands) and sell high (in the festival week).

On God's command, Jeremiah bought his relative's field for silver when the enemy Babylonians were at the gates. This secured the property for Jeremiah's heirs after the return from the captivity (Jer. 32). This was God's way of telling the Israel that Jeremiah believed that the captivity would be temporary. He purchased an asset that would be more valuable than silver in the future, but only if God's promise was fulfilled.

Jesus prophesied the destruction of Jerusalem by an invading army—clearly, Rome (Luke 21:20–24). He called this the days of vengeance.<sup>37</sup> The Christians living in Jerusalem sold their lands and homes (Acts 4:34–35). This made it possible for them to flee the city, leaving no real estate behind, when a great persecution broke out (Acts 8:1). Church tradition teaches that all the church fled the city and went to Pella after the Roman army arrived, then departed, in A.D. 69.<sup>38</sup> When the army returned in A.D. 70, the slaughter began: the fall of Jerusalem.

## 2. *Future-orientation*

We are responsible now. We decide now. We would all prefer satisfaction now rather than satisfaction in the future if we could get both at the same price, but we cannot. So, we discount future benefits. This means that those who wish to borrow from us must offer a higher return than zero. The free market's rate of interest is positive. In a rare case when it is not,

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37. David Chilton, *The Days of Vengeance: An Exposition of the Book of Revelation* (Ft. Worth, Texas: Dominion Press, 1987). (<http://bit.ly/childays>)

38. This was taught most famously by Eusebius, *History of the Church*, 3:5:3. This was published in the first half of the fourth century. He quoted Hegessippus. Half a century later, it was affirmed by the Bishop of Salamis in *Penarion*, 29:7:7–8. This tradition stood without a major challenge until S. G. F. Brandon wrote *The Fall of Jerusalem and the Christian Church* (1951).

then this is a concealed price for safe storage of financial assets. Otherwise, it would be more profitable to hold currency than to lend money at a loss.

A society with high future-orientation is willing to forego present consumption for the sake of future consumption at a low rate of interest. This fact attracts entrepreneurs, who prefer borrowing at low rates of interest. In order to raise money, an entrepreneur must either borrow money or sell a percentage of ownership to investors. The more confident he is about his venture's profitability, the more he would prefer to borrow money rather than sell ownership.

High future-orientation means that people prefer future income more than low future-orientation people do. Each group buys what it prefers. High future-orientation people buy future income by foregoing current consumption. They save. Low future-orientation people buy present consumption at the price of reduced future income. They do not save. The free market allows members of both groups to attain their goals. The interest rate is the social arrangement (not mechanism) for allocating consumption: future vs. present.

### *3. Capital Accumulation*

God commands dominion. Dominion requires capital. A future-oriented person values the future more than the present-oriented person does. He is therefore willing to save at a lower rate of interest than a present-oriented person. This gives him a tremendous advantage over the long run. Savings are the basis of capital creation. Capital provides the tools of production that increase workers' productivity. The owners of capital collect a legitimate payment for this increased productivity. Future buyers pay this, not workers. However, future non-buyers do not pay it. There are no guarantees.

Profit enables producers/sellers to build up economic reserves, i.e., capital. Profits send a signal to producers that they have been doing the correct thing from the point of view of buyers. This encourages them to keep doing it, unless they sense a broad reversal in buyers' tastes or finances. They reinvest part of their profits. This is a system of positive feedback. It is a system where the rich get richer, and the poor get richer, too. Economic growth benefits most participants. A rising tide raises all ships. There need

not be a falling tide. Prior to about 1800 in Great Britain, the United States, and Canada, there always was.<sup>39</sup>

When producers accumulate capital, they increase production. If producers successfully predict future demand, this increased production benefits all those buyers in a specific market who will want to buy more goods of this type at competitive prices. If producers have made correct forecasts when they decided to increase output, these buyers will make sufficient future purchases to clear the producers' shelves at prices the producers planned for or even higher.

In contrast, producers who misforecast buyer demand suffer losses. They suffer capital depletion. They will not be able to compete successfully in the capital markets for additional resources. Therefore, they will not gain control over additional capital, raw materials, and labor services. This reduction of future output harms specific buyers: those buyers who would like to buy specific consumer goods, but who were previously unsuccessful in their competition with other buyers. Unsuccessful buyers necessarily impose losses on producers who had allocated resources in order to sell their output to these buyers.

This means that "value-added" refers to *retroactive* decisions by buyers. Labor, raw materials, capital goods, and time were expended in producing products offered for sale. This process added no value. The costs of production in fact *reduced* value by removing scarce resources from the consumers' market. Future buyers will determine retroactively if the value added was greater than value reduced. They will either buy or refuse to buy.

#### 4. Zero-Sum Game

Economists designate as a zero-sum game any form of organized competition in which the gain of the winner comes from the loss of the loser. A sporting event is such a competition. So is gambling. People play the game because they like to win at the expense of someone else.

Competition between God and Satan is always a zero-sum contest. We see this clearly in Satan's challenge to God regarding Job (Job 1). God imposed a rule for the contest: Satan could not kill Job. Satan lost. We see this again in the wilderness contest between Christ and Satan. Satan would

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39. Gregory Clark, *A Farewell to Alms: A Brief History of the World* (Princeton, New Jersey: Princeton University Press, 2007).

have gained at Christ's expense and therefore at God's expense. He lost. The competition between the kingdom of God and the kingdom of Satan is a zero-sum contest with respect to eternity. A soul gained for one kingdom is a soul lost to the other. This is inescapably a numerical contest. Nevertheless, there are many cases in history where both kingdoms benefit temporally through competition for souls and culture, neither at the expense of the other. This takes place when members of the rival kingdoms seek to capture a larger share of souls—zero sum—by extending their kingdom's influence in society. The resulting increased output makes society better off economically.

An example of such kingdom competition is the pornography industry's price-competitive marketing to increase demand. This marketing effort initially increased demand for access to the World Wide Web. This in turn led to increased competition among Internet service providers. Prices fell. Services improved. The result of the kingdom competition was greater temporal wealth for all. A similar contest had taken place two decades earlier in videotape marketing. Demand was driven initially by demand for pornography. So, that which is a zero-sum contest regarding eternity can be a wealth-for-all competition in history.

A voluntary exchange is usually not a zero-sum game. Each party expects to benefit. If their joint expectations turn out to be true after the exchange, they are more likely to trade again. As Mises wrote, "The characteristic feature of games is the antagonism of two or more players or groups of players. The characteristic feature of business within a society, i.e., within an order based on the division of labor, is concord in the endeavors of members. As soon as they begin to antagonize one another, a tendency toward social disintegration emerges."<sup>40</sup>

There is one major exception in a free market: a futures contract. One speculator expects prices to move in one direction. A speculator on the other side of the contract expects prices to move in the other direction. The gains of one come at the expense of the other. Society benefits. The successful speculator-forecaster accumulates capital at the expense of the unsuccessful one. This enables the superior forecaster to make additional contracts, thereby bringing his superior expertise to the market place. This reduces uncertainty regarding future prices for non-participants in the

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40. Mises, *Human Action*, ch. 6, sect. 6.

futures market, and at no cost to them. Society benefits at the expense of the poor forecasters.

### 5. *Linear Time*

The Bible teaches the doctrine of linear time: creation, Fall, redemption, final judgment. Time is linear. It is also cumulative. Good things add up as a result of God's positive historical sanctions. Bad things diminish as a result of God's negative historical sanctions. This explicitly biblical covenantal worldview is the original foundation of the idea of progress. This compounding process transforms the world. A seemingly low rate of annual growth, when extended for a century, changes the environment beyond recognition.

Covenant-keepers have a concept of time that reflects eternity. That which is temporal reflects that which is eternal. Time will be replaced by eternity (Rev. 20). So, time is not a threat to covenant-keepers. It is the arena of kingdom victory. They are therefore supposed to be intensely future-oriented. They believe that a sacrifice made today will pay off tomorrow. This is the outlook of the upper-class person.<sup>41</sup>

Infinite time—or close to it—in a world of limited space and resources leads inevitably to the ideology of zero growth. This in turn calls forth proposals for the state to pass laws limiting growth. This is why there is a loud but tiny minority of humanists who proclaim the moral necessity of zero growth. On the other hand, if time is sharply bounded, then compound growth is both legitimate and achievable in history.

The Bible's doctrine of linear time lays the covenantal foundation of the doctrine of compound growth, including population growth, because it has a doctrine of final judgment. If time were unbounded, population and productivity would reach the limits of man's environment. The Bible teaches that time is bounded. But if time is bounded, then compound growth is also bounded. *The Bible's doctrine of compound growth points to the Bible's doctrine of final judgment.* There is therefore no biblical case for either zero economic growth or zero population growth. The biblical mandate is dominion through expansion. "And God blessed them, and God said unto them, Be fruitful, and multiply, and replenish the earth, and subdue it: and

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41. Edward C. Banfield, *The Unheavenly City: The Nature and Future of Our Urban Crisis* (Boston: Little, Brown, 1970), pp. 48–53.



have dominion over the fish of the sea, and over the fowl of the air, and over every living thing that moveth upon the earth” (Gen. 1:28).<sup>42</sup>

Time is not on the side of covenant-breakers. “Therefore rejoice, ye heavens, and ye that dwell in them. Woe to the inhabitants of the earth and of the sea! for the devil is come down unto you, having great wrath, because he knoweth that he hath but a short time” (Rev. 12:12).

Compound economic growth occurs when owners of capital accumulate more capital. This process is not automatic. They must accurately forecast demand by future purchasers of capital’s output. They must look to the future. They must then serve future purchasers. If they fail to perform this service to the satisfaction of buyers, they will lose their capital in a free market. There are no free lunches or free rides. But as compounding continues, the limits of the environment are pushed back. The new world order implemented by Jesus Christ becomes progressively visible.

## Conclusion

Private ownership is the Bible’s mandated way to overcome the economic effects of scarcity in history. Private ownership leads to a division of labor economy, as people seek to improve their conditions through exchange.

The free market’s system of profit and loss provides an institutional feedback loop that reveals opportunities for better service to high-bidding buyers. It also provides direct economic incentives to produce with minimal waste. Monetary prices and accounting increase the ability of producers to estimate their success in satisfying the demand of high-bidding buyers.

The free market system decentralizes power. Buyers are in charge. They direct the production system by making bids to buy. They include and exclude sellers in terms of what they perceive as the best offers available to them. The profit and loss system increases their authority as individuals.

The alternative to this system is state ownership of capital and state control over the allocation of resources. Socialism substitutes the threat of violence for the threat of accounting loss. *The socialist economy is the economy of the policeman rather than the accountant.* Without accounting, producers have no rational way of matching supply with demand. Without capital markets and money prices, there is no rational accounting.

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42. North, *Sovereignty and Dominion*, ch. 4.

To overcome the effects of scarcity, there must be economic growth. Without private property, money, and accounting, there is no rational way to achieve economic growth.

The doctrine of economic growth is an inescapable concept, given these doctrines: (1) God's absolute sovereignty in history; (2) the dominion covenant, (3) God's law; (4) God's ethics-based corporate sanctions in history; (5) eschatological optimism. All five are aspects of the Great Commission (Matt. 28:18–20).<sup>43</sup>

The Bible's presentation of eschatological optimism led some seventeenth-century Puritans and Scottish Presbyterians to conclude that compound growth in every area of life is possible until the day of final judgment. This idea of progress was secularized by the Enlightenment in the eighteenth century. This view of history had never before been widely believed in man's history.

The pursuit of wealth is biblically legitimate in history, but only under the terms of the dominion covenant. Wealth is capital; capital is tools; tools are the means of dominion. Extending the comprehensive kingdom of God in history is the meaning of biblical dominion. What is illegitimate is mammon's worldview: "more for me in history."

Compound economic growth is the product of future-orientation, adherence to God's laws, thrift, entrepreneurship technological innovation, and reinvestment. It is the joint effort of men in both kingdoms. But the triumph of God's kingdom is an outworking of a zero-sum process: the replacement of the kingdom of Satan by the kingdom of God. This is a war of conquest. The primary strategies are replacement through purchase and replacement through evangelism, conversion, and inheritance.

Compound economic growth is a subset of the compound growth of God's kingdom in history. It is a moral imperative, just as fulfilling the dominion covenant is. It can be done, it should be done, and it will be done.

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43. Gentry, *Greatness of the Great Commission*.

## CONCLUSION TO PART I

The structure of economic theory reflects the structure of God's covenants with mankind. To the degree that economic theory departs from the structure of the biblical covenant model, it will produce erroneous results.

The fundamental covenant is the dominion covenant:

And 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 fowl of the air, and over the cattle, and over all the earth, and over every creeping thing that creepeth upon the earth. So God created man in his own image, in the image of God created he him; male and female created he them. And God blessed them, and God said unto them, Be fruitful, and multiply, and replenish the earth, and subdue it: and have dominion over the fish of the sea, and over the fowl of the air, and over every living thing that moveth upon the earth (Gen. 1:26–28).<sup>1</sup>

This general covenant defines mankind and the earth, which is under man's authority. This covenant is implemented by means of four subordinate covenants: individual, family, ecclesiastical, and civil.

Economic theory must correspond to these four subordinate covenants. If it does not, then it is wrong. There are degrees of error. Some non-covenantal economic theories are closer to the biblical covenant model than others. Economists who adopt these comparatively superior theories can and do make important insights into the way the world works. But, at bottom, the rival economic theories provide accurate insights only to the

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1. Gary North, *Sovereignty and Dominion: An Economic Commentary on Genesis* (Dallas, Georgia: Point Five Press, 2012), chaps. 3, 4.

extent that the economists do not apply them comprehensively. None of these systems begins with God's creation of the universe out of nothing. None of them accepts the general dominion covenant and the four subordinate covenants. None of them accepts the doctrine of the Trinity: the ontological Trinity (the equality of being of the three Persons) and the economic Trinity (their hierarchy of function). So, to the extent that economists come up with accurate insights, they do so only by being inconsistent with their fundamental presupposition: the autonomy of both man and the cosmos from the Trinitarian God of the Bible.

The five-point biblical covenant has specific applications in economic practice and therefore economic theory. First, the sovereignty of God establishes God as the owner of the creation. He alone is absolutely sovereign. Second, the dominion covenant establishes a system of hierarchical authority under God: stewardship. Man is responsible upward to God, downward to the creation, outward to other men, and inward. Third, the doctrine of God's Bible-revealed law establishes the principle of private property. This leads to the concept of numerical accounting through money prices. Fourth, the doctrine of God as the sanctions-bringer establishes God as the cosmic Judge: the sovereign imputer of economic value, with men as His subordinates. This establishes the concept of profit and loss. Finally, the doctrine of covenantal inheritance establishes the concept of compound economic growth.

There are two separate aspects of God's delegated economic responsibility to men. First, there is the judicial aspect. This is what God enforces. These categories are a matter of final judgment.

1. Ownership establishes responsibility.
2. Responsibility is personal.
3. Theft is illegal.
4. Oaths are binding.
5. Owners designate heirs.

Second, there is the economic aspect. These are the conditions in a world of scarcity, where, at zero price, there is greater demand than supply. These relate to the creational limits on what men can do with the assets that God entrusts to them. They are what we call the laws of economics. These are the fundamental laws of economics.

1. Owners allocate assets.
2. Prices identify costs.
3. Men prefer more.
4. Scarcity imposes costs.
5. Growth reduces scarcity.

The details of this system of covenantal hierarchy must be worked out in terms of the separate covenants: individual, familial, ecclesiastical, and civil. Each has its lawful zone of delegated authority. Each has lawful claims on a portion of men's output. *Economic theory must not begin with the assumption of the autonomy of man.* This includes the doctrine of the autonomy of any one of man's covenantal administrations. To present economic theory as an exclusive outworking of any of these covenants as autonomous and therefore sovereign leads inescapably to an error: the dismissal of the others' lawful claims. Such an assumption justifies unlawful incursions into the delegated domains of God: trespassing. This was the sin of Adam and Eve. They violated God's property rights.



## **Part II**

# **THE ECONOMIC STRUCTURE OF THE INDIVIDUAL COVENANT**





## INTRODUCTION TO PART II

The dominion covenant is the general covenant for all mankind. It defines both the individual and collective mankind. It establishes God's relationship to individuals and to collectives. It defines man in history, and it defines man in eternity. In eternity, covenant-breakers are incapable of fulfilling any aspect of the dominion covenant, but it still defines them, and it still serves as a standard by which God imposes a term of negative sanctions. In eternity, covenant-keepers are capable of fulfilling the dominion covenant without being restricted by sin or its effects. This covenant defines them throughout eternity, and it governs their decision-making forever.

The second covenant to consider is the individual covenant. Why not the family covenant? Why not the church covenant? Why not the state covenant? The main theological reason for placing the individual covenant in the first position after the dominion covenant is because *the individual is made in the image of God*. The family is not. The church is not. The state is not. Because the individual is made in the image of God, responsibility lodges with the individual more than it does in the family, the church, or the state. *Responsibility is always primarily individual*. An individual may participate in a collective group in making a decision, but the individual's ultimate responsibility cannot be shifted to that group. Each person is judged by God in both history and eternity in terms of his thoughts, motives, and actions. Any attempt to shift primary responsibility away from the individual and toward a group violates this covenant principle. So, I begin with the individual covenant rather than another covenant.

There is another reason to place it second. This reason is more practical than theological. The individual covenant governs God's imposition of personal sanctions. It governs the judicial status of the individual: saved or lost. It therefore governs the eternal status of the individual: initially,

heaven versus hell; then the new heavens and new earth versus the lake of fire. Because individuals in most situations respond to personal sanctions more strongly than any other kind of sanctions, the individual covenant follows the dominion covenant in terms of covenantal sequence. This is a matter of incentives, which is one of the fundamental teachings of all economic theory, namely, that people respond to incentives. They respond so predictably to incentives that economic theory enables an economist to make statistically relevant predictions about people's behavior in response to changing economic incentives.

Men's motivation is usually stronger with respect to the individual covenant than the others. The personal stakes are extremely high. This is why Paul's statement that he was willing to be cursed by Christ for the sake of his brethren in the flesh, the Jews (Rom. 9:3), is unique in history. There is nothing else to match this offer in recorded history. It is analogous to Jesus' decision to sacrifice His life on behalf of the world in general (common grace) and covenant-keepers specifically (special grace). I do not think it is wise to develop covenantal analysis in terms of a unique case in Scripture.

There is a third reason: methodology. Modern free-market economic theory incorrectly begins with acting man. It should begin with the sovereign God who created acting man. *This is the fundamental difference between Christian economics and humanistic economics.* But, once this distinction is made clear to an aspiring economist, it is time to move to individual analysis. Free-market economics correctly begins with the individual rather than the family or the state or the church as the primary locus of epistemology. By epistemology I mean this: "What can we know, and how can we know it?" We begin with the acting individual, because this acting individual is made in the image of God, and because he is most highly motivated by the quest for positive sanctions and the desire to avoid negative sanctions. To begin with a collective as the primary locus of our understanding of economics would be a major conceptual error.

In saying that free market economics begins with the individual, I am also saying that free market economics applies mainly to the market and the market process. When free market economists discuss families, churches (rare), and civil governments, their methodological tools become far less effective. This is why there is no developed theory of economics as it applies to the family and the church. Public choice economists have made some important discoveries regarding the interrelationships between

individual motivation and civil authority, but there is no general economic theory of the state. There is also no economic theory of non-profit organizations. Mises claimed that he had devised a comprehensive theory of human action. But it applied only to the market, which he called catallactics. So, the scope of academic economics is a highly limited. Economic laws apply in very different ways in businesses, families, churches, and states. Regarding churches, states, and families, economists have very little to say. In matters familistic, economists sound more like sociologists than economists. Whenever they sound like economists, they usually sound silly. The more rigorous their theory, the sillier they sound.<sup>1</sup>

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1. My favorite example is Gary S. Becker, *A Treatise on the Family*, 2nd ed. (Cambridge, Massachusetts: Harvard University Press, [1981] 1991). He won the Nobel Prize in economics in 1992.



# 1

## PLANNING

### Introduction

The fundamental theological assumption regarding the doctrine of man is this: *man is made in the image of God*. He shares this status—status of being and judicial status—with no other creature. This places him in a unique situation with respect to God and to the creation. He serves as God’s agent in history, because he alone is made in the image of God.

The Bible speaks of mankind. It also speaks of individuals. The doctrine of final judgment focuses on each individual. Judgment is individual. Jesus said: “And fear not them which kill the body, but are not able to kill the soul: but rather fear him which is able to destroy both soul and body in hell” (Matt. 10:28). This is the ultimate fear, and it is strictly individual. The first half of Matthew 25 deals with the parable of the talents. A rich man allocates various amounts of capital to three servants. Then he leaves. He returns and renders judgment on each of his servants. The judgments are individual. So, with respect to the covenants, *the individual covenant possesses the greatest benefit and the greatest threat*. From an economic standpoint, the individual covenant is more psychologically relevant than the corporate covenants: church and state. The definition of man as individual rather than mankind as a whole conveys greater personal motivation.

When you begin with the premise of man as the image of God, you have a preliminary solution for this crucial question: “What can a man know, and how can he know it?” This is the issue of epistemology. A person is made in the image of God. God created the universe. God runs the universe in terms of predictable laws. A person, being made in the image of God, can understand many of these laws and how they apply to the created world. So,

it is possible for an individual to understand the way the world works. He thinks God's thoughts after Him. He thinks in terms of God's thoughts, but as a creature made in the image of God.

God is the original creator. A man possesses none of the attributes of God that are associated with creation. He is not omniscient, omnipotent, or omnipresent. Man cannot accurately be regarded as originally creative. He must therefore be regarded as *subordinately creative*. God spoke the world into existence. No man did this. God created the world out of nothing. No man did this.

### A. Planner

The New Testament has a unique phrase regarding existence before history began: *before the foundation of the world*. "According as he hath chosen us in him before the foundation of the world, that we should be holy and without blame before him in love" (Eph. 1:4). "But with the precious blood of Christ, as of a lamb without blemish and without spot: Who verily was foreordained before the foundation of the world, but was manifest in these last times for you" (I Peter 1:19–20). Before there was history, God had a highly specific plan. We call this the decree of God. It is comprehensive.

In his capacity as God's image, human beings make plans. These are action plans. This is the equivalent of God's decree. A man need not make a public declaration of this decree, but he does have a plan in terms of a system of cause-and-effect. He thinks that if he selects a goal and then follows a plan, he may be able to achieve this goal. This assumes that there is predictability of cause-and-effect in history. If there were not, we would live in a chaotic universe. We would not be able to survive for long.

In thinking God's thoughts after God, a man is required by God to acknowledge himself as subordinate to God. Inescapably, he thinks analogically. He cannot think as if he were an original creator. He must think as a creature who is made in the image of God. He may not acknowledge any of this, but it is inescapable. He formulates plans of action. He does so as a creature, not as the Creator. His plans are not originally creative. They are subordinate. Man operates in a world of cause-and-effect. He must subordinate himself to God, who is the source of this cosmic order. He can understand this cosmic order correctly only in terms of what God has created

and revealed to him. He may not acknowledge this in his rebellious state, but this is the biblical view of mankind.

A man does not know everything, because he is not omniscient. He can accurately know a great deal, because he is made in the image of God. But the goal of exhaustive knowledge is a demonic goal. Man cannot become God through force of intellect. He cannot know everything. But he can know a great deal, and he is responsible before God for whatever he knows. Responsibility and knowledge are inescapable concepts. They are inescapably linked together. A man is judged by God in terms of what he knows (Luke 12:47–48).<sup>1</sup>

Every plan necessarily involves five factors. These are the familiar five factors that historians use to assess what happened in the past. Historians ask five questions: who, why, what, where, when? *Who* identifies the primary responsibility for the plan's launching and its fulfillment. It identifies responsible agents needed to implement the plan. *Why* identifies the motivation of the steward's plan. Both of these are aspects of part two of the biblical covenant: representation. *What* and *where* identify legal and geographical boundaries: the scarce economic resources required to implement the plan. To gain access to these resources, men must ask permission or buy control. *When* identifies temporal limits: point five of the biblical covenant. A plan must begin at a point in time and end in a point of time. The process of creation takes time. Time must be paid for. It must be allocated. When you do one thing, you cannot do another. Time is in strict fixed supply. It is an irreplaceable resource. Once spent, it cannot be reclaimed. It does not move backward. The implementation of the plan begins somewhere and ends somewhere. It does not operate in a geographical vacuum. It involves dominion over nature. The missing first point is God. The traditional list of five questions does not begin with God. It begins with the individual. The missing fourth point of the biblical covenant in this list is causation: *how*?

## B. Steward

The dominion covenant specified that mankind was created in order to exercise dominion over nature (Gen. 1:26–28).<sup>2</sup> Every individual is under

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1. Gary North, *Treasure and Dominion: An Economic Commentary on Luke*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 28.

2. Gary North, *Sovereignty and Dominion: An Economic Commentary on Gen-*

this general covenant. He is a guardian of nature. He is to cultivate it, in order to help it flourish. But he is also to protect it. He is part of a hierarchy. He represents God before nature, and nature before God. He is dependent upon nature, but he is also dependent upon God. The biblical doctrine of dominion indicates that nature is also dependent on mankind. If mankind does not serve faithfully as God's agent of dominion, nature will suffer. It will also be less productive than it otherwise would have been.

A man's activity as a guardian must be active. Activity is active. It is not passive. A man is to intervene actively in nature, directing nature by means of the God-designed laws of nature. He is not a tool of nature. He is not to be subordinate to nature, despite the fact that he is subordinate as a creature to God. This covenantal subordination forces him to acknowledge patterns of causation in nature. There are laws that circumscribe nature. There is an independent order of nature that constitutes the arena of human action, because man is a creature. But every man is also a creature made in the image of God, and therefore he is active in relationship to nature. He is to be *meek before God* and *active towards the creation*. He is subordinate to God, and therefore he is superior to nature.

His plans must recognize mankind's authority over nature. If mankind did not possess authority over nature, every man's quest to be a guardian of nature would be an act of theft. But, because of the dominion covenant, every person serves both as a producer and a consumer. No one is autonomous over nature. Everyone is under God. Mankind must not be a destroyer of nature. Man is under a covenant: point two of the biblical covenant.

The individual covenant mandates that each individual exercise authority on behalf of God, but also on behalf of mankind. There is *responsibility upward*. There is *responsibility outward* to other men. There is also *responsibility downward*: dominion over nature. Then there is conscience. This points to *responsibility inward*. Because of the covenant between God as sovereign and Adam and Eve as representative agents, each person has an ownership function. Each person owns himself, not as a primary owner, but as a delegated owner. Each person must give an account of his plans, the execution of these plans, and the productivity of these plans.

The Puritans of the seventeenth century had a phrase, "to own the covenant." This referred to a public confession of faith in Christ as the representative agent who redeems His people. This concept of owning the covenant



is theologically accurate. It refers to men's affirmation of God's ownership of them by means of the covenant, but also their acceptance of the gift of redemption, which alone erases the negatives in every person's ethical ledger. They own the covenant, for God owns them. *Self-ownership must be seen in terms of covenant ownership. It is delegated.* It is not autonomous.

### C. Manager

Mankind possesses legal jurisdiction over nature. This jurisdiction is part of the dominion covenant. Nature does not possess legal jurisdiction over mankind. Mankind is made in the image of God; therefore, mankind exercises lawful dominion and jurisdiction over the creation. This corporate authority requires each individual to formulate and implement plans. He must implement his plans within specified boundaries. All of nature is bounded. God has placed it under rules. Mankind is required to acknowledge the existence of these law-governed boundaries. Mankind is not autonomous, nor is nature autonomous. Mankind reflects the character and being of God, and nature does, too.

A major implication of each person's position as a dominion agent is *a system of property rights* associated with individuals and organizations. They exercise jurisdiction over the created realm, but they do not individually exercise authority over much of it. Men's jurisdiction extends to property which they lawfully own. Within these boundaries of ownership, an individual is told by God to be productive. He is to extend his *personal dominion* by means of whatever resources he lawfully owns or controls. He has authority over specific items, and he is responsible to God for the administration of this property. To the extent that he extends the division of labor by means of extending the jurisdiction of God in history, he increases his own wealth. There is cause-and-effect in nature, and there is also cause-and-effect in the social order. An individual implements a plan of action, and in doing so, he extends the kingdom of God in history. As an individual's boundaries are extended in history, so is the jurisdiction of the agent under whom he has been granted ownership. There is no escape from boundaries.

Men must recognize boundaries: geographical and organizational. Certain people have specific spheres of influence and authority. The social order is shaped by the boundaries of these jurisdictions. As men extend

their dominion, they must discover the limits of their authority. Power politics sometimes establishes these limits. Economics sometimes establishes them: buying and selling. Tradition sometimes establishes them. The point is, these boundaries exist. Someone says, “do not cross the line.” It may be geographical. It may be legal. It may be social. But it exists. Men guard these boundary lines. Children may be slow to learn the concept of “yours,” but they rapidly learn the concept of “mine.” They make plans in terms of boundaries.

### D. Imputer

The fourth point of the biblical covenant is crucial for economics: judgment. An individual begins with a plan, just as God did before time began. He is God’s representative agent (point two). His plan has standards: criteria (point three). He must decide how to implement the criteria of his plan. He must judge his success in implementing it at every step (point four). There has to be a system of feedback: a system of rewards and punishments. These are sanctions. Whoever designs a plan of action (point one) should specify in advance the authority of the judges (point two) and the limits of their jurisdiction (point three). A judge possesses this authority over time (point five). Then it is transferred to a successor. A judge must understand the purpose of the plan and the purpose of its component parts. To *evaluate purpose* is to *impute meaning*. Each individual imputes meaning to every plan. He assesses it in terms of the multiple plans in his life. He judges the success or failure of a plan. That is, he imputes success or failure in terms of a set of criteria. He who interprets the plan then judges the performance of those who participate in bringing the plan to fruition.

The biblical foundation of this covenantal factor is the Genesis account of creation. God pronounced His work as good at the end of the day. Man must do the same as a creature. Constant evaluation is necessary in order to implement any plan successfully.

In establishing responsibility, individuals attempt to understand the causal relationship between laws and events. Covenant-breakers view existence as cosmically impersonal. No God controls history. So, the timeless principles of law (Parmenides) must somehow be fitted to the time-governed events of history (Heraclitus). But who should do this? Who can do this? How can he do this? How will he in turn be held accountable? By

whom? To whom? For how long? These are bedrock theoretical problems in every system of causation. There are no agreed-upon answers.

## E. Legacy Builder

Humans want to be remembered. This is inherent in the nature of man.<sup>3</sup> God holds men accountable. The final judgment is the cosmic event of accountability (Matt 25:31–45). A preliminary judgment is existence beyond the grave: heaven (Rev. 6:9–11) or hell (Luke 16). This is declared immediately after death (Heb. 9:27). So, in order to be remembered, a person must leave a legacy. He must do something that future generations regard as sufficiently notable to call attention to the designer. The act of creativity is highly motivated by the desire of the creator to be remembered. This is the time factor built into a plan. This desire is psychological rather than strictly economic, i.e., a logical category of human action, without which people would not act purposefully. But it is a common factor in entrepreneurship: a goal to be attained.

A plan must have a concept of succession if it is to extend across generations. A short-term plan must be succeeded by a follow-up plan. There must be continuity over time if there is to be dominion. The compound growth factor is crucial. This provides dominion through the power of reinvestment and a positive return on the investment. The steady effect of compound economic growth after 1800 in the West transformed Western civilization: about 2% per year.

A plan that does not have a timeline is incomplete. There must be a time where the plan must be completed. Most plans have stages. Each stage has chronological boundary markers. Those evaluating the plan must have time guidelines, so that they can see if resources will be sufficient for completion. The planner must identify these markers in the original plan. If the plan is designed for a successive stage, this must be factored in. Continuity requires planning, including successive stages.

The plan must involve paying for the cost of time. The economic rule is this: “now rather than later.” To persuade someone to surrender the use of an asset, he must be compensated. There is always a discount for time

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3. There is no evidence that animals have any concern about being remembered.

applied to expected future income.<sup>4</sup> The planner must factor in this incapable cost of production. Time is not a free resource. A plan that fails to factor in the cost of time will have to reallocate resources from inside the plan or from outside.

## Conclusion

Man is subordinate to God. He makes plans, because God makes plans. He makes judgments about available resources, cause and effect, success and failure, continuity and discontinuity. He lives in an orderly universe that was created by God. He can imitate God, because he was made in God's image.

Mankind is not an original creator. This also applies to each individual. He re-creates. He extends the dominion of the kingdom of his god by means of creative work. He is a kingdom-builder: the kingdom of the God of the Bible or else the kingdom of another god. The two kingdoms compete side by side in history (Matt. 13:24–30).<sup>5</sup>

Mankind's creativity is basic to the fulfillment of the dominion covenant. A society's ability to call forth the creative powers of individuals determines its success corporately. Human creativity is a crucial resource, not some raw material.<sup>6</sup>

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4. Gary North, *Authority and Dominion: An Economic Commentary on Exodus*, 2nd ed. (Dallas, Georgia: Point Five Press, 2012), Appendix J (1990).

5. Gary North, *Priorities and Dominion: An Economic Commentary on Matthew*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 29.

6. Julian Simon, *The Ultimate Resource* (Princeton, New Jersey: Princeton University Press, 1981). He was incorrect. Human creativity is not the ultimate resource. God's grace-empowered law is.

## 2

# STEWARDSHIP

### Introduction

Each person is a covenantal agent. The doctrine of the covenant is point two of the biblical covenant. The book of Exodus is said to be the book of the covenant (Ex. 24:7). Exodus is the second book in the Pentateuch. *The individual's covenant under God is the legal basis of the Bible's system of private property.* An owner is a legally responsible agent because all of his legal authority originates in the covenant. This implies that *covenants possess original authority.* All contracts rest legally on covenantal authority.

Stewardship is the application in economic theory of point two of the biblical covenant: *representation*. Each individual acts as an economic agent of God. This is an application of the principle of the dominion covenant. Jesus used the parable of the talents to illustrate this hierarchical, representative system of ownership. God allocates assets. He holds the recipients accountable for the proper use of these assets (Matt. 25:14–30).<sup>1</sup> But he is also an economic agent of other people. He decides whether to sell an asset, keep it, or rent it. In any cases, the principle of *high bid wins* applies. If an individual does not allow anyone else to use an asset, then he becomes the highest bidder. He outbids the second-highest bidder. He therefore forfeits the use of whatever the second-highest bidder bid.

There are two aspects of stewardship: trusteeship and sharecropping. *Trusteeship is judicial. Sharecropping is economic.* A trustee has legal authority to act in the name of an owner. The trustee is under general legal rules regarding the use of an asset. He must always act on behalf of the

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1. Gary North, *Priorities and Dominion: An Economic Commentary on Matthew*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 47.

owner, even if his own interests are placed at risk. His primary task to act as a legal agent of the owner. This may involve economic management, but the trustee usually operates on a minimal percentage. His level of legal accountability is far greater than a sharecropper's.

Sharecropping is less legal and more economic in nature. An owner of seed, land, and tools designates someone to use these capital assets to plant a crop. The owner is guaranteed a percentage of this crop. The sharecropper keeps the rest. The owner establishes rules regarding the use of his capital. These rules are enforceable in a court of law. But because the sharecropper has no capital other than his reputation and labor, the owner is not in a strong position to collect restitution plus damages from a sharecropper who has violated the terms of the contract.

The sharecropper may be granted full authority to decide when to plant, when to harvest, and what to do in between. Then the sharecropper exercises his judgment regarding the best way to follow the rules. He also decides what to do when the rules are silent. The system operates on this assumption: *the self-interest of the sharecropper leads him to reduce his personal costs*. He keeps the difference between revenues and costs. He has an incentive to keep his personal costs down. This reduces the owner's costs of monitoring him, with this major exception: the sharecropper's misuse of the land as a way to cut his costs.

Sharecropping is no longer common in the West. What other economic office is comparable? A franchise is not. That is because the person who is buying the franchise must invest his own money as a down payment. He must also borrow the money. He buys equity. The sharecropper owns no equity. He sells labor and management services: self-management.

A lease is not. A lessor offers a person a lease. The lessee promises to pay a fixed price for the use of the property. He therefore bears most of the uncertainty. The owner knows what he will receive in payment. In contrast to the sharecropper, the lessee begins with an understanding of what he must produce in order to fulfill the terms of the lease. The sharecropper does not. The sharecropper knows what percentage of his crop he will surrender to the owner, but he is not required to produce a specified quantity in order to meet the terms of the contract. He bears less uncertainty than the lessee does. The owner of the capital bears greater uncertainty under a sharecropping arrangement than a leaseholder does.

The urban economic occupation that is closest to biblical stewardship is a commissioned salesman. As with a sharecropper, he receives no salary. He is given a sales contact list, just as a sharecropper is given seeds. He may be given the use of a car, just as the sharecropper is given the use of tools. A salesman, like a sharecropper, does not begin with capital of his own. He has only his skills, just as a sharecropper does. He does not guarantee the employer a rental price or other guarantee. He offers him only a percentage of his sales revenue. The boss has no sure return. He must participate in the successes and failures of his sales force. The uncertainty is shared by both the employer and the employee.

### A. Delegated Sovereignty

Point one of the biblical covenant is sovereignty.<sup>2</sup> God possesses absolute sovereignty. Yet He shares sovereignty through delegation. This was manifested in the original dominion covenant (Gen. 1:26–28).<sup>3</sup> This was reconfirmed with Noah (Gen. 9:1–3).<sup>4</sup> It was confirmed ontologically with the Incarnation, when God became a man. God clearly delegated sovereignty to man.

This could lead to a false conclusion: this delegation has depleted God of some of His sovereignty. Yet it is clear from such passages as Isaiah 45 that God still retains full sovereignty. This sounds illogical. But consider another doctrine: the glory of God. Did God lack anything before the creation of the world? No. So, the creation did not add anything to God's glory. The creation did not make Him more glorious. You and I do not make God more glorious. This also sounds illogical. So, the creation added nothing to God's glory.<sup>5</sup> Therefore, by delegating sovereignty to man, who is part of the creation, God does not become a loser. He does not surrender anything that He did not possess before man was created. This is basic theology. Anything that has the creation adding to, or subtracting from, God the Creator is heretical.

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2. Ray R. Sutton, *That You May Prosper: Dominion By Covenant*, 2nd ed. (Tyler, Texas: Institute for Christian Economics, [1987] 1992), ch. 1. (<http://bit.ly/rstymp>)

3. Gary North, *Sovereignty and Dominion: An Economic Commentary on Genesis* (Dallas, Georgia: Point Five Press, 2012), chaps. 3, 4.

4. *Ibid.*, ch. 18.

5. Cornelius Van Til called the full-bucket paradox.

We can call delegated sovereignty *authority*, which is normally associated with point two of the biblical covenant. But, in terms of man, the recipient of delegated sovereignty, we must place this in point one. Why? Because mankind as a species is at the top of the creation. He is the final earthly court of appeal.

In any relation to property, an individual is an owner, either directly or as a member of a legally responsible group. I will cover this in the following three parts of this book. *Limited sovereignty from God is given to individuals*. God then holds them responsible in history and eternity for how they manage His assets. Limited responsibility from God is also given to groups. God holds them responsibility in history for how they manage their assets.

Responsibility is an aspect of point two: hierarchy.<sup>6</sup> But this hierarchy is an extension of the original delegation of sovereignty in the dominion covenant. An individual possesses this delegated sovereignty, which is the origin of his judicial position as a trustee, as well as his economic position as a commissioned salesman. As the owner, the individual is entitled—holds title to—the net output of the asset owned. He is therefore entitled to the income generated by the sale of this output. He owns the asset. Ownership has value only because he is entitled to the output generated by the asset. He owns the stream of future income. He can sell this, or rent it, or give it away. This is because the legal *essence of ownership* is the legal right to *disown* the asset involved.

Ownership is based on legal authority. The individual owns a bundle of rights attached by an asset. By “rights,” I mean legal immunities. The owner may lawfully reject other claims on the use of the asset. The asset and its accompanying stream of income are immune from interference by non-owners. The owner has the right to place legal boundaries around the asset. These legal boundaries authorize the owner to place *barriers to entry* around the asset. In other words, he has the right to exclude. This is the meaning of boundaries: the *right to exclude*.<sup>7</sup>

The owner possesses knowledge about how best to use his property, according to his hierarchy of values (point two). He knows the local market. He knows what he could obtain from others who want to buy it or rent it. *There is a close correlation between his knowledge and his responsibility for the use of these assets*. By acknowledging his legal claims of ownership, the

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6. Sutton, *That You May Prosper*, ch. 2.

7. See Section C.



court system and the enforcement system increase the likelihood that the owner's knowledge of the best use of his assets will be put to the service of those who want to buy the output of his time and capital. The scarce resource of knowledge is put to the best uses by those who possess it.

Legal sovereignty over resources must lodge somewhere if there is not to be constant conflict over ownership. By acknowledging God's system of delegated sovereignty and therefore responsibility, the civil government furthers the spread of accurate knowledge. He who has opinions regarding the best use of specific assets is given a legal opportunity to bid for the use of these assets in order to put them to better uses.

The legal issue is *ownership*. This has to do with *trusteeship*. God delegates sovereignty over resources. He then holds the designated owners legally responsible for the use of the assets which He has placed in their hands. He has a claim on the fruits of their labor, in the same way that a land owner has a legal claim on the output of a sharecropper who uses his land, seed, and tools. The claim is established when title is transferred.

## B. Representation

The second point of the biblical covenant is representation.<sup>8</sup> It has to do with authority. Authority is always hierarchical. As we have seen, ownership rests on delegated legal sovereignty. But this does not answer the question: Exactly what does the trustee owe to the owner, on whose behalf he acts?

The tithe principle establishes the ongoing obligation: 10% of net income. The economics of sharecropping is the model. The sharecropper is supplied with seed. He plants it. He replaces the seed from his output, but he pays no percentage on this. He pays a percentage of the output above the initial seed. The same is true for the owner. He does not owe a tithe on the replacement seed.

A sharecropper or a commissioned salesman receives payment based on what the customers are willing to pay for the output of the capital goods. He is dependent on others to establish the value of this output. He can announce an initial price on the output. This does not mean that anyone will pay him this price. To maximize his return, he must find a price where supply and demand are equal. After the sales are over, there is no remaining

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8. Sutton, *That You May Prosper*, ch. 2.

inventory, and there is no one bidding to buy anything else. The price was a *market-clearing price*.

The resource owner must act as a steward for bidders as well as the supreme Owner: God. The bidders want to own the output. They bid against each other. The free market economic principle is this: *high bid wins*. He does not know who will offer the highest bids. He guesses. He stores the goods until the sales take place. He acts as an economic agent of the high bidders. *He allocates the goods or services in terms of an auction process.*

This is true in a free market. As a legal agent, he also allocates wealth in family, church, or state. Here, the high bid principle is not based on competitive entry and money alone. There are other claims, and these usually supersede money bidding. In the state, there are laws against bribery. Churches do not allocate the sacraments in terms of high monetary bids. Wives are not paid money for services rendered. There is no open bidding for most of these services.

*Ownership is a social function.*<sup>9</sup> The legal sovereignty over assets does not establish this social function. The *price system* does. The presence of competitive bidding establishes market value. This economic value imposes economic costs on owners. They must pay to retain ownership. What do they pay? Whatever they could have received by selling or renting the assets.

So, representation is legal. There is a legal hierarchy. God is the Owner. Representation is also economic. The steward is an economic agent of those who possess property, and who make bids to gain access to the existing owners' assets. Because legal sovereignty is hierarchical, so is economic responsibility. But this responsibility is also horizontal: accepting or rejecting bids.

The hierarchy extends downward. Mankind is placed over the creation. The creation is responsible to mankind. Specific sectors of the creation are responsible to specific owners. But this representation is two-way. The owner represents God to the creation, and he represents the creation to God. Paul wrote: "For the earnest expectation of the creature waiteth for the manifestation of the sons of God. For the creature was made subject to vanity, not willingly, but by reason of him who hath subjected the same in hope, Because the creature itself also shall be delivered from the bondage of corruption into the glorious liberty of the children of God. For we know

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9. Gary North, *An Introduction to Christian Economics* (Nutley, New Jersey: Craig Press, 1973), ch. 28. (<http://bit.ly/gnintro>)

that the whole creation groaneth and travaileth in pain together until now” (Rom. 8:19–22).<sup>10</sup> Nature was placed under a curse because of man’s Fall (Gen. 3:17–19).<sup>11</sup> It will be progressively delivered by mankind’s progressive sanctification.

So, the system of *legal sovereignty* is two-way: upward to God and downward to the creation. God owns the individual. The individual in turn owns property. God owns property in general in a direct manner, but His goal is to exercise this ownership by way of stewards. This is the basis of the dominion covenant.

The system of *economic authority* adds a horizontal element: the steward’s responses to competitive bidding for his property by would-be owners and renters. In addition, there is economic authority inward. Owners make allocation decisions in terms of self-interest: “What’s in it for me?” So, it is a four-way system of responsibility: upward to God, downward to the creation, outward to others, and inward.

### C. Capital Accumulation

The parable of the talents teaches that God transfers control over assets to stewards. He then departs. This means that He does not tell people what to do. This is not a bureaucracy. This is a system of entrepreneurship. The new owners are expected to put this capital to profitable uses. God holds them responsible for multiplying His capital.

Then He returns for an accounting. The first steward has multiplied capital two-fold: five talents to 10 (Matt. 25:20). The master announces a reward: authority over even greater wealth (v. 21). The second steward also achieved a 100% return on investment. But he did so with less capital (v. 22). The performance was not so good as the first steward’s performance. It is easier to multiply a small capital base than a large one. The master rewarded the second steward with somewhat less authority (v. 23). The third steward did not multiply any capital. He had buried his talent. He achieved a return of zero. But this was in fact a loss. The master had not had the use of the talent in the interim. He could have buried his own talent. So, He cursed

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10. Gary North, *Cooperation and Dominion: An Economic Commentary on Romans*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 5.

11. Gary North, *Sovereignty and Dominion: An Economic Commentary on Genesis* (Dallas, Georgia: Point Five Press, [1982] 2012), ch. 12.

the third steward. He told him that he could at least have lent the talent to a moneychanger, i.e., a banker (v. 27). This statement reveals Jesus' acceptance of lending at interest.<sup>12</sup>

*The parable mandates capital accumulation.* The focus is on money: a talent or weight, either of gold or silver. This is one of Jesus' pocketbook parables. He spoke in terms of categories that men everywhere relate to: money. He affirmed the moral responsibility of multiplying capital. Capital in this sense encompasses money, but it is not limited to money. It refers to assets in general: scarce resources that can be accumulated.

In Matthew 6, we read: "Lay not up for yourselves treasures upon earth, where moth and rust doth corrupt, and where thieves break through and steal: But lay up for yourselves treasures in heaven, where neither moth nor rust doth corrupt, and where thieves do not break through nor steal: For where your treasure is, there will your heart be also" (Matt. 6:19–21). This indicates that capital in the broadest sense does not refer exclusively to time-bound capital, but also to eternal capital. There is a trade-off between temporal capital and eternal capital.<sup>13</sup> So, a wise allocation of capital must include the eternal value of accumulated capital. But this eternal component does not change the *analytical category* of capital accumulation. It merely adds a post-temporal factor. The warning implied in the parable appeals to a person's economic self-interest.

Anyone who argues that Jesus did not invoke personal self-interest has an inaccurate understanding of Jesus' teachings on wealth. Specifically, with respect to the accumulation of personal wealth in the form of capital, Jesus was adamant: a person has both a moral responsibility and a legal responsibility to accumulate capital. This is an aspect of the dominion covenant. It involves *redeeming the world*, i.e., buying it back in the name of God. To buy it back requires accumulated capital. The alternative interpretation is that we must re-claim it by force. This is not part of the New Covenant's view of capital accumulation. It only happened once in the Old Covenant: the conquest of Canaan.

The capital accumulated by Abram is praised in Genesis 13:12. He was wealthy in cattle, silver, and gold. These asset categories have maintained their value down through the ages. In the state of Texas, there is a saying:

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12. Gary North, *Priorities and Dominion: An Economic Commentary on Matthew*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 47.

13. *Ibid.*, ch. 13.

“He is all hat and no cattle.” He is a talker, not a doer. But the comparison relies on a positive view of cattle. A man with a large cowboy hat and a lot of cattle is worth listening to, but not because of the hat.

Capital is another word for tools. Capital enables its owner to pursue kingdom-building. Without capital, we cannot build the kingdom. Tools are always required to maximize production. This is why Jesus spoke highly of capital. It enable the holder to pursue his goals. The motives and goals are judged by God’s law. Capital is not called into question. It can be used for multiple purposes. Money is the most versatile form of capital. It is the most marketable commodity.

## D. Success Indicators

The parable of the talents says there are two forms of sanctions: positive and negative. Success in multiplying capital leads after final judgment to greater authority. Failure leads to destruction. The original grant of capital is withdrawn. The steward who produces no increase is stripped of all capital, which is transferred to the most productive steward. He who produces nothing during his time of testing loses whatever he possesses at the end of the test. He who produces the most—the highest rate of increase on the largest initial capital allocation—receives whatever the failure had possessed. This is biblical ownership. *There is no equality at any point: beginning or end. There is an increase in inequality.* This is the biblical structure of sanctions. It applies to all of life. It includes economics.

The parable of the talents is a parable of final judgment. It is the second parable in Matthew 25. The first parable is the parable of the 10 virgins. Five are wise; five are not. Five use up their oil. They beg the efficient five for some of their oil. The wise ones refuse. Then comes the judge. The five who failed are cast out. There is a message: those who possess greater wealth at the end of the time of testing receive the reward. They possess this advantage for two reasons. First, they were faithful stewards with what they had begun with. Second, they did not share their wealth with the wasteful stewards. A parable represents a fundamental covenantal truth. What is the fundamental truth? *There is no equality:* not in good judgment and not in the outcome of judgment.

The final part of the chapter is not a parable. It describes the final judgment: sheep and goats. There is no equality in the final judgment.

So, the final sanctions are in view. The question of *final sanctions* raises the issue of *temporal sanctions*. To what extent do sanctions in history reveal success or progress in eternity? The individual asks: "How am I doing?" He wants to identify success indicators that serve representatively as indicators for the outcome of the final day of reckoning. To use a metaphor of grading in school, he wants his success on his homework assignments and pop quizzes to provide indicators of how he is likely to do on the final exam. If there is no connection, then he has no way to evaluate his efforts. He is looking for signs: "Do more of this, and do less of that." In other words, he wants his success in time to point to success in eternity.

This was what Job looked for. This was why he grew resentful when three of his four "comforters" told him that the negative sanctions he had experienced pointed to sin on his part. "Confess," they insisted. He insisted that he had not sinned. The book of Job is about historical sanctions as success indicators. The message of the book is this: *history is representative of eternity, but not at every step*. God rewarded Job, giving him greater wealth than before. But this took time. It took a crisis. He was tempted by his wife to curse God and die. He refused. But he insisted that God give him an explanation. God did, and Job admitted that he had been wrong for demanding an explanation from God. This was the message of the fourth man who had come to talk with him.<sup>14</sup>

God is sovereign. He owes no one anything. Each man is a sinner, deserving only death. But, in His grace, He does create a predictable world in which success indicators point to the outcome of final judgment. These are complex indicators. They are not mere money. Jesus was clear on that. The barn-builder was a fool. He laid up treasure without considering God (Luke 12:15–21).<sup>15</sup>

The individual faces eternal judgment. This is a highly motivating factor, or should be. The power of this expectation generally focuses more on the negative sanction than the positive sanction. Men fear hell and the lake of fire more than they desire blessings in heaven and the new heaven and new earth. This is reflected in the discovery that men fear the loss of

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14. Gary North, *Predictability and Dominion: An Economic Commentary on Job* (Dallas, Georgia: Point Five Press, 2012).

15. Gary North, *Treasure and Dominion: An Economic Commentary on Luke*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 25.

wealth more than they expect delight in an increase in wealth. This is one of the most significant discoveries of what is called behavioral economics.<sup>16</sup>

There is always a paradox in success indicators. It is always possible to miss the mark by selecting false success indicators or, more likely, assuming that they are the final end rather than means. Example: a student uses grades to evaluate his progress in his knowledge of a subject. But then he starts studying to pass the test. He focuses on the test rather than the overall knowledge. Then he decides to cheat in order to do better on the test. Now he is not only not using the test as an indicator of progress, he is using it to compensate for a lack of progress. I know of no temporal success indicator that cannot be misused in this way.

So, the selection of success indicators as representatives of the outcome of final judgment requires spiritual wisdom. So does the interpretation of the results of one's preliminary evaluations that are based on these success indicators. A success indicator is never autonomous. (Nothing in the created realm is autonomous.) It is not a valid substitute for progressive sanctification. It is merely a means to an end: an indicator of progress toward a positive final judgment.

## E. Contract Renewal

The office of steward involves acting on behalf of the God, the supreme Owner. This is governed by an ethical command: accumulate capital, both in history and eternity. There are temporal success indicators along the way. There are profits or losses. Profits accumulate. Losses reverse profitability.

The temporal outcome is dependent on contract renewal. There is a renewed contract beyond the grave. This is affirmed by the parable of the talents. The successful stewards are given greater capital to be used in their exercise of authority. But the failed steward's contract is revoked forever.

In history, there are comparable representative events. There are times of covenant renewal. An individual goes from victory to victory. But if he goes from failure to failure, he has reason to believe that he is heading toward final rejection. There is a relationship between history and eternity. The sanctions in history reflect the sanctions in eternity.

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16. Daniel Kahneman and Amos Tversky, "Choices, Values, and Frames," *American Psychologist* (1984); reprinted in Kahneman and Tversky (eds.), *Choices, Values, and Frames* (New York: Cambridge University Press, 2000), ch. 1.

There can be setbacks in external circumstances. There can be sickness as well as health. The success indicator is not the external condition. It is one's *handling* of that condition. It is one's commitment over time to the extension of the kingdom of God. This is reflected in the ethical process of progressive sanctification.

Jesus' parable of the four soils illustrates this. Three of the soils overcome growth. The fourth soil allows the seeds to flourish (Luke 8:5–15).<sup>17</sup> Only one soil allowed long-term growth. The focus of this parable was ethical (v. 15). The agricultural aspect merely focused the listeners' attention on the ethical message. But Jesus used the metaphor of the soils because His listeners would recognize the situation. Progress can be overcome: the seeds that fell in shallow soil did not take root. The seeds that fell in soil with thorns were overcome. There seemed to be progress for a time, but then this progress ended. Only in the productive soil was planting rewarded with a harvest.

This is the message of compound growth. This points to a process of advancement over time. The pattern of success is not linear. There are times of advance and times of retreat. Job's case is the supreme example in the Bible. David had similar incidents. Setbacks are common. But the willingness of God to renew His covenant on a regular basis through liturgies of covenant renewal points to contract renewal. The steward who subordinates his interests to God's interests then experiences long-term progress. The experience of compound growth in individuals' lives is the basis of corporate compound growth: the extension of the kingdom of God in history.

This is why Paul tells men to stick with their callings. "Let every man abide in his own calling wherein he was called" (I Cor. 7:20).<sup>18</sup> To use a common English-language phrase, *stick to your knitting*. The idea here is that God places a person in an economic position in order to teach him the rigors of self-discipline and service. He gets good at what he does. God renews this contract, year by year. This service refers to a person's *calling*: the most important thing he can do in which he is most difficult to replace. In pursuing his calling, a man may get a better job offer. He should accept it, as long as it does not interfere with his calling. So, Paul said, a slave who is offered liberty should take it (v. 21). This *judicial liberty* means greater *eco-*

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17. North, *Treasure and Dominion*, ch. 15.

18. Gary North, *Judgment and Dominion: An Economic Commentary on First Corinthians* (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 8.



*nomie responsibility*. He is no longer owned. He no longer works as a legal intermediary. He becomes “his own man,” judicially speaking. But every man is a servant of God and other men economically. There is no autonomy. There is always action *on behalf of* someone else.

When God has given you a unique calling, you should not abandon it. You should pursue it. God renews his contract with you for a reason: to help you enjoy the blessings of compound growth—from victory unto victory.

## Conclusion

Man the steward acts on behalf of God. This is inescapable. This is an aspect of the dominion covenant. As an agent of God, he must also act as an agent of creation: representing God to the creation and the creation to God. This is judicial in the case of ownership: legal rights over property. These rights allow a person to include or exclude. Judicial boundary markers enforce physical boundary markers.

The steward also represents those who do not own the asset. He represents them economically, not judicially. They bid for ownership. He either holds or sells. But he bears a cost of refusing an offer to buy: whatever he could have bought with the purchase price. He allocates his property. He either keeps it or sells it. The same is true of the output of his property. There are many bidders for ownership. He allows some people to buy. He excludes others. This is a social function. This is an inescapable function. Every item that has a price has a market. There is bidding for the item. This manifests itself in a price. The price imposes the obligation of an owner to accept or reject the offer. This is an allocation decision. It is therefore a stewardship decision.

The parable of the talents is the most important economic passage in the Bible regarding ownership in the broadest sense. Its message: *there is no equality*. All men are created unequal. They die unequal. Inequality increases over time for individuals. The final judgment results in a transfer of assets: from the failures to the winners. This is a biblical judicial principle. It is the story of the covenant in history. Covenant-keepers inherit the earth. Then they inherit eternity.

This is not widely believed or widely preached. But the text is clear. Covenant-breakers are outraged by this parable. They devise systems of political coercion to offset this outcome in history, especially in economics.

They preach a rival view: all men are created equal. Yet everyone knows it is not true. There is no area of our lives in which such equality exists or has ever existed. *The hierarchies of life are hierarchies of inequality*. There are superiors and inferiors. There are winners and losers.

Nice guys finish first. Jesus, as the incarnate Son of God who died for His people, is the ultimate nice guy. But His generosity is limited. It is not universal. His saving grace does not apply to all. Neither does His common grace apply equally to all.<sup>19</sup>

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19. America's Declaration of Independence (1776) announces: "We hold these truths to be self-evident, that all men are created equal." There is no falsehood to match this one in any nation's founding documents. It was written by a unitarian slave owner who believed in universal salvation and who cut several Bibles into shreds to paste together his own version of Jesus' sayings: *The Life and Morals of Jesus of Nazareth*. The Declaration was ratified by other slaveholders and by legal representatives of New England ship owners who grew rich by transporting kidnapped Africans to the southern colonies. The hypocrisy was recognized at the time. It was phrased most notably by Samuel Johnson. "How is it that we hear the loudest yelps for liberty among the drivers of negroes?"

### 3

## MANAGER

### Introduction

Boundaries are basic to the concept of property: “mine” and “yours.” Boundaries are point three of the biblical covenant. They are associated with names and naming. God named Adam. Adam named the animals. Then Adam named Eve. A name identifies a species or a person. The act of naming *separates* the named entity from other named or unnamed entities. That is, a name places boundaries around a person or object. A name reinforces individuality. It places boundaries around the person named. It says “this person is unique.”

There is a book of life (Phil. 4:3). It is filled with names. It is the most important list in the world or outside the world.

God names people in order to identify individual responsibility. This act of naming makes someone legally responsible for his actions. Naming is therefore itself a judicial action.

When Moses asked God who he should say told him to bring the message of liberation to the Israelites, God named Himself: “I am that I am” (Ex. 3:14). This could also be translated “I shall be what I shall be.” Moses had a good reason to ask God for His name. God was asking Moses to speak on His behalf. Moses wanted to know the person for whom he was speaking. Moses also wanted the Israelites to know that he was not speaking autonomously: on his own behalf. God’s answer identified Himself as autonomous, self-defined, and self-contained. Theologians call this *aseity*: self-contained. This is an incommunicable attribute of God.

Man is also bounded by other characteristics: genetic, social, historical, and covenantal. All of these features bind him. Yet this binding also

provides opportunities. He is a specific person with specific abilities in a specific place at a specific time. His environment binds him, but it also empowers him. Just as a clock binds a person's day, so does it enable him to master time. He is under boundaries, but he can extend these boundaries. Boundaries are like levers. They establish limits, but they extend limits.

## **A. Name and Ownership**

The Third Commandment establishes a boundary around God's name. This is the third point of the list of five priestly commandments.<sup>1</sup> It is paralleled by the Eighth Commandment, which is the third commandment in the list of kingly commandments. It forbids theft.<sup>2</sup> Name and property are linked judicially in the most important covenant document in history.

Private property begins with a person's name. He is a legally identifiable agent. His name identifies him. It says, "you, not someone else." This is the basis of judicial responsibility. It is also the foundation of economic authority.

### ***1. Name***

As a parent, God named Adam. He lets parents name their children, but parents are under His sovereignty. He delegates the authority to parents to name their children, but this does not revoke His position as the cosmic Namer. He gives names to all mankind, but He does so through His delegated agents. This is why God had Adam name the animals in the garden. Adam was classifying them. He was evaluating their position in the natural order. Then God gave Adam a wife. Adam named her.

The authority to name things is a God-given authority. The person with the authority to establish names possesses a unique hierarchical position at the top. The question, "Who's in charge here?" can be accurately answered by identifying the person with the legal authority to name people and things.

The person who possesses this authority is the source of boundaries. These boundaries mark people, places, and things. The rebels at Babel an-

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1. Gary North, *Authority and Dominion: An Economic Commentary on the Bible* (Dallas, Georgia: Point Five Press, 2012), Part 2, *Decalogue and Dominion* (1986), ch. 23.

2. *Ibid.*, ch. 28.

nounced that they would make a name for themselves (Gen. 11:4). When the Communists took over in Russia in 1917, they re-named cities. They drew new maps. With the fall of the USSR in 1991, the new rulers in Russia re-established the original names. This was a mark of the transition out of Communism and back to a non-Communist social order. Naming is a serious business.

The creation is finite. To master it, men must name it. Carl Linnaeus was a Swedish biologist in the eighteenth century. He developed a system of naming that transformed the science of biology. He recognized that until we classify something by naming it, we cannot study it scientifically. We cannot grasp why it is similar to some things, yet also different—continuity and discontinuity. We must know where it fits in the grand scheme of things. The very phrase “scheme of things” implies both order and purpose.

The element of purpose is basic to understanding the created realm. The heavens were created by God to provide calendars for man (Gen. 1:14).<sup>3</sup> This means that built into the cosmos is purpose. There is no escape from purpose. Purpose is an inescapable concept. It is never a question of purpose vs. no purpose. It is always a question of whose purpose.

Purpose underlies naming. It underlies all forms of scientific investigation. The essence of Darwinism is its denial of all purpose prior to the evolution of man.<sup>4</sup> This places man on God’s throne: the source of purpose. But this raises a fundamental question: Who determines purpose? Is it individual men or collective mankind?

The naming process marks the origin of purpose in man’s history. Naming declares legal limits. The person doing the naming may insist that he does this by discovering the existence of limits, or he may assert his own autonomy: his ability to impose limits. This debate is between subordinate discovery and original sovereignty. But if a man asserts that either he or corporate mankind is at the top of the hierarchy rather than God, even the assertion of the right of discovery is still an assertion of autonomy. Given the denial of God, there is no higher court of appeal to decide whether man’s discovery process is in fact a concealed form of an autonomous declaration of limits. “Here is what I have discovered. Show me I am wrong.”

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3. Gary North, *Sovereignty and Dominion: An Economic Commentary on Genesis* (Dallas, Georgia: Point Five Press, [1982] 2012), ch. 2.

4. *Ibid.*, Appendix A.

In a fallen world, nature is not normative. Neither is a man's mind. The announced limits may not be limits, or they may be misinterpreted limits. We are back to an umpire's three possible defenses of a call.

I call them as I see them. (nominalism)

I call them as they are. (realism)

They are what I call them. (Kantianism)

God can make all three claims. Man cannot.

## 2. *Ownership*

Having named a person, God then delegates to him secondary ownership over his person. This applies progressively as a person moves from childhood to adulthood. Parents exercise less authority. At some point, societies determine that people are adults and therefore are legally responsible for their behavior. This is basic to all social orders. A person who is responsible for his actions is legally in control of himself. A man owns himself as a steward owns other forms of property. This is not autonomous self-ownership, but it is *delegated self-ownership*. Name and property are linked legally.

The individual seeks to increase his ownership of goods and streams of future services. He purchases assets. He then declares legal sovereignty over them. This is an extension of his name. He is bounded with respect to his name: a person responsible before God. He is also bounded with respect to what he owns, beginning with himself. He extends his legal jurisdiction by accumulating property. He does this by extending his economic jurisdiction. He offers services in exchange for goods. He owns these services because they are extensions of himself. Because he owns them, he can rent them. Through exchanging what he owns for things he does not own, he extends his legal jurisdiction. This builds his economic authority. He possesses what others want. He possesses bargaining power. His economic bargaining power is an extension of his legal sovereignty.

## B. Resource Allocation

An individual owns a resource. He has the authority to decide what use is highest on his own value scale. The more versatile the asset, the greater

the range of uses to which it can be put. Money is the most marketable commodity.

If the resource has a price, there is demand for it. There is someone bidding for it. The owner has the economic responsibility to decide whether to sell or rent the resource to the highest bidder. If he decides not to sell or rent it, he becomes the highest bidder. This is called *reservation demand*.<sup>5</sup>

The owner decides what to do with the asset in terms of his *hierarchy of values*. The asset or the money it can bring can be used to do several things. The owner ranks these: first, second, or third. He then puts the asset to use.

To maximize his monetary income, he is ready to sell to the highest bidder. This allows others to register their desire and ability to own or rent the asset. Through competitive bidding, the owner and the would-be owners register their respective demand. The owner can refuse an offer, thereby becoming the highest bidder. But all of this is in response to the respective hierarchy of values of each bidder. The *subjective values* of the participants are manifested through a system of *objective bidding*. This establishes the free market price of the asset. The values are hierarchical and subjective. The bidding system is horizontal and objective.

The bidders are limited by the resources they own. They make objective bids in terms of what they own and how much they are willing to surrender in order to make the purchase. Specific bidders make specific bids in terms of specific values and specific possessions. The system of private ownership allows individuals to compete for ownership of other people's resources. By specifying individuals who must make these estimates and decisions, the system of private property establishes responsibility with ownership. These owners make their decisions in terms of their values and their assets. *There is no way for them to segregate responsibility from ownership at zero price.* The legal responsibilities of ownership are equated with the economic benefits and liabilities of ownership. The person who owns the asset bears the cost of making an allocation decision that does not maximize his income. It focuses his attention on the market for the asset. He can ignore this market, but only at a price: forfeited income.

The individual asks: "What's in it for me?" This has to do with ownership. In asking this, he has a personal economic incentive to pay attention

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5. Murray Rothbard, *Man Economy, and State: A Treatise on Economic Principles*, 2nd ed. (Auburn, Alabama: Mises Institute, [1962] 2009), pp. 137, 247, 253, 294, 756.

to the bidding for the asset. This system of competitive bidding lets a non-owner reveal what is in it for him. When the existing owner decides there is more in it for him by exchanging the asset for something else, the two owners make an exchange. Each believes there will be more in it for him after he makes the exchange.

Because ownership is decentralized widely to individuals, the specialized knowledge which legally responsible participants in a society possess is put to service of the others. The owner seeks ways of attaining a greater level of satisfaction from the assets he owns. To discover a way to maximize his satisfaction, he must take into consideration the objective bids of others. What they want and are willing to pay for affects his ability to pursue his wants with whatever he can pay for. *The greater the market value of what he owns, the more effectively he can pursue his own values.* So, he seeks ways to maximize the value to others of the assets he owns, which includes his knowledge of specific circumstances: his circumstances and also the circumstances of others, as reflected in market prices. He can see what others are willing to pay for the assets he owns.

To increase the accuracy of his bidding, he must gain better knowledge of what others are willing and able to pay for his assets. This imposes search costs on him. Time and searching are not free resources. He must pay for both, but he seeks not to overpay. The outcome of this search process is greater knowledge of what others are willing to pay. As with any other asset, accurate knowledge is not a free resource. People cannot locate it free of charge.<sup>6</sup> They must search for it. They cannot initially know how much knowledge is available or at what price. *The free market is a bidding system for accurate knowledge.* It rewards accurate knowledge. Through bidding, men call forth knowledge that would not otherwise have been offered for sale.

Knowledge, values, and scarce resources are offered for sale to the highest bidder. This is the result of God's initial distribution of resources. The wealth possessed by individuals is put to the use of others. That which is *owned sovereignly* is put to use for the *highest bidder*. (He who gains or retains ownership is the highest bidder.) No one compels others to share their knowledge, yet this knowledge is brought into the marketplace to be put to better use by others. No compulsion is involved. Individuals are bounded, but through the pursuit of profit on a free market, individuals increase the supply of knowledge available to them. This increases their

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6. Thomas Sowell, *Knowledge and Decisions* (New York: Basic Books, 1980).



ability to conserve resources and also maximize the subjective value—objective income—of what they own.

### C. Time and Place

Individuals are bounded by time and place. These are the great boundaries on every person. A person is born at a time in a place. He grows up in specific places in a particular era. He becomes familiar with the boundaries of time and place as they apply to him. The narrow focus of time and place in someone's life enables him to specialize. He gains expertise in time and place.

We speak of conserving time. We save time. But do we save time? There is no bank account of time. It cannot be set aside in reserve. It cannot be purchased for money in any market. Yet it can be purchased with righteousness. "And if thou wilt walk in my ways, to keep my statutes and my commandments, as thy father David did walk, then I will lengthen thy days" (I Kings 3:14). Because of this, there is the phenomenon known as *bargaining for time*. It is a common feature of the response to the news that a person is dying. He bargains with God for more time. He promises to do something important for God, as a person imagines. This is not an irrational response.

When we say that we save time, we mean this: we achieve our goals for a reduced expenditure of time. We forfeit less time. We do this by becoming more efficient in our use of time. Time is a scarce resource. Once it passes, it is gone forever. *Time is a nonrenewable resource*. Indeed, it is the archetype of a nonrenewable resource. So, men are cautioned not to waste it. Jesus said of Himself: "I must work the works of him that sent me, while it is day: the night cometh, when no man can work" (John 9:4).

We are bounded, but this gives us opportunities to specialize. We hear of a Renaissance man. This is someone who conforms to the Renaissance ideal of a man well-versed in many fields. But such a person always faces the problem of deciding what to specialize in. If someone can do many things well, his cost of doing one thing magnificently is high. There are so many pathways that he must give up in order to pursue his job or his calling effectively. He must choose wisely. He must decide what is best for him, as well as for God and others. He needs far better judgment than most people possess.<sup>7</sup>

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7. The greatest Renaissance man in history was an anti-Renaissance man: Abraham Kuyper (1837–1920). He earned a doctorate in theology. He founded two

People own property. In real estate, this property is identified by landmarks. These landmarks identify the legal zone of responsibility for the use of this property. The property produce incomes over time in some form. The owner possesses legal control over this stream of income. To private property are attached various legal rights, meaning above all the right to exclude. *The concept of a property right means the right to exclude—a legal immunity.* The archetype was the tree of life in the garden. It was God's property. He did not delegate control to Adam and Eve. He excluded them (Gen 2:17).<sup>8</sup>

### D. Scarcity

Scarcity is defined by economists as follows: "At zero price, there is greater demand than supply." This is another way of saying "it commands a price." Scarcity imposes boundaries on men. It means that they must gain more assets in order to increase their consumption. They must extend their jurisdiction. There is also a scarcity of time. People die.

There is a long tradition for economics textbooks to begin with scarcity. The most rigorous of the textbooks in the Chicago School tradition, Allen and Alchian's *University Economics* (3rd ed., 1972), may be the only textbook ever written that begins with Chapter 0: "How Much Mathematics and Graphs?" Chapter 1 is titled "Scarcity, Competitive Behavior, and Economics." It begins: "Ever since the fiasco in the Garden of Eden, most of what we get is by sweat, strain, and anxiety. Two villains—nature and other people—prevent us from getting what we want. Nature is niggardly: it provides fewer resources than we could use, and much of what is available is made useful only by hard work. As for other people, the problem stems not from malevolence: their wants and ours simply exceed what is available." Mark Skousen, a Mormon who writes from an Austrian School perspective, begins his textbook, *Economic Logic* (3rd ed., 2009), with a discussion of Adam and Eve after their expulsion from the Garden. They had to work. So

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newspapers and wrote at least 16,000 editorials over 42 years. He founded a political party. He founded a university and served as its chancellor. He was a classroom professor for two decades. He wrote 17 books. He founded a denomination that lasted for over a century. He served as a pastor for a decade. He was elected prime minister.

8. Gary North, *Sovereignty and Dominion: An Economic Commentary on Genesis* (Dallas, Georgia: Point Five Press, [1982] 2012), ch. 9.

do we. This refers back to Genesis 3:17–19: the curse of the ground.<sup>9</sup> Roger Leroy Miller in Chapter 1 of his textbook, *Economics Today* (8th ed., 1994), writes in the Introduction: “Economics is the study of how people make choices to satisfy their wants. Wants are defined as all the things people would consume if they had unlimited incomes.” Chapter 2 is titled, “Scarcity and the World of Trade-Offs.” Edwin Dolan, in his textbook, *Basic Economics* (2nd. ed., 1980), titles Chapter 1, “What Economics Is All About.” The first section of the chapter is “Scarcity and Choice in Economics.” He writes: “In *economics*, scarcity means that people do not have as much of everything as they want.” I could go on, but time is scarce.

They never start where the Bible starts: with ownership. Why is this? The main reason is their quest for universality. Scarcity is universally recognized. It is acknowledged by every economic theory. In contrast, the question of ownership raises fundamental ethical questions. Who owns something? On what legal basis? On what moral basis? These are questions that cannot be settled by an appeal to ethically neutral logic. This is because there is no such thing as ethically neutral logic. But economists usually rest their case on what they assume to be ethically neutral logic. So, they begin with scarcity.

Scarcity is a curse. Therefore, it is mandatory that covenant-keepers seek to overcome scarcity progressively in history. The marks of this are rising output and falling prices. We all want to buy cheaper. We all want more for our money. This is universal. It is not confined to covenant-keepers. So, we search for ways to reduce the cost of maintaining our lifestyles. The dominion covenant was given before the Fall and the curse of the ground (place) and the curse of death (time). This covenant is still in force. The evidence that almost all mankind honors it is the universal quest for more. To gain more for ourselves, we must extend our control over more. We must subdue the earth.

Scarcity is a negative sanction. To offset it, there must be positive sanctions. There must be ways of offsetting the curse. The Bible describes this in Deuteronomy 8. After describing God’s miraculous intervention on behalf of the Israelites in the wilderness, Moses said this. “And thou say in thine heart, My power and the might of mine hand hath gotten me this wealth. But thou shalt remember the LORD thy God: for it is he that giveth thee power to get wealth, that he may establish his covenant which he sware

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9. *Ibid.*, ch. 12.

unto thy fathers, as it is this day” (Deut. 8:17–18). This states emphatically that an increase in wealth is a sign of the covenant. It is evidence of the covenantal structure of economics. The positive economic sanctions confirm the covenant.<sup>10</sup>

Longevity is one of the few blessings that all economists regard as a universally acknowledged blessing. Economists cite increases in life expectancy as a mark of a society that is experiencing economic growth. At the other end of the age spectrum, an increase in the survival rate of children is treated as a blessing.<sup>11</sup> At the same time, an increase in the rate of abortion is also implicitly seen as a blessing: “When a price falls, more is demanded.” More dead babies indicates more economic growth per capita. Economists never say this in print, but it is implied by their analysis. There is greater freedom of choice, as long as we do not count the choice of the infants, which modern abortionists refuse to do. Because no adult other than the mother is allowed to speak representatively on behalf of her unborn child, the child’s opinion is not regarded as judicially valid and therefore not economically relevant. At birth, the courts can and do intervene to speak judicially on behalf of the child. So, reduced death rates for newborn children are seen as positive in economic literature. Reduced post-natal infant mortality is counted as a positive economic sanction.

## E. Compounding

Economic growth is the result of net compound economic blessings. Positive economic sanctions overcome specific limits—boundaries—of scarcity over time. The promise of compound economic growth is an affirmation of the reductions in history of boundaries. As a man accumulates capital, he is better able to extend his ownership of property. He is also better able to put that property to whatever uses he chooses. His range of actions increases because he possesses more wealth.

The promise of economic growth was unique in the ancient world. Only the Hebrews believed that this is possible. One confirmation of God’s

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10. Gary North, *Inheritance and Dominion: An Economic Commentary on Deuteronomy*, 2nd ed. (Dallas, Georgia: Point Five Press, [1999] 2012), ch. 22.

11. Christopher Ingraham, “Our infant mortality rate is a national embarrassment,” *Washington Post* (Sept. 29, 2014).

covenant with His redeemed people is economic growth (Deut. 8:17–18).<sup>12</sup> This means that covenant-keepers should expect economic growth if they remain faithful. The compounding effect of economic growth is promised as a confirmation of compound ethical progress, which theologians call progressive sanctification.

The promise of compound economic growth was a promise to individuals and families that comprised the covenantal community. The promise had to do with individual progressive ethical sanctification: *adherence to the boundaries of law*. Progressive ethical sanctification is rewarded with greater wealth: a reduction of the boundaries imposed by scarcity. This in turn produces national wealth by means of a greater division of labor.

Economic growth is normative. In no other ancient religion was economic growth normative. This outlook was unique to the Hebrews. It could exist only because of the biblical concept of time: creation, Fall, restoration, and final judgment. In the biblical account, history is linear. All rival outlooks in the ancient world were cyclical. In a cyclical universe, all progress is either temporary or an illusion. But in the biblical worldview, because individual progress is at bottom ethical, and because there are positive economic sanctions for personal ethical progress, long-term economic growth is a real possibility. There is no biblical theory of inevitable *ethical* reversion to the mean. There can be permanent ethical progress. There is also a clear doctrine of *covenantal inheritance*. This applies to both ethics and capital. Inter-generational ethical progress is possible. Therefore, so is compound economic growth.

The passage warns against attributing economic growth to autonomous man. This is the essence of ethical rebellion: using the fruits of the covenant to praise autonomous individual productivity or even corporate productivity. But the very possibility of ethical rebellion points to the possibility of long-term ethical progress. Temptation need not be submitted to. There is nothing inevitable about a reversion to the status quo ante, either ethically or economically.

## Conclusion

The Third Commandment, which announces God's rule regarding His name—an exclusion law—is law three in the list of five priestly laws. The

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12. *Ibid.*, chaps. 21, 22.

Eighth Commandment protects property from theft: another exclusion law. It is third in the kingly list of rules. *Name and property are linked judicially.*

God delegates to parents the legal authority to name their children. When a person reaches adulthood, he becomes a legally responsible agent. He has a name. He has an identity. This legal authority under God is also economic authority. The person is legally responsible primarily to God and secondarily to other people. This includes economic responsibility. By tying legal authority to economic authority by means of private ownership, God establishes a comprehensive system of responsibility. Property rights are ultimately legal categories. Only secondarily are they economic categories. In short, *covenantal authority is superior to economic authority.*

The libertarian doctrine of absolute self-ownership as the foundation of property rights rests on the false doctrine of man's autonomy. The concept of self-ownership is correct in this sense: *self-ownership is delegated ownership.* All ownership is delegated ownership. It begins with delegated self-ownership. The individual is owned by God, not by the state. The adult individual is owned by God, not by the family, until such time as an individual marries. At that point, mutual ownership and obligations begins (I Cor. 7:3). Each partner has legal claims on the other.

Stewardship (point two) by specific individuals (point three) over specific assets (point three) in terms of fundamental law (point three) is the foundation of property rights. A steward acts as the legal agent of the owner. He defends the owner's assets from unauthorized use by interlopers, who either assert a superior claim of ownership or else steal it. In doing so, he inescapably acts also as an economic agent of the owner. But he must consider objective legal bids for ownership from other stewards of the same owner. But these other stewards may not acknowledge their position as legal and economic agents of the owner. They may assert their ownership of their very being—their “name” in the broadest sense. They may assert a legal claim over the goods under their administration. But this does not change the structure of ownership.

## 4

# IMPUTATION

### Introduction

To impute is to render judgment: point four of the biblical covenant. In Calvinist theology, the doctrine of imputation refers to God's declaration of guilt or innocence of individuals. It is a judicial act, also called a forensic act. This doctrine plays a unique role in Calvinist theology. It is less important in other theological systems. God is seen as a judge. He applies an ethical standard to all mankind: the perfect humanity of Jesus Christ. Christ's perfection is assessed in terms of His conformity to God's Bible-revealed law. God assesses all individual ethical performance in terms of this standard. This is the model of all *casuistry*: the application of God's law to historical circumstances. God does this. As creatures made in God's image, so must human beings. Imputation has to do with judicial categories: saved and lost, redeemed and unredeemed. But this concept is not confined to the judicial category of justification. It is also the model for the ethical category of sanctification: the degree of ethical conformity to God's law. Justification has to do with declaring saved or lost: the ultimate pass-fail final examination. Sanctification has to do with grading on a curve: the degree of individual conformity in history to a fixed ethical standard that is historical, and which was attained in history by Jesus Christ. It also applies to human institutions: corporate sanctification.

The doctrine of imputation is also central to modern economic theory. Indeed, it is the identifying mark of the transition from classical economics to modern economics. The epistemological revolution in economic theory that took place in the first three years of the 1870s was explained most cogently by Austrian economist Carl Menger in 1871. Menger rejected the

classical economists' mutually self-contradictory explanations of economic value: the labor theory of value and the cost-of-production theory of value. Menger argued that economic value is imputed by final customers. They decide which goods and services are highest on their scale of values. Then they bid for ownership in the market place. These competitive bids establish market prices, which are the objective manifestation of imputed subjective value. Imputed value and objective price are linked by way of the free market's auction process.

Why does a capital good possess economic value? Menger called this a higher-order good. He denied that this value is the product of the price of prior inputs. A capital good is valuable—commands a price—only because of entrepreneurs' expectations regarding the future value of consumer goods: goods that customers will pay for. He called these lower-order goods. He wrote: "... the *economic character of goods of higher order depends upon the economic character of the goods of lower order for whose production they serve*. In other words, no good of higher order can attain economic character or maintain it unless it is suitable for the production of some economic good of lower order."<sup>1</sup> He made it clear that *expectations* are the key. "We therefore have the principle that the value of goods of a higher order is dependent upon the expected value of the goods of a lower order they serve to produce."<sup>2</sup>

There is no objective value, he concluded. "The value of goods arises from their relationship to our needs, and is not inherent in the goods themselves."<sup>3</sup> Therefore, he wrote,

It is a judgment economizing men make about the importance of the goods at their disposal for the maintenance of their lives and well-being. Hence value does not exist outside the consciousness of men. It is, therefore, also quite erroneous to call a good that has value to economizing individuals a "value," or for economists to speak of "values" as of independent real things, and to objectify value in this way. For the entities that exist objectively are always only

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1. Carl Menger, *Principles of Economics* (Auburn, Alabama: Mises Institute, [1871] 2007), p. 107.

2. *Ibid.*, p. 150.

3. *Ibid.*, p. 120.



particular things or quantities of things, and their value is something fundamentally different from the things themselves; it is a judgment made by economizing individuals about the importance their command of the things has for the maintenance of their lives and well-being. Objectification of the value of goods, which is entirely *subjective* in nature, has nevertheless contributed very greatly to confusion about the basic principles of our science.<sup>4</sup>

Philosophically, this position rests on nominalism: the power of a person to name, classify, and evaluate. This position rejects realism: value or characteristics that are inherent in a physical object. This debate is as old as philosophy. As I have said in numerous passages, biblical thought is based on a rejection of both autonomous realism and autonomous nominalism.<sup>5</sup> Biblical thought rests on covenantalism. There is *covenantal realism*, because God created everything. The creation is objective. It objectively reflects the handiwork of God. There is *covenantal nominalism*, because God imputes meaning and value to His creation. In contrast to biblical thought, Menger held to the autonomy of the creation and the autonomy of man. He therefore self-consciously adopted nominalism.

Just as a penetrating investigation of mental processes makes the cognition of external things appear to be merely our consciousness of the impressions made by the external things upon our persons, and thus, in the final analysis, merely the cognition of states of our own persons, so too, in the final analysis, is the importance that we attribute to things of the external world only an outflow of the importance to us of our continued existence and development (life and wellbeing). Value is therefore nothing inherent in goods, no property of them, but merely the importance that we first attribute to the satisfaction of our needs, that is, to our lives and well-being, and in consequence carry

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4. *Ibid.*, p. 121.

5. Gary North, *Sovereignty and Dominion: An Economic Commentary on Genesis* (Dallas, Georgia: Point Five Press, [1982] 2012), ch. 5.

over to economic goods as the exclusive causes of the satisfaction of our needs.<sup>6</sup>

Modern economic thought is officially nominalistic. But there is no escape from covenantal realism: the doctrine of original creation by God. Humanists who defend realism do not accept covenantal realism, so they adopt autonomous philosophical realism. They sneak philosophical realism through the methodological back door of price indexes and other statistical techniques of aggregation. These indexes require the aggregation of subjective value—individuals' subjective imputations—which cannot be done without violating the principle of subjectivism-nominalism.<sup>7</sup> All economic policy-making necessarily rests on an implicit denial of nominalism, for it relies on the assumption that an economist can make objectively valid interpersonal comparisons of subjective utility. So, there is an inherent dualism in humanistic economic thought.

With this as background, I am ready to take up the question of the biblical concept of economic imputation.

### **A. Valuation Is Inescapable**

God evaluated the quality of His work at the end of five of the six days (Gen. 1). On what basis? First, He had spoken the day's work of creation into existence. Second, the creation was objectively real. It was capable of being catalogued, measured, and evaluated. Third, He implemented the creation in terms of pre-creation standards. We presume this, i.e., that He did not make things up as He went along. The New Testament adds that the Second Person of the Trinity was the executor (Col. 1:16). Then He evaluated this work in terms of the faithfulness of the creation to His sovereign creative word.

There can be no actions that are outside the judgment of God. God evaluates every action. Then He renders judgment. An action is either good or bad. The final judgment will be the overall retroactive assessment (Matt. 25:32–42). This does not mean that He has made no judgments from the end of the week of creation until the final judgment. God renders constant judgments. He evaluates constantly, just as He evaluated each day of creation.

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6. Menger, *Principles*, p. 116.

7. North, *Sovereignty and Dominion*, ch. 5.

This is the archetype for man's rendering of judgment. Man is made in the image of God. This means individual man and corporate man. Individuals are under a covenantal administration, but so are collectives. Individuals are subject to eternal sanctions. So is the church: the bride of Christ. But neither the family nor civil government extends into eternity. No institution other than the church extends into eternity. Individuals are given the ability to make judgments as judicial agents of God. This ability is built into man's very being. Declaring and executing judgment are aspects of the dominion covenant.

The universe is subject to laws. Because men are to exercise dominion, they have been given minds that can render judgments. They can perform the art of casuistry: the application of ethical principles to historical cases. They can also do science: discover laws of nature, and then use these laws to exercise power over nature. *What God does originally, men can and must do secondarily and analogically.* This two-fold ability of *comprehension and application* is objectively inherent in men. God created men to do this on His behalf. The concept of "on His behalf" leads to point two of the biblical covenant: representation.

## B. Responsible Evaluation

The phrase "thinking God's thoughts after Him" applies to all casuistry: the interpretation of historical events in terms of God's law. This ability is the covenantal basis of casuistry. How can covenant-keepers do this? "But he that is spiritual judgeth all things, yet he himself is judged of no man. For who hath known the mind of the Lord, that he may instruct him? But we have the mind of Christ" (I Cor. 2:15–16). Then we go to Psalm 119, the longest passage in the Bible.

For ever, O LORD, thy word is settled in heaven. Thy faithfulness is unto all generations: thou hast established the earth, and it abideth. They continue this day according to thine ordinances: for all are thy servants (vv. 89–91).

Thou through thy commandments hast made me wiser than mine enemies: for they are ever with me. I have more understanding than all my teachers: for thy testimonies

are my meditation. I understand more than the ancients, because I keep thy precepts (vv. 98–100).

Seven times a day do I praise thee because of thy righteous judgments. Great peace have they which love thy law: and nothing shall offend them. LORD, I have hoped for thy salvation, and done thy commandments. My soul hath kept thy testimonies; and I love them exceedingly. I have kept thy precepts and thy testimonies: for all my ways are before thee (vv. 164–68).

Biblical law is the God-given, God-mandated means by which all men are required to order their scale of values and their lives. By means of biblical law, all men are required to subdue the earth. By means of biblical law, all men are supposed to evaluate decisions and render judgment.

The individual is under God. This is a judicial matter. He is under God's law. He acts as a steward under God-delegated ownership. He is required to rule over creation by means of God's law, including the predictable regularities of nature. So, hierarchy, law, judgment, and inheritance are all part of an integrated system. The sovereignty of God is the foundation of this system.

The philosophical dualism between hypothetically unchanging logic and ceaseless change—Parmenides vs. Heraclitus—is resolved biblically by means of a doctrine that is based on metaphysics: the *absolute sovereignty of God over His creation*. This doctrine affirms both His omniscience and His omnipotence. He has laid down His law. All of the creation is under God's providence, from subatomic particles (or are they waves?) outward to a hundred billion galaxies with a hundred billion stars each. There is predictability in history because God is sovereign over history. He governs the creation. But in one tiny location in the universe, His providence is seen in linear history: creation, Fall, incarnation, redemption, and final judgment. Here, the issues of history are ethical—not mechanical and not organic.

Each person is made in the image of God. So is corporate mankind. So, each person is responsible for the administration of assets delegated by God. This means that the decision-maker is *responsible upward* to God. But, because the creation is under man, each person is *responsible downward*: to serve as God's representative agent. Each person is *responsible outward* to other people, who also have their God-given tasks. This is the covenantal foundation of the division of labor. Finally, each person is

*responsible inward*: conscience. The person seeks his own goals. He reaps rewards and pays costs.

This is the basis of Christ's warning to count the costs.

For which of you, intending to build a tower, sitteth not down first, and counteth the cost, whether he have sufficient to finish it? Lest haply [it happen], after he hath laid the foundation, and is not able to finish it, all that behold it begin to mock him, Saying, This man began to build, and was not able to finish. Or what king, going to make war against another king, sitteth not down first, and consulteth whether he be able with ten thousand to meet him that cometh against him with twenty thousand? Or else, while the other is yet a great way off, he sendeth an ambassage [ambassador], and desireth conditions of peace. So likewise, whosoever he be of you that forsaketh not all that he hath, he cannot be my disciple (Luke 14:28–33).<sup>8</sup>

### C. Criteria: Individual and Corporate

The criterion of economic value is simple: *the extension of the kingdom of God in history*. Covenant-keepers are supposed to honor this principle. "But seek ye first the kingdom of God, and his righteousness; and all these things shall be added unto you" (Matt. 6:33).<sup>9</sup> In contrast, covenant-breakers seek to extend the kingdom of man.

The doctrine of the final judgment has an inescapable economic implication: *kingdom competition is zero-sum*. All of that which is built up in history by the kingdom of man is transferred to the kingdom of God. This inheritance is individual. It begins in history at the time of each person's transition from wrath to grace at conversion. This inheritance is judicial. It is definitive. The person gains a legal share of the inheritance of the kingdom of God. But definitive inheritance is not final inheritance. History

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8. Gary North, *Treasure and Dominion: An Economic Commentary on Luke*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 35.

9. Gary North, *Priorities and Dominion: An Economic Commentary on Matthew*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 15.

is a matter of progressive inheritance (I Cor. 3).<sup>10</sup> It builds up over time. Both the kingdom of God and the kingdom of man can expand their capital base. One is wood, hay, and stubble. The other is gold, silver, and precious stones (I Cor. 3:12). This is made public by the retroactive final judgment of God, but it is imputed by God through history. With respect to eternity, the wealth of the sinner is laid up for the just (Prov. 13:22).<sup>11</sup> Postmillennialism teaches that this transfer will begin in history.

So, the mutual benefits that market transactions offer are limited to history. Ultimately, this mutuality will prove to have been an illusion for covenant-breakers. Life really is a zero-sum competition. Winners take all. More to the point, winners are awarded all by God.

What has value? Anything that can extend the kingdom of God. But this implies that there must be standards of action. These standards are based on the law of God. They are an ethical extension of His character. He pronounced His work “good” at the end of five of the six days of creation. But this implies the existence of a standard of both process and final output. There was an appropriate means to achieve the end. *The legitimacy of the end is the justification of the process*. It shapes the theory of the process. The process then either conforms or fails to conform to the standard.

This raises a question. How are we to discover the standard? The Bible has two legal concepts: the spirit of the law and the letter of the law. The two are consistent in the mind of God. They are also consistent in the work of God. Paul contrasted them in operation. “But now we are delivered from the law, that being dead wherein we were held; that we should serve in newness of spirit, and not in the oldness of the letter” (Rom. 7:6). The letter of the Mosaic law kills. The Holy Spirit of God renews it in the lives of individuals and institutions. This is a basic theme in the epistle to the Romans.

There is an inherent dualism in all autonomous thought between the letter of the law and its spirit. The conflict comes when explaining how the letter reflects the spirit and implements it. There is a conflict between them. A rigorous enforcement of the letter of the law—legalism—can undermine the original intent of the lawmakers. The most famous case in the Bible is Darius’ imprisonment of Daniel in the lion’s den. He had been tricked into

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10. Gary North, *Judgment and Dominion: An Economic Commentary on First Corinthians*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 3.

11. Gary North, *Wisdom and Dominion: An Economic Commentary on Proverbs* (Dallas, Georgia: Point Five Press, [2007] 2012), ch. 41.

issuing a decree regulating prayer. He could not break his own words (Dan. 6:14–17). The letter of the law was opposed to the spirit of the law. Another famous incident was the deception of the Israelites by the Gibeonites. The leaders of Israel were deceived. They verbally granted the Gibeonites' safety, not knowing the Gibeonites were dwellers in the land. Joshua allowed the decision to stand (Josh. 9). He defended the letter of the law against the spirit of the law. Another famous incident was Solomon's decision to execute his half brother Adonijah, despite Solomon's promise to his own mother (I Kings 2:13–25). He defended the spirit of the law—the orderly transfer of the kingly inheritance—against the implications of the letter of the law: an unlawful transfer of this inheritance.

The criteria of *ethical* value are ethical: the spirit of the law. But they are also *judicial*: the letter of the law. The letter of the law preserves predictability of the courts. It makes judges less arbitrary. The spirit of the law upholds justice. It defends what is *ethically right*, not what is *procedurally predictable*. God enables the mind of man to choose an ethical path of justice without destroying predictability. But sometimes men fail.

A popular phrase is this: "What would Jesus do?" It is clear from the Gospel of John that Jesus confused most of those around Him most of the time. They constantly drew the incorrect conclusion about what Jesus wanted to do or was going to do.

The standards must be permanent ethically. They must persevere through time, not be undermined by time. This is the challenge in every judicial and ethical system. The permanence and the applicability of law (Parmenides) despite the flux of history (Heraclitus) must be explained by the defenders of every legal or ethical system. Biblically, the answer is the doctrine of God's permanence. "And I will come near to you to judgment; and I will be a swift witness against the sorcerers, and against the adulterers, and against false swearers, and against those that oppress the hireling in his wages, the widow, and the fatherless, and that turn aside the stranger from his right, and fear not me, saith the LORD of hosts. For I am the LORD, I change not; therefore ye sons of Jacob are not consumed" (Mal. 3:5–6).

God's law applies to individuals and collectives. Both are under the law's historical sanctions. This is true of collectives, contrary to libertarian social theory (Deut. 28).<sup>12</sup> A collective is under temporal sanctions, but

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12. North, *Inheritance and Dominion: An Economic Commentary on Deuteronomy*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 69.

not under eternal sanctions. *Eternity trumps time*. So, the temporal realm of personal sanctions elevates individualism over collectivism in history in most cases for covenant-keepers, but not in all cases. With respect to history, the collective is sometimes more important: the survival of nation, family, and church. Individuals often sacrifice their temporal interests for the sake of these larger interests. In doing so, they gain positive sanctions in eternity. Their inheritance (point five) is beyond the grave. “Lay not up for yourselves treasures upon earth, where moth and rust doth corrupt, and where thieves break through and steal: But lay up for yourselves treasures in heaven, where neither moth nor rust doth corrupt, and where thieves do not break through nor steal: For where your treasure is, there will your heart be also” (Matt. 6:19–21).<sup>13</sup>

*Ethical value is inescapably the foundation of economic value.* This conclusion opposes modern economic theory all the way back to the mercantilists.<sup>14</sup> Not only is economic theory not value-free, as economists insist, it is *value-derived*. The very concept of economic value is undergirded by the concept of ethical value: extending the kingdom of God in history. There is nothing ethically neutral about economic theory.

## D. Value and Price

The covenant-keeper is required by God to apply God’s law to the decision-making processes in his life. He is under God’s authority (point two). This obedience is possible only because he possesses the ability to understand both the law and historical circumstances. He can accurately assess and then apply God’s specific laws to historical circumstances (point four).

Because of this ability, he can assess the economic value of opportunities, which include multiple uses for capital. He can understand the hierarchy of values in terms of available opportunities. He can understand God’s hierarchy of values. He is required to adopt this hierarchy rather than his own.

Economic valuation is subjective in the sense that God is a person who evaluates things and relationships in terms their potential uses. God declares specific economic value in terms of an asset’s comparative impor-

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13. North, *Priorities and Dominion*, ch. 13.

14. William Letwin, *The Origins of Scientific Economics* (Cambridge, Massachusetts: MIT Press, 1963).



tance in the building of God's kingdom in history. The human evaluator is also a person. He is supposed to make his evaluation in terms of the same goal: building the kingdom of God in history. Economic value is inherent in the relationships that exist among imputing agents in a world of scarcity and alternative uses. These relationships also have value in terms of building the kingdom of God. But they also have value in terms of building the kingdom of man. There is therefore competition over the authority of rival economic value systems in history. Biblical economics teaches that economic value is imputed by God (point four), and therefore economic value is subjective. But economic value is also objective. It is objective because human imputations are the outcome of God's objective providence (omnipotence) and the objectivity in history of His original imputation (omniscience).

Christian economists must defend both the doctrine of subjective economic value and the doctrine of objective economic value. Both aspects of economic value must be seen covenantally, not autonomously. In contrast, humanistic economists assert that there is only subjective economic value, but then they smuggle in objective economic value through the methodological back doors of statistical aggregation and policy recommendations. To do this, they must assert, either explicitly or implicitly, their ability to make interpersonal comparisons of subjective utility, which is impossible if utility is only subjective.<sup>15</sup>

*Imputation is the source of all value, including economic value.* A person declares value. This need not be verbal. It rarely is verbal. He *evaluates*. This verb points to the underlying action: to assess value. He considers his circumstances. These include opportunities. He assesses the competing bids—prices—for temporary control of scarce resources. This tells him what others think specific assets are worth. He may bid higher. This does not mean that he subjectively values ownership of the asset more than others do. He may value it as hardly worth anything. But his wealth enables him to bid far more than competitors do. We cannot measure subjective value. We can measure objective bids. High bid wins.

A little-known example in the Bible makes this clearer. David's first wife Michal later was given by her father Saul to another man (I Sam. 25:44). David in the meantime married lots of wives. After Saul's death, when David was king, he demanded the return of Michal. Abner, who had served Saul, now wanted to serve David. David told him that this would not be possible

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15. North, *Sovereignty and Dominion*, ch. 5.

unless Abner returned Michal to him. Abner told the second husband to surrender his wife. "And her husband went with her along weeping behind her to Bahurim. Then said Abner unto him, Go, return. And he returned" (II Sam. 3:16). From what we can determine by her second husband's demonstrated sadness at losing her, he loved her more than David did. But David's high bid won. "Your wife or your life."

Humanistic economics cannot scientifically resolve the ancient question of the relationship between economic value (subjective) and price (objective). To do so, a humanistic economist would have to give an account of the origin of economic value in terms of subjective imputation, yet also connect this imputation with objective prices. But he cannot scientifically make interpersonal comparisons of subjective utility.<sup>16</sup> So, he cannot say scientifically that the person who values a scarce resource more highly than other bidders do is the bidder who pays the highest price. There may be little relationship between the comparative "height" of the value scale of the winning bidder vs. those of rival bidders. All that the humanistic economist can say scientifically is this: (1) ownership of this asset was highest on the buyer's scale of values for this particular purchase; (2) ownership of this asset was highest on the individual scales of rival bidders for that particular purchase; (3) the highest bidder won. As with Michal's second husband, a losing bidder may have wanted that item more than anything except life itself. He lost it, because his was not the highest bid.

Because of the epistemological separation of value and price in humanistic economics, critics of the free market argue that the rich man who can out-bid a poor man has an unfair advantage. The poor man needs an item more, the interventionist insists. The poor man values it more. He just cannot afford to bid more. The interventionist rejects any suggestion that the allocation established by the free market is morally correct or even desirable. It lacks legitimacy, he says. This places the humanistic defender of free market allocation at a rhetorical disadvantage. He insists that economics is value-free. He refuses to invoke morality. He concedes the moral high ground to the critics of capitalism, because he denies that there is any moral ground in economic theory. But the public thinks otherwise. The public knows instinctively that ethical neutrality is a myth in social affairs. So, defenders of the free market have always had a problem persuading the public of the ben-

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16. Lionel Robbins, *An Essay on the Nature and Significance of Economic Science* (London: Macmillan, 1932), ch. VI.

efits of an unhampered free market. The public wants moral reasons for accepting any explanation of economic cause and effect. The humanistic free market economist refuses to provide any moral explanations. He thinks he occupies the epistemological high ground. The public does not care about epistemology. It cares about justice. The critics insist that they are calling for economic justice when they demand state intervention.

## E. Value-Added Living

The adjective “value-added” refers to increased value as perceived by economic actors. They can consume more than they did before. They can also save more.

Can value be measured? This is one of the most divisive questions in economic theory. How can value be measured in an individual’s self-assessment? He cannot measure it. There are no objective units. Therefore, there is no cardinal measurement. There are only comparative assessments: more, less, or the same. These are ordinal, not cardinal. When your wife asks you how much you love her, say “a lot.” Do not say, “Compared to whom?” This should be obvious. Next, if she says, “how much is a lot?” you are getting into a danger zone. You have already closed off the ordinal response: “Compared to whom?” But there are no cardinal units of measurement.

Can collective value be measured statistically? If not, then what is the meaning of the Gross Domestic Product statistic? If it can be measured statistically, on what basis can anyone defend this assertion? If we cannot measure our own individual improved conditions by a unit of measurement, how can statisticians measure the increased value of a nation?

Is value being added to the nation? How do we know?

### 1. Ideal Prices

As history moves toward the final judgment, the prices of all scarce resources will come closer to what they would be in a world without sin. This would not be a world without scarcity. Scarcity is not the product of sin, even though *cursed* scarcity is (Gen. 3:17–19).<sup>17</sup> There still will be allocation decisions in eternity. Time will still be sequential. A person can be in only

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17. North, *Sovereignty and Dominion*, ch. 12.

one place at one point in time. No man will ever be omniscient, omnipotent, or omnipresent. These are incommunicable attributes of God.

As the expansion of God's kingdom in history renders the reign of sin less extensive, God's economic valuations in history will increasingly shape the array of objective prices. More people will think God's thoughts after Him, and act accordingly. Their subjective valuations and objective bidding will produce objective prices that are more in conformity to what their value would be in a sin-free kingdom of God.<sup>18</sup>

Every system of economic theory has a concept of ideal prices. Economists use this concept as a way to explain pricing in the real world. It is a pricing system that would exist if there were no uncertainty. These would be prices that would prevail under conditions of universal human omniscience: no profits and no losses. This is an unrealistic assumption theologically, because omniscience is not a communicable attribute of God. The assumption of omniscience leads to an inescapable conclusion in economic theory: *money prices would cease to exist*. If everyone were omniscient, there would be no need for money. In a world of omniscient decision-makers, there would be no uncertainty. Money evolves only because there is uncertainty. People use money—the most marketable commodity—in order to reduce their uncertainty about future exchanges. Without money, there would be no money prices. So, there could be no money-based prices in a world of equilibrium. *The very concept of an equilibrium price is self-contradictory*.<sup>19</sup> Therefore, the use of equilibrium prices to explain pricing in a world of uncertainty is illogical. It literally makes no sense. Yet I have never seen this obvious implication of omniscience discussed in any economics textbook or treatise, other than my own.

In contrast to omniscience, sin-free living is a communicable attribute. The proof of this is Jesus Christ, who was fully human and also sin-free. There will be prices in the New Heaven and the New Earth. There will be

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18. This assumes postmillennialism. Rival views would have to defend the idea that prices will reflect the valuations of the kingdom of man. But people who hold these eschatological views have yet to discuss them in relation to economic theory.

19. Mises did not speak of equilibrium prices, but he did use the concept of the evenly rotating economy to explain the origin of the interest rate, which he called the originary rate of interest. He called this time preference. The evenly rotating economy is exactly the same as an economy in equilibrium. It is an economy in which participants know the future perfectly: no profits and no losses.

scarcity. There will be uncertainty. There will be money. There will be allocation decisions. But there will not be sin.

As people's decisions conform more closely to the economic laws of God, there will be reduced waste. There will be ever-growing accurate knowledge. There will be compound economic growth. In short, *there will be added value*. This is an ethical requirement, according to Deuteronomy 8:18. "But thou shalt remember the LORD thy God: for it is he that giveth thee power to get wealth, that he may establish his covenant which he sware unto thy fathers, as it is this day." Wealth is a form of covenantal confirmation of widespread obedience to the terms of the covenant.<sup>20</sup>

## 2. Imputed Wealth and the Image of God

Deuteronomy 8:18 offers the promised sanction of increased corporate wealth for a covenant-keeping nation. There must be ways for citizens to see if the promise is being fulfilled. Otherwise, the promise was empty: unperceived sanctions. So, the concept of wealth is *objective*, in that it can be measured. It is also *subjective*, in that it can be *perceived*. So, in Christian economic theory, wealth is a legitimate goal and also a perceivable goal.

There are various statistical measures of increased wealth. All are faulty, in that their defenders cannot give an account of how they work in a world of subjective values, which change. But because man is made in God's image, God's imputation of increasing objective wealth can be perceived by mankind. There is a point of contact between God and man: the image of God in man. So, there is a point of contact between God's imputed value and man's imputed value. There is no way for self-proclaimed autonomous economists to defend their position in terms of their theory of purely subjective economic value, but a Christian can defend his position. It is internally consistent, although incomplete, as both the Bible and Gödel's theorem teach.

There is no need to seek perfection in establishing the relationship between a statistical theorem (Parmenides) and historical changes in both subjective and corporate value rankings over time (Heraclitus). As we say in America, "it's close enough for government work." Statistical sampling to estimate GDP is government work, in fact, although not in theory.

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20. North, *Inheritance and Dominion*, ch. 22.

A rate of 2% per year compound growth is not perceivable day to day or even year to year. But it has been perceivable decade to decade ever since 1800. *Compound growth changes everything*, as we have learned since 1800. The world of 2014 would not have been conceivable to John Tyler at age 20. He was born in 1790, in George Washington's first full year as President of the United States. He became President in 1841. Yet his two grandsons were still alive in 2014.<sup>21</sup>

## Conclusion

The main differences between modern free market economic theory and Adam Smith's economics are these: (1) the substitution of nominalism-subjectivism for realism as the explanation of economic value; (2) a defense of the concept of private ownership as central, rather than the division of labor.<sup>22</sup>

The concept of economic imputation is inherently nominalist in humanistic economics. In Calvinist systematic theology, imputation is a judicial act. God declares a person "not guilty." On what basis? This: God imputes the ethically perfect humanity of Jesus to specific covenant-breakers. This act transforms them into covenant-keepers. Imputation is God's judicial declaration. In Christian economics, imputation is also God's act of evaluation. It is ethical. It has to do with value. It is also epistemological: the imputation of coherence and meaning to historical objects and acts. *The biblical criterion of imputation is the kingdom of God*. This doctrine is central to economics. (It is also central to historiography.)<sup>23</sup>

By shifting the explanation of economic value from realism to nominalism, economists have created epistemological dilemmas for themselves. How can they explain the relationship between value (subjective) and price (objective)? How can they defend the legitimacy of policy formation for collectives, when there is no scientific way to make interpersonal comparisons of subjective utility? How can they justify the development and use of sta-

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21. I interviewed one of them, Lyon Tyler, in December 2010.

22. Tom Bethell, *The Noblest Triumph: Property and Prosperity Through the Ages* (New York: St. Martin's, 1998), chaps. 7, 20.

23. This issue is this: Who imputes meaning and relevance to historical incidents? Who imputes authority to historical documents? Whose imputation possesses authority?

tistical aggregates, when there is no scientific way to incorporate changes in subjective taste into the statistics? How can they compare statistical aggregates over time? How can they demonstrate scientifically that there is such a thing as economic growth?

The biblical solution is to affirm subjective economic valuation in the image of God in man. Men can accurately impute value, including economic value, because God did this, day by day, in the creation week. He will do so at the final judgment. He does so in between these two events. God tells men to evaluate all things by His laws. This is why we know that men can do this as redeemed creatures. *The judicial art of casuistry is grounded in the image of God in man.*

Men must make economic evaluations in their office as God's stewards. They must evaluate their success or failure, individually and collectively, over time. Men are under God's law, yet they are required by God to rule over His creation, also by law. They are responsible to God for the ethically consistent and economically efficient building of God's kingdom in history. Because men can *impute economic value*, they can *count the costs* of their actions, which God requires of all men (Luke 14:28–30).<sup>24</sup>

*God's laws are men's tools of dominion. They provide the standard of imputation.* The judicial art of casuistry must be grounded in God's laws. A person must enforce the judicial letter of the law in terms of the spirit of the law: its goals in history. The letter of the law makes courts *predictable*, but its spirit must be upheld in order to achieve *justice*. There can be economic justice in history. If people do not believe this, they will lose hope.

Value and price are connected by means of men's subjective imputations. This subjectivism can and does reflect objective reality and objective economic value. The link is the image of God in man. Men are told that corporate obedience to biblical law produces economic growth (Deut. 8:18). Therefore, it is possible to make accurate statistical representations of the underlying reality. This is why we can achieve value-added living. God's historical sanctions produce long-term patterns. These long-term patterns can be perceived by men. Men can evaluate the success of their decisions by means of sanctions, both positive and negative.

The epistemological foundation of analyzing market processes is a theory of price. Christian economics identifies this foundation as ethical.

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24. Gary North, *Treasure and Dominion: An Economic Commentary on Luke*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 28.

The closer that society gets to the final judgment, the more that progressive sanctification brings the pricing system into relation to the ideal. The ideal is ethical. The array of prices is ultimately ethical. They reflect people's individual hierarchy of values.

In contrast, humanistic economics announces that the correct analytical tool is based on man's omniscience: equilibrium pricing. But this is conceptually impossible if humanistic economics is true. There could not be money prices in a world of equilibrium: a hypothetical world in which all people are omniscient. Money is a tool for reducing uncertainty. *If there were no uncertainty, there would be no money.* As society approaches omniscience as an ideal, the less useful the concept of equilibrium is as a model of the market process.



## 5 LEGACY

### Introduction

The essence of the dominion covenant is adding value. This is what Matthew 25:14–30 is all about: the parable of the talents. Man's goal is to increase value in the broadest sense. He who fails to do this will have his inheritance transferred to the more productive members of society in the final judgment. The spiritually rich get richer. The spiritually poor are disinherited. Put differently, the poor in spirit inherit the kingdom of God (Matt. 5:3). This is the fundamental New Testament principle of inheritance.

This inheritance procedure is supposed to be reflected in the economy. Those who subordinate themselves to the demands of customers will get richer. Those who do not will get poorer. The market-based sanctions system of profit and loss rewards those who are efficient servants of customers. They have subordinated their efforts to the demands of customers. This is how stewards prosper. They accumulate wealth. Then they die.

#### ***1. Inheritance***

Inheritance is the legal transfer of wealth at the death of the owner. This transfer is inescapable in the era after the Fall of man. The accumulator of wealth cannot maintain control beyond his death. He must take steps to transfer it. This is one of the most daunting tasks of the rich man, Solomon said in Ecclesiastes.<sup>1</sup> This is the covenantal issue of inheritance: point five

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1. Ecclesiastes 2:18–21; 6:1–2. Cf. Gary North, *Autonomy and Stagnation: An Economic Commentary on Ecclesiastes* (Dallas, Georgia: Point Five Press, 2012), chaps. 4, 21.

of the biblical covenant. It applies in two ways: inheritance and disinheritance. These are extensions of economic sanctions in history: profit and loss. These sanctions are both individual and corporate.

Both inheritance and disinheritance apply to individuals. There will be a general resurrection (Matt. 25:31–46). Covenant-keepers will receive their inheritance: an extension of the New Heaven and the New Earth. Covenant-breakers will be cut off eternally: the ultimate disinheritance. They will receive the second death (Rev. 20:14–15).

Inheritance also applies to the kingdom of God in history and eternity. There is a corporate inheritance. The kingdom of covenant-breaking man ceases to operate in eternity. It is disinherited.

Each covenant has a doctrine of the last things. The kingdom of God predicts a future eternal extension of its reign. The kingdom of man predicts either the heat death of the universe, in which everything dies, energy dissipates completely, and time ends,<sup>2</sup> or else endless cosmic cycles. In each case, meaning dies at the end, either at cosmic end or the end of this cosmic cycle. Death swallows up life. Meaninglessness swallows up meaning. There is no sovereign to impute permanent meaning to the past, present, and future. All meaning is temporal, problematical, and transitory.

## 2. *Adam Smith on Consumption*

As soon as the issue of inheritance arises, so does the issue of consumption. Adam Smith announced the central pillar of economic theory: human motivation. He placed individual self-interest, or *enlightened self-interest*, at the center of his economic analysis. This raises the question of the supreme motivation in economics. Smith said this is consumption.

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

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2. Gary North, *Is the World Running Down? Crisis in the Christian Worldview* (Tyler, Texas: Institute for Christian Economics, 1988), ch. 2. (<http://bit.ly/gnworld>)

consider production, and not consumption, as the ultimate end and object of all industry and commerce.<sup>3</sup>

He was challenging the position of mercantilists, who argued in favor of producers' interest as against consumers' interests. He was opposing regulations imposed by the civil government.

The laudable motive of all these regulations is to extend our own manufactures, not by their own improvement, but by the depression of those of all our neighbours, and by putting an end, as much as possible, to the troublesome competition of such odious and disagreeable rivals. Our master manufacturers think it reasonable that they themselves should have the monopoly of the ingenuity of all their countrymen. Though by restraining, in some trades, the number of apprentices which can be employed at one time, and by imposing the necessity of a long apprenticeship in all trades, they endeavour, all of them, to confine the knowledge of their respective employments to as small a number as possible; they are unwilling, however, that any part of this small number should go abroad to instruct foreigners.<sup>4</sup>

His distrust of producers was grounded in an accurate understanding of their motives. But in order to oppose their interests in getting such legislation passed, he grounded his entire theory on a statement that needed to be proven: *Consumption is the sole end and purpose of all production*. These 10 words have been adopted by virtually all free market economists ever since. His assertion—he offered no proof—is in direct conflict with Jesus' words: "But seek ye first the kingdom of God, and his righteousness; and all these things shall be added unto you" (Matt. 6:33).<sup>5</sup> To the extent that any defense of the free market as an institutional arrangement rests on the assumption that consumption is the sole end and purpose of production, to that extent it is wrong. It is the philosophical foundation of this: "Come ye,

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3. Adam Smith, *The Wealth of Nations* (1776), IV:VIII:49.

4. *Ibid.*, IV:VIII:48.

5. Gary North, *Priorities and Dominion: An Economic Commentary on Matthew*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 15.

say they, I will fetch wine, and we will fill ourselves with strong drink; and to morrow shall be as this day, and much more abundant" (Isa. 56:12). It is dead wrong—eternally dead wrong (Rev. 20:14–15).

The heart of Christian economics—and every other academic discipline and practical organization—is the dominion covenant: the subduing of the earth on God's behalf (Gen. 1:26–28). *The heart of Christian economics is stewardship*. It calls for compound growth of the kingdom of God in history and eternity. Compound growth is based on thrift: reduced consumption. Consumption is a reward for profitable service. Throughout most of human history, consumption was mainly a tool of production. It just barely kept people alive, so that they could fulfill the dominion covenant. To the extent that consumption replaces production as a man's main lifetime goal, to that extent he has substituted himself for God. He has substituted the kingdom of man for the kingdom of God.

Christian civilization is *value-added* civilization. To add value, we must possess capital. To possess capital, men must save. They must not consume all of their income. But thrift is not to serve primarily as a means of greater future consumption. It is to serve primarily as a means of greater future production.

Murray Rothbard summarized the difference between Roman Catholicism's view of leisure and Calvinism's.

But there is, especially in the later Puritans, the idea of success in one's calling as a visible sign of being a member of the elect. The success is striven for, of course, not to *prove* that one is a member of the elect destined to be saved but, assuming that one is in the elect by virtue of one's Calvinist faith, to strive to labour and succeed for the glory of God. A Calvinist emphasis on postponement of earthly gratification led to a particular stress on saving. Labour or 'industry' and thrift, almost for their own sake, or rather for God's sake, were emphasized in Calvinism much more than in the other segments of Christianity.

The focus, then, both in Catholic countries and in scholastic thought, became very different from that of Calvinism. The scholastic focus was on consumption, the consumer, as the goal of labour and production. Labour was not so

much a good in itself as a means toward consumption on the market. The Aristotelian balance, or golden mean, was considered a requisite of the good life, a life leading to happiness in keeping with the nature of man. And that balanced life emphasized the joys of consumption, as well as of leisure, in addition to the importance of productive effort. In contrast, a rather grim emphasis on work and on saving began to be stressed in Calvinist culture. This demphasis on leisure of course fitted with the iconoclasm that reached its height in Calvinism—the condemnation of the enjoyment of the senses as a means of expressing religious devotion.<sup>6</sup>

Rothbard was correct. This attitudinal difference between late-medieval Roman Catholicism and Calvinism was grounded on rival views regarding epistemology: Aristotelianism vs. the Bible.

## A. Multiplication

The dominion covenant began with multiplication.

And 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 fowl of the air, and over the cattle, and over all the earth, and over every creeping thing that creepeth upon the earth. So God created man in his own image, in the image of God created he him; male and female created he them. And God blessed them, and God said unto them, Be fruitful, and multiply, and replenish the earth, and subdue it: and have dominion over the fish of the sea, and over the fowl of the air, and over every living thing that moveth upon the earth (Gen. 1:26–28).<sup>7</sup>

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6. Murray N. Rothbard, *Economic Thought Before Adam Smith: An Austrian Perspective on the History of Economic Thought* (Auburn, Alabama: Mises Institute, [1995] 2006), p. 141.

7. Gary North, *Sovereignty and Dominion: An Economic Commentary on Genesis* (Dallas, Georgia: Point Five Press, 2012), chaps. 3, 4.

God defines man in terms of this covenantal assignment. The Bible defines man in a three-fold way: (1) the image of God, (2) the dominion covenant, and (3), species multiplication. Multiplication mandates extension in space and time. To the extent that it involves time, it now involves death. This raises the twin issues of death and inheritance.

Population growth is a matter of dominion. It is central to the calling of mankind. The extension of population is a covenantally mandated process. *Individual decisions produce a corporate result.* This corporate result is mandated. Therefore, the means by which it is fulfilled is through sexual bonding within the marriage covenant. Sexual bonding is by far the best example in history of the intensely self-interested decisions of individuals which produce results that are glorifying to God. The division of labor is extended by population growth. The realm of dominion is thereby extended. There is the possibility of increasing wealth per capita. The compound economic growth that began sometime around 1800 in the British Isles, Canada, and the United States has transformed the world more than anything else that mankind has ever done. The defense of the idea of the pursuit of individual self-interest as benefitting society should begin here.

The zero population growth ideology is opposed to the clear teaching of the dominion covenant.<sup>8</sup> So is the zero economic growth movement. They are peas in the same anti-dominion pod.

Multiplication mandates thrift. It costs wealth to raise children. Children are wealth-absorbing creatures. Parents are obligated by God, by civil law, by custom, and by love to care for their children. In some limited sense, children are consumer goods. But grandparents, not parents, are the main beneficiaries of children as consumer goods. Raising a family takes time and money. While parents do gain some returns in the short run, children are mostly capital expenditures until they either reach adulthood or graduate from college.

The concept of compound growth raises the question of the exponential curve. At some point, a graph of the compound growth of anything turns upward and begins to approach infinity as a limit.<sup>9</sup> In a world of finite re-

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8. *Ibid.*, ch. 22. Cf. Gary North, *Authority and Dominion: An Economic Commentary on Exodus* (Dallas, Georgia: Point Five Press, 2012), Appendix B: "The Demographics of Decline."

9. Gary North, "The Theology of the Exponential Curve," *The Freeman* (May 1970). Reprinted in Gary North, *An Introduction to Christian Economics* (Nutley,

sources, this cannot continue indefinitely. With respect to human population, we will run out of living space in short order. So, this means one of two things: (1) there will be a cessation of compound population growth because of limited physical space; (2) there will be a cessation of economic growth because of limited time: the final judgment.<sup>10</sup> Nothing grows forever. Linear time will end.

## B. Future-Orientation

Men add value to the creation over time. So, point two of the covenant—hierarchy—has to apply to this process of future-orientation. Hierarchical authority in a biblical covenant is supposed to spread outward—across borders—and through time. It takes time to spread this authority across borders. So, time and place are linked in the covenant.

In short, *the dominion covenant is future-oriented*. The process of dominion requires present sacrifice for the sake of children, but this is an indirect sacrifice for the sake of families outside the extended family. Parents train their children to become productive. This means becoming customer-satisfying. The future economic success of their children will be dependent their efficiency in serving the demands of strangers through the market process.

Biblical stewardship is comprehensive. It involves service to God, service to family members, service to strangers, and service to ourselves as individuals. This service is always future-oriented: the next sale and the sales by heirs in the distant future. It is inter-generational service.

Future-orientation is inescapable. It is inherent in the dominion covenant. It takes time for covenant-keepers to extend God's kingdom. This kingdom is comprehensive. It involves all of society, which is a far broader category than the state. The state is a relatively small aspect of society. The family has far greater influence than the state possesses. So does the realm of business. These realms absorb more time and money of individuals than taxes do. Where this is not true, a specific state becomes tyrannical. Then it is replaced by a less tyrannical state. Tyranny is inefficient. It invades too

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New Jersey: Craig Press, 1973), ch. 8. (<http://bit.ly/gnintro>)

10. Gary North, *Inheritance and Dominion: An Economic Commentary on Deuteronomy*, 2nd ed. (Dallas, Georgia: Point Five Press, [1999] 2012), ch. 2:D.

many spheres of life. It bankrupts itself. The classic example is the Soviet Union, 1917 to 1991.

Service is inherently future-oriented. Entrepreneurial profits are obtained in the future by means of correct forecasting and efficient planning in terms of this forecast. The essence of value-added living is making profits. People add to their capital by reinvesting their profits. Capital is a tool of production.

### C. Imitation

Jesus spoke these words: “Go, and do thou likewise” (Luke 10:37b). These words are the foundation of all imitation. *Imitation is a crucial aspect of kingdom expansion over time.*

The best managers know that the best way to learn how to manage any organization is to work under an effective manager. This was the way of American business until the 1970s, when bureaucratic training in graduate schools of business administration began to replace the ancient systems of apprenticeship and mentoring.<sup>11</sup> Here was the old rule: *on-the-job training*. It assumed that management involves far more than what is revealed in ledgers. People are not digital creatures. We learn analogically, not digitally.

Adam had to start without a mentor. He alone in history had this responsibility. He was the first human. But his heirs were to receive training in his household. Then they were to depart from his household as adults, setting up their own households (Gen. 2:24). Having seen how a family is supposed to be managed, they were then to go out and apply whatever they had learned to new circumstances.

This process rested on faith in *judicial continuity in history*. The rules governing one generation apply to the next generation. General rules are applicable to new situations. These new situations are both geographical and temporal. The rules will successfully apply across a geographical boundary and a temporal boundary: from *here and now* to *there and then*. These rules will serve as tools of dominion. This is why Jesus told the man to go and do likewise. He knew that there is judicial continuity in history.

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11. Kenneth Hopper and William Hopper, *The Puritan Gift: Reclaiming the American Dream Amidst Global Financial Crisis* (New York: I. B. Tauris, [2007] 2009), ch. 13.



This is why we believe that there are lessons worth learning in history. If there were no judicial and social continuity, lessons would not be worth learning. There would be no likelihood that a lesson learned in one time and place would be relevant in another time and place. Men ask: What are these lessons? Where is there proof that these lessons are in fact lessons? If the lessons are embedded in one time and place, on what basis can we legitimately expect them to be applicable in another time and place? The biblical answer is the *continuity of law* in history. Psalm 119 is the great defense of this answer. God is above the law. Yet He rules through law. Man is under law. He rules over the creation by means of law. If there were no continuity of law, there would be chaos. Whirl would be king. But whirl is not king.

A biblical doctrine of God, providence, law, sanctions, and time provides answers to the logically irreconcilable issues raised by the two major pre-Socratic philosophers, Parmenides and Heraclitus. The logically unchanging and complete rational categories of Parmenides cannot be shown to interact with the constant flux proposed by Heraclitus. The equivalent of a logical machine cannot deal with organically evolving parts. Change is the enemy of autonomously rational categories, and vice versa. Here is the biblical solution to this dilemma. The Bible teaches that God is sovereign (Prov. 21:1). His decree is absolute (Isa. 45). Logic is personal, for it has its origin in God's mind. Historical causation is cosmically personal.<sup>12</sup> Coherence originates in God. The continuity of law originates in God.

God's covenants are above all ethical. *There is ethical continuity over time and across borders.* A covenant-keeper can extend God's kingdom through time and across borders. Why? Because God's law is the covenant-keeper's tool of dominion. God's law applies to the details of history. There is covenantal continuity in history. With respect to the individual and the church, this continuity reaches into eternity.

*The division of labor rests on judicial continuity through time.* Because of continuity across borders and through time, people can more safely trade with each other. People can understand each other. They can make contracts with each other. They can predict each other's behavior. They can coordinate their plans with each other. This increases the output of cooperating people. It extends their dominion as individuals. It also extends the dominion of cooperating social groups. Both the one and the many are recipients of positive sanctions.

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12. North, *Sovereignty and Dominion*, ch. 1.

## D. Entrepreneurship

Every system of economic theory must provide an answer to two questions. First, what is the source of profits in a competitive economy? Second, if it is true, as free market economists argue, that every resource receives its proper share of the value of its contribution in the production process, then what is the source of profits?

Ludwig von Mises provided an answer. The free market pays for all factor inputs in terms of *expected future value*. But expectations can be inaccurate. It is possible to pay too much for a factor of production. This will produce either losses or reduced profits. It is also possible to pay less than value added. This produces higher profits. It is the *discrepancy between expectations and reality* that produces either profits or losses. In his discussion of entrepreneurship, profits, and losses in his magnum opus *Human Action* (1949), he stressed the role of the entrepreneur.

The entrepreneurial function, the striving of entrepreneurs after profits, is the driving power in the market economy. Profit and loss are the devices by means of which the consumers exercise their supremacy on the market. The behavior of the consumers makes profits and losses appear and thereby shifts ownership of the means of production from the hands of the less efficient into those of the more efficient. It makes a man the more influential in the direction of business activities the better he succeeds in serving the consumers. In the absence of profit and loss the entrepreneurs would not know what the most urgent needs of the consumers are. If some entrepreneurs were to guess it, they would lack the means to adjust production accordingly.<sup>13</sup>

The problem with his exposition in *Human Action* is this: it is not clear where these profits or losses come from. In a speech, "Profit and Loss," delivered in 1951, he made his position clear. First, the primary issue is *forecasting*. Second, there is the development of *plans* to buy low and sell high.

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13. Ludwig von Mises, *Human Action: A Treatise on Economics* (New Haven, Connecticut: Yale University Press, 1949), p. 297.

This is possible only because competing investors do not see the potential for final sales. Third, the plan must be *implemented*. He wrote:

If all people were to anticipate correctly the future state of the market, the entrepreneurs would neither earn any profits nor suffer any losses. They would have to buy the complementary factors of production at prices which would, already at the instant of the purchase, fully reflect the future prices of the products. No room would be left either for profit or for loss. Profit emerges from the fact that an entrepreneur estimates the future prices of the products more correctly than his rivals do. He buys some or all of the factors of production at prices which, seen from the point of view of the future state of the market, are low. Thus, his total costs of production—including interest on the capital invested—are lower than what he receives from the sale of the product. This difference is entrepreneurial profit.

On the other hand, the entrepreneur who misjudges the future prices of the products allows for the factors of production prices which, seen from the point of view of the future state of the market, are too high. His total costs of production exceed the prices at which he can sell the product. This difference is entrepreneurial loss.

Thus profit and loss are generated by success or failure in adjusting the course of production activities to the most urgent demand of the consumers. Once this adjustment is achieved, they disappear. The prices of the complementary factors of production reach a height at which total costs of production coincide with the price of the product. Profit and loss are ever-present features only on account of the fact that ceaseless change in the economic data makes again and again new discrepancies, and consequently the need for new adjustments originate.<sup>14</sup>

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14. Ludwig von Mises, *Planning for Freedom*, 3rd ed. (South Holland, Illinois: Libertarian Press, [1952] 1974), pp. 108–9.

Here is the heart of the matter: “The activities of the entrepreneur consist in making decisions. He determines for what purpose the factors of production should be employed.”<sup>15</sup> He can buy low only because other entrepreneurs do not see this opportunity. He can sell higher only because other entrepreneurs have not brought competing goods to the market. Why not? Because they did not see the opportunity.

*The essence of entrepreneurship is forecasting future customer demand.* There is continuity over time. But there is also discontinuity. Competing entrepreneurs failed to see the discontinuity: low factor prices that can be bought, reassembled, and sold as customer goods at a price higher than the prices of all of the factors of production, including time (interest rate). The discontinuity is filled by entrepreneurs. As information spreads, the discontinuity—a discrepancy between factor prices and final products’ prices—disappears. Mises wrote: “Profits are never normal. They appear only where there is a maladjustment, a divergence between actual production and production as it should be in order to utilize the available material and mental resources for the best possible satisfaction of the wishes of the public. They are the prize of those who remove this maladjustment; they disappear as soon as the maladjustment is entirely removed.”<sup>16</sup>

The system of profit and loss is governed by future-orientation: *faith in continuity over time*. To increase his wealth, a producer must meet future customer demand. Not being omniscient, forecasters make guesses. They take hunches seriously. Some win. Some lose. But the entrepreneurial function is tied to the individual’s desire to accumulate wealth by satisfying the future demand of customers. The self-interest of the producer and the self-interest of buyers together produce goods and services that clear the market at some array of selling prices.

## E. Compounding

There are predictable sanctions in history. These include economic sanctions. This means that there is a possibility to increase production over time. Why? Because *positive sanctions accumulate*. There is economic growth because output increases. This is promised in Deuteronomy 8:18. “But thou shalt remember the LORD thy God: for it is he that giveth thee

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15. *Ibid.*, p. 111.

16. *Ibid.*, p. 119.

power to get wealth, that he may establish his covenant which he swore unto thy fathers, as it is this day.”<sup>17</sup> There is positive feedback between covenantal faithfulness and wealth. Increasing wealth confirms the covenant.

Mises wrote in *Human Action*, “We call a progressing economy an economy in which the per capita quota of capital invested is increasing.”<sup>18</sup> The basis of economic growth is therefore thrift: the reduction of consumption by the investor, who makes available his saved money, which is then used to increase the purchases of raw materials, capital goods, and labor during a period of production. Mises wrote:

In the progressing economy the range of entrepreneurial activities includes, moreover, the determination of the employment of the additional capital goods accumulated by new savings. The injection of these additional capital goods is bound to increase the total sum of the income produced, i.e., of that supply of consumers’ goods which can be consumed without diminishing the capital equipment used in its production and thereby without impairing the output of future production. The increase of income is effected either by an expansion of production without altering the technological methods of production or by an improvement in technological methods which would not have been feasible under the previous conditions of a less ample supply of capital goods.<sup>19</sup>

This of course assumes that the entrepreneurial guidance is accurate. It is always possible to pour money down rat holes. So, increased thrift is necessary, but it may not be sufficient to produce economic growth.

For any *system of imitation* to function properly, there must be a *system of predictable sanctions*, both positive and negative. If people could not predict the outcomes of their own behavior, as well as others’ behavior, they could not make accurate plans. They would not know which practices should be adhered to, and which should be abandoned. Only because there are predictable sanctions in history can Jesus’ command be trusted: “Go,

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17. North, *Inheritance and Dominion*, ch. 22.

18. Mises, *Human Action*, p. 292.

19. *Idem*.

and do thou likewise.” It assumes that if we follow the lead of a successful person, we can expect to enjoy comparable success.

*The biblical goal is to build a posthumous legacy in the broadest sense.* This legacy is part of the kingdom’s process of compound growth, which is a moral imperative. To the extent that covenant-keepers obey God’s laws, they will experience blessings. These blessings confirm the covenant. The Book of Job reinforces this, but only in the final chapter.<sup>20</sup>

Because the one and the many are coordinated in the covenant, the covenant-keeper’s legacy compounds in history, and this extends God’s corporate kingdom. The capital base of the individual and the collective grow. The reinforcing gains of the one (individual) and the many (corporate entity) are coordinated by the Holy Spirit under God’s authority. The French Revolution’s cry—liberty, equality, fraternity—was completely wrong about equality, and the guillotine did not secure either fraternity or liberty. But the structure of the biblical covenant does encourage both liberty and fraternity within the covenant. This should be true in the church covenant, the family covenant, and the civil covenant. Whenever it is not true, men’s first task is to identify which laws are being broken. The task does not end there. Three of Job’s four visitors assumed that the negative sanctions that Job was enduring indicated sin on his part. They were wrong. But if over several years a covenant is not bringing greater prosperity to its members in response to their greater self-discipline and greater intra-covenantal cooperation, start looking for hidden sins. Covenant-breaking is most likely the cause.

## Conclusion

The dominion covenant assigns to all mankind the task of adding value to God’s creation. The creation was created perfect, but it remains incomplete. Man was created perfect, but remained incomplete. Both man and nature will always remain incomplete. They are not infinite. Man will never understand God’s infinitude. Yet an infinite God governs the world. To understand this world, men would have to understand God comprehensively, for God interacts with this world. Hence, man can never comprehend the world. In order for mankind to govern the world, individuals must rely on

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20. Gary North, *Predictability and Dominion: An Economic Commentary on Job* (Dallas, Georgia: Point Five Press, 2012), ch. 6:D.

God as their source of nature's laws and personal insight as to the proper management of all things. The division of intellectual labor mandates the cooperation of individuals in this species-wide task.

The process takes time. Thus, there has to be an increase of man's knowledge and jurisdiction over time and space. This means that the improved value of the creation over time testifies to man's subordination to God. It reinforces the covenant. It testifies to God's existence, with man and nature under God by means of God's law. Men are supposed to perceive this added value, interpreting it as creatures under God. There must be continuity of God's law through time. This rests on the continuity of God's decree. Without this continuity of law, there would be no way to improve our knowledge of causation. Without knowledge of causation, we would live in mental chaos as well as cosmic chaos.

The fifth point of the biblical covenant is inheritance. This points to *continuity over time*. It also points to *net added value*. A person is to leave more behind, as evaluated by God, than he received at birth. This means that there must be per capita economic growth. The members of each generation are to have more capital to work with than the preceding generation.

This has been fulfilled for more than two consecutive generations only since about 1800. In Great Britain and the United States, compound growth began around 1800. It has not been reversed, except during the Great Depression of the 1930s, which was a worldwide phenomenon. This compound per capita economic growth has transformed human society around the world. The world in 1900 in the United States would not have been recognizable to someone who died in 1800. The world in 2000 would have been almost unrecognizable to someone who died 1900. Electricity had become widely used in cities in 1900. Indoor plumbing was widespread in cities. The internal combustion engine was being used in cars, but cars were rare. There was no voice radio, only telegraphy, then a few years old. Train travel was well developed, as were steamships. There were no airplanes. There were anesthetics, but no sulfa drugs. There were punch cards, but no digital computers. There was radio, although it had not yet been named, but no television or Internet. There was no electrical air conditioning.

Value-added living mandates thrift. Capital must be accumulated in order to fund increasing production. This means that consumption cannot legitimately be the sole end of production. There must be self-restraint on

consumption individually to please God. There must be self-restraint corporately to achieve economic growth.

To assess either economic growth or contraction, there must be value criteria. These criteria must be perceptible to individuals. This means that there can be interpersonal comparisons of subjective utility, for individuals must be able to assess corporate economic growth. Without the ability to compare subjective utilities, there could be no valid index numbers. There could be no valid comparisons at all. All schools of economics rely on these indexes to discuss history. For example, Austrian School economists argue that monetary inflation produces price inflation. But to say anything about price inflation requires the use of an index number. *All economists make assessments regarding corporate success.* But given the epistemological pre-suppositions of all schools of modern humanistic economic theory other than Marxism, they cannot do this, given the pure subjectivism of all nominalism. Marxism is excepted, because it still adheres to the objective value theory that preceded the marginalist revolution of the 1870s. Marxist economists do not show how this is possible, but they nonetheless maintain it. In this sense, the Marxists are the last of the philosophical realists in economics. There are not many of them any longer. The suicide of the Soviet Union in December 1991 decimated their thinning ranks.



## CONCLUSION TO PART II

The topics of the personal covenant constitute what is generally designated as economics. There was a time when economics was a branch of moral philosophy. This was how it was developed by Adam Smith. But Smith was truly an intellectual schizophrenic. His *Theory of Moral Sentiments* (1759) laid down the ethics of a mild deism. His *Inquiry into the Wealth of Nations* (1776) in no way relied on the moral foundations in the first book. The one common concept was the phrase, “the invisible hand.” This hand was not God’s.

In the nineteenth century, Smith’s disciples moved economics out of moral philosophy and into political economy. They at least dealt with the state. But they did not provide a moral framework for the state. Neither did they do so for economics.

In the early twentieth century, economic science emerged from the cocoon of political economy. It achieved its status as a separate academic department and a separate epistemological discipline. It announced autonomy from ethics: value free.

The Achilles heel of the discipline has always been the same: the discrepancy between subjective value and objective value. The subjectivists of the 1870s self-consciously abandoned the objective value theories of classical economics, which were themselves incompatible: (1) the labor theory of value, and (2) the cost-of-production theory of value. But the result was analogous to what had happened in the fourteenth century, when philosophical nominalists abandoned realism: the substitution of incompatible individual value judgments for collective value judgments. Humpty Dumpty is a nominalist. He keeps falling off the wall. Then he picks himself up, patches up his cracks with statistical aggregates, and climbs back onto the wall.

I have made the case for imputed economic value, using God's week of creation as the covenantal foundation. He spoke authoritatively. He pronounced His work objectively good. His plan had been executed with perfect precision. He did this as a single Being, but in three Persons: the one and the many, unity and diversity. There is both individualism and corporate unanimity in God. There is both equality (ontological Trinity) and hierarchy (economical Trinity).

Man is made in God's image. So is society. Man reflects unity and diversity, equality and hierarchy. A man formulates plans and carries them out. So do cooperating individuals.

The individual covenant deals mostly with plans that are not irrevocable. Men can revise plans. They can buy and sell. Smith called this "truck and barter." So it is. It is the substitution of plans, products, and services that is central to the individual covenant. You may legally sell your home. You may not legally sell your children or your wife.

What Mises called catallactics has to do with the sale of goods and services in a social order marked by the division of labor. The key is product substitution. Wherever there are moral limits on product substitution, there will be criteria for success other than profit and loss. That is because the following principle does not apply: *high bid wins*.

### **Part III**

## **THE ECONOMIC STRUCTURE OF THE FAMILY COVENANT**



## INTRODUCTION TO PART III

### A. Your Wife Is Not For Sale

The next three sections of this book break with the familiar approach to economic science, as economists like to refer to the art of economic reasoning. As soon as economic theory departs from individual thought and action, it begins to move in one of two directions: either toward physics or toward sociology. Austrian School economists do not want economics to go down either path, but most economists prefer the path toward physics. I do not. More to the point, the Bible does not allow it. Why does biblical economics move toward sociology? Because the Bible does not allow market substitution in family relationships, church relationships, and state relationships.

The individual covenant has long constituted the vast bulk of those expositions that we define as economics. This covenant lodges primary responsibility in acting individuals. It focuses on decision-making: the allocation of scarce resources among competing individuals' ends. It assumes that owners are those institutions and corporate units that can legally disown property. Competing bids to make exchanges are at the heart of the free market's division of labor. If an asset cannot legally be leased or sold, the economist still assesses its value in terms of a market: a black market.

Yet this approach to economic analysis comes up against conceptual limits that thwart the analysis. Can marriage be accurately analyzed in terms of the free market's auction process of competing bids? An example: husbands' leasing wives to serve as prostitutes. Could a marriage covenant be preserved under such a market-based social order? The answer is no. But a trained economist would be hard-pressed to reach this conclusion, given his assumption of both the autonomy of the individual marriage partners

and the authority of market arrangements. Similarly, a free market economist cannot plausibly explain why sex for hire is not as valuable in most men's eyes as sex inside marriage. This has to do with the right to exclude. But the price of this legal right is the denial of product substitution. Any attempt to equate the two will invariably sound strange, far-fetched, and out of touch with real-world decision-making.

## B. Separate Categories

The categories of academic economics begin to break down when they are applied to families, churches, and civil governments. These categories produce implausible conclusions. In the absence of the moral right to make exchanges, the legal right to make them ceases to be enforced by custom or the state. In fact, such exchanges are prohibited by custom and the state's criminal law. The free market principle of *high bid wins* is called *bribery* when it is pursued by citizens and politicians. It is illegal to sell or lease your wife, although the practice of selling wives existed in the social underground of England, especially in the second half of the nineteenth century.<sup>1</sup>

Humanistic free market economists begin with the idea of the autonomous self-ownership of each individual. Christian economics rejects this individualism, for it rejects all autonomy. The glory of man is subordinate to the glory of God. The glory of the creation is subordinate to the glory of man. God's creativity is above man's. Man's creativity is above nature's. God's productivity is above man's. Man's productivity is above nature's. Ownership is hierarchical under God. It is also horizontal across geography and time. It is exclusive. He who owns something has the legal right to exclude access. This must be backed up by negative sanctions. The tree of the knowledge of good and evil is the archetype of this exclusionary aspect of property.

So, a husband and wife do not own each other, but each has obligations to the other. To evaluate marriage in terms of the division of labor is legitimate. To evaluate it in terms of the principle of *high bid wins* is not—anyway, not after the marriage is consummated. Prior to marriage, there are many forms of bidding. There is not supposed to be an auction for all of wives' services, and surely not for sale. So, any attempt to evaluate marriage in terms of the economic categories of an auction produces ludicrous

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1. [Http://bit.ly/WivesForSale](http://bit.ly/WivesForSale)

results. Only a few economists are so blind to reality as to attempt such an analysis. If, covenantally speaking, a transaction undermines a covenant, its violation brings supernatural negative sanctions. The person who ignores these does not understand the nature of covenantal incentives.

The structure of the individual covenant is based on property ownership and personal responsibility before both God and man for the administration of this property. This includes property rights in one's own person. This leads to a crucial conclusion: *self-ownership is not autonomous*. It is delegated. It is a matter of stewardship. This crucial presupposition makes Christian economics different from all forms of secular economics. We must start with ownership, but not autonomous self-ownership. We must begin with God's ownership, and then we move to covenantal self-ownership under the overall stewardship principle.

It is legal to sell oneself into covenant-keeping slavery. The Mosaic law had such a provision (Deut. 15:16–18). This is a form of disownership. The individual sells himself to a superior manager. He lawfully transfers a large degree of self-government to another person. But this does not make him less of a servant. It makes him more of a servant. It adds a layer of authority in between him and God. The New Testament therefore recommends that a servant take manumission if it is offered (I Cor. 7:21).<sup>2</sup>

A biblical covenant possesses greater authority than any contract. This is because God is a formal sanctions-bringer in a biblical covenant. He is not in a contract. His name may not lawfully be invoked in a contract. His name has a boundary around it (Ex. 20:7).<sup>3</sup>

### C. Open Bidding and Market Substitution

A man is not allowed to exchange his wife for someone he thinks would be more suitable. Neither is a wife allowed to do this with her husband. The now-obsolete practice in England of auctioning off a wife to the highest bidder, is not sanctioned in the Bible. It was not legally sanctioned in

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2. Gary North, *Judgment and Dominion: An Economic Commentary on First Corinthians*, 2nd ed. (Dallas, Georgia: Point Five Press, [2001] 2012), ch. 8.

3. Gary North, *Authority and Dominion: An Economic Commentary on Exodus*, 2nd ed. (Dallas, Georgia: Point Five Press, 2012), Part 1, *Decalogue and Dominion* (1986), ch. 3.

England, either, but it went on for two centuries.<sup>4</sup> *As soon as market substitution is prohibited, the free market cannot establish a price.* Without a way to establish a price, the discussion of value's relation to price becomes even less tied to economic theory and economic practice than it is under the assumption of asset substitution and competitive bidding. Parents are not allowed to sell their children. This also inhibits the establishment of any relation between value and price. But without a way to relate these two concepts, economic theory loses its seeming precision.

This precision is always an illusion. Value is exclusively subjective, according to economics after the marginalist revolution of the early 1870s. In contrast, a price is exclusively objective: the product of competitive bidding. But the link between exclusively subjective economic value and exclusively objective prices has always been an epistemological contradiction. If value is exclusively subjective, then we do not know what an item's value is for anyone else. We know only the price paid by the highest bidder. We do not know how much value he placed on the item. We know only that he outbid the second-place bidder. Whether the second bidder valued it more than the winning bidder did cannot be determined scientifically, because there is no scientific way to measure interpersonal subjective utilities.<sup>5</sup> The winning bidder cannot say scientifically, "I valued this more than the losing bidder did." All he can say scientifically is this: "The loser decided not to match my bid."

The Bible says that a virtuous woman is more valuable than rubies (Prov. 31:10).<sup>6</sup> But this says nothing about their comparative prices. She is not for sale. The services of a non-virtuous woman are. Humanistic economics can therefore deal far better analytically with whores than wives. This is why biblical economics moves in the direction of sociology when it turns its attention to the family.

When we move from economic reasoning based on open entry, market pricing, and asset substitution, we lose the step-by-step rigor of economic reasoning. The categories are less definable. There is no system of reasoning that enables us to move logically from the characteristic features of the

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4. [Http://bit.ly/WivesForSale](http://bit.ly/WivesForSale).

5. Lionel Robbins, *An Essay on the Nature and Science of Economics* (London: Macmillan, 1932), ch. VI.

6. Gary North, *Wisdom and Dominion: An Economic Commentary on Proverbs*, 2nd ed. (Dallas, Georgia: Point Five Press, [2007] 2012), ch. 86.



economy of Robinson Crusoe to the modern division of labor society. There are no axioms and corollaries. There is no equivalent of the conceptual construct of the free market as a gigantic auction. High bids do not automatically win. The logic of the auction process is not matched by the logic of the family, the church, and the state. *There is no science of economics, once we depart from the auction process.* This is why the transition is resisted by economists. They do not wish to descend into the conceptually swampy terrains of family, church, and state. They prefer to reside in the mountain tops of market processes, where the atmosphere is thin and the growing season is short.

### D. Autonomy and Economics

One of the most conceptually important books in the history of conservatism is Robert Nisbet's *The Quest for Community* (1953). Nisbet was a sociologist. In this book, Nisbet argued for the legitimacy of local institutions, such as churches, families, businesses, and schools. Without local allegiances, a man cannot successfully defend himself against the central state. Liberty requires the support of the individual by social institutions and allegiances. He opposed all political theory that begins with individual rights divorced from social institutions. He also believed that economic theory and practice must not begin with the abstract individual.<sup>7</sup> On the final page of the final chapter of the book, he wrote this. "What we need at the present time is the knowledge and administrative skill to create a *laissez faire* in which the basic unit will be the social group."<sup>8</sup> On the previous page, he had provided his reasoning. "We need a *laissez faire* that will hold fast to the ends of autonomy and freedom of choice; one that will begin not with the imaginary, abstract individual but with the personalities of human beings as they are actually given to us in association." He continued: "To create the conditions within which autonomous individuals could prosper, could be emancipated from the binding ties of kinship, class, and community, was the objective of the older *laissez faire*. To create the conditions

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7. I describe such an individual as Parmenidean.

8. Robert A. Nisbet, *The Quest for Community: A Study in the Ethics of Order and Freedom* (Wilmington, Delaware: Intercollegiate Studies Institute, [1953] 2010), p. 257. This was published originally by Oxford University Press.

within which autonomous groups may prosper must be, I believe, the prime objective of the new *laissez faire*.”<sup>9</sup>

To a limited degree, Wilhelm Röpke attempted to do this in the 1940s.<sup>10</sup> I do not regard his attempt as methodologically successful, but he asked the right sorts of social questions. The behavioral economics movement is another attempt to do this. I do not know whether my efforts in the final three sections of this book will provide an alternative to the economics of methodological individualism, but I hope they will. One thing is sure: I do not begin with the concept of autonomy—not of individuals or institutions. I begin with the biblical covenant.

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9. *Ibid.*, p. 256.

10. This is not true of his 1937 book, known in English as *Economics of the Free Society* (Chicago: Regnery, 1963). It is more clearly a treatise written in the Austrian School framework.

# 1

## PLANNING

### Introduction

Individuals plan. They plan as individuals, but in most cases, they plan as participants in corporate bodies. The most widely accepted corporate body is the family. In every society, there are families. The family is the universal example of a corporate body.

In a family, there are mutual claims on its members. This element of mutuality is the very nature of the family. The New Testament compares Christ's love of His church as the model for a man's love of his wife.

Wives, submit yourselves unto your own husbands, as unto the Lord. For the husband is the head of the wife, even as Christ is the head of the church: and he is the saviour of the body. Therefore as the church is subject unto Christ, so let the wives be to their own husbands in every thing. Husbands, love your wives, even as Christ also loved the church, and gave himself for it; That he might sanctify and cleanse it with the washing of water by the word, That he might present it to himself a glorious church, not having spot, or wrinkle, or any such thing; but that it should be holy and without blemish. So ought men to love their wives as their own bodies. He that loveth his wife loveth himself. For no man ever yet hated his own flesh; but nourisheth and cherisheth it, even as the Lord the church: For we are members of his body, of his flesh, and of his bones. For this cause shall a man leave his father and mother, and shall be joined unto his wife, and they two shall be one flesh.

This is a great mystery: but I speak concerning Christ and the church. Nevertheless let every one of you in particular so love his wife even as himself; and the wife see that she reverence her husband (Eph. 5:22–33).

### 1. *God's Ownership*

As with every other academic discipline, Christian economics must begin with *the doctrine of God*. This governs the first and foremost issue of economics: *ownership*. God owns the world. He created it, so He owns it. But He owns it both individually and corporately. He is both one and many. The New Testament says that the Second Person of the Trinity created everything that was created.

Giving thanks unto the Father, which hath made us meet to be partakers of the inheritance of the saints in light: Who hath delivered us from the power of darkness, and hath translated us into the kingdom of his dear Son: In whom we have redemption through his blood, even the forgiveness of sins: Who is the image of the invisible God, the firstborn of every creature: For by him were all things created, that are in heaven, and that are in earth, visible and invisible, whether they be thrones, or dominions, or principalities, or powers: all things were created by him, and for him: And he is before all things, and by him all things consist (Col. 1:12–17).

This affirmation reveals that there is *specialization within the Godhead*. There is a division of labor. The Person who is subordinate to the Father was the original Creator. In this sense, creation was an aspect of stewardship. The creation remains under God the Son, for He was its Creator. He possesses ownership, but always on behalf of the Father. Christ will deliver up the creation to the Father at the end of time.

But now is Christ risen from the dead, and become the firstfruits of them that slept. For since by man came death, by man came also the resurrection of the dead. For as in Adam all die, even so in Christ shall all be made alive. But every man in his own order: Christ the firstfruits; after-

ward they that are Christ's at his coming. Then cometh the end, when he shall have delivered up the kingdom to God, even the Father; when he shall have put down all rule and all authority and power. For he must reign, till he hath put all enemies under his feet. The last enemy that shall be destroyed is death. For he hath put all things under his feet. But when he saith all things are put under him, it is manifest that he is excepted, which did put all things under him. And when all things shall be subdued unto him, then shall the Son also himself be subject unto him that put all things under him, that God may be all in all (I Cor. 15:20–28).

## 2. Family Ownership

God created the family (Gen. 1:26–28). He designated the family as the agency of dominion. Thus, with respect to dominion, ownership is more corporate than individual. Why? Because *responsibility in history is corporate*. Does this contradict the principle that the final judgment is ultimately personal and individual, so responsibility is primarily personal? No. Why not? Because each man is responsible to God above all as God's agent. A man rebelled. Adam was more responsible than Eve, but Eve also suffered a curse (Gen 3:16). Her responsibility was to her husband, but they were both involved in rebellion. This was joint rebellion. It was therefore corporate. The family unit was involved. God had assigned tasks to the family jointly. Individual responsibility to God was mediatorial. Adam represented Eve. But they both represented the creation in the context of the family. Theirs was a joint representation.

This means that they both had ownership claims over the creation. Because both of them were responsible, they both had ownership. It was hierarchical ownership, but it was corporate. Each of them had unique duties. This was reflected in their punishments, which were not the same. She would henceforth have pain in childbirth (Gen. 3:16). He would labor in the sweat of his brow (Gen. 3:17–19).<sup>1</sup> Both would die. The universality of death is the sign of their joint responsibility and joint ownership. They rebelled as a team.

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1. Gary North, *Sovereignty and Dominion: An Economic Commentary on Genesis* (Dallas, Georgia: Point Five Press, [1982] 2012), ch. 12.

The individualism of modern economic theory has led to great insights. But, at bottom, this almost exclusive reliance on individualism is wrong. It assumes that only individuals are responsible before God and men. In those areas of life in which individuals do bear most of the responsibility before God and men, economic theory has made great strides. But, at bottom, *modern economic theory cannot deal consistently with corporate responsibility*. It cannot make sense of individuals' decisions—decisions involving such issues as honor, love, and responsibility for a collective. When economists explain these decisions, they do not come to grips with individuals' motivation. When an economist discusses a mother's relation to her child as a capital investment that she expects will pay off in her old age, he sounds like a fool. That is because he is a fool. He begins with a premise: there is no God. The rest of his foolishness follows from his assumption.

The essence of the problem is allocating shares of ownership: the share of the profits and the share of the losses. Above all, there is the share of the blame (Gen. 3). This allocation has to be made in terms of the degree of responsibility within a corporate organization whose members cannot legally separate themselves from a lifetime covenant. A covenant is not a contract. It is an oath-bound promise before God. Its degree of authority is far greater than any contract's authority.

Owners impute value to assets. They impute value to the family covenant. This imputation is individual. But, as representing God, it is also corporate. So, the decision-makers within a family must come to some sort of agreement on the allocation of family assets. In earlier eras, women had no ownership rights in civil law. That was a defect of civil law. There is nothing explicit in the Bible that would forbid a woman entering into marriage from setting aside a portion of her assets for the use of her children. A drunken husband has no moral authority over such a woman. There is nothing inherently immoral with a pre-nuptial agreement.

### A. Cooperation

Planning has to do with allocation of scarce resources. It therefore is based on ownership. God owns everything. He delegates control over assets to individuals. But He also delegates control to collectives. The idea of joint ownership is inherent in the biblical doctrine of the family.

There is an assumption in patriarchal societies that the woman surrenders ownership of her property at the time of marriage. But she does not uniquely surrender her body to her husband. She has the same legal claim on his body as he has on hers. This is *mutual submission*. The Old Testament affirms this. He owes her “the duty of marriage” (Ex. 21:10). As we have seen, the New Testament speaks of mutual claims, husband and wife (Eph. 5:22–33). This verse is explicit: “Submitting yourselves one to another in the fear of God” (Eph. 5:21). The judicial fact of mutual ownership claims between persons, husband and wife, is indirect evidence of her legal claim to his property. He must care for her. He must care for her children. He does not possess a unique legal claim on her property that is not offset by her legal claim on his.

She is to defer to his judgment unless she has reason to believe that he is a wastrel. In such a case, she has a legal right to appeal to the church or the civil government for assistance. No one is autonomous. No one is beyond the civil law. No church member is beyond the legal claim of church law. *There are offsetting legal claims.* To imagine that the victimized wife of a drunkard must suffer just because she is a wife is a denial of the biblical foundation of civil government, victim’s rights.<sup>2</sup>

Thus, the concept of joint economic planning is inherent in the family’s biblical structure. The allocation decisions are individual, in the sense that the decision-makers have reached a reconciliation of their plans. But the outcome affects both parties, as well as children. God holds the adult individuals responsible. They are responsible agents in the judicial context of a covenant. Neither party can escape blame. The attempt by Adam and Eve to blame others did not work. Each of them came under negative sanctions. Yet they participated in their rebellion as family members. The curse was on them and their children. Third parties were involved, despite the fact that third parties were not present in the garden. The concept of responsibility extended forward through time.

Plan reconciliation is basic to the free market. This has its roots in the family, which is a voluntary institution, but which becomes permanent by a formal oath. The exchange arrangements within a family are not based on *high bid wins*. In short, *justice trumps profit*. Authority is not based on the purchase of an office. *The planning arrangement reflects the hierarchical*

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2. Gary North, *Victims’s Rights: The Biblical View of Civil Justice* (Tyler, Texas: Institute for Christian Economics, 1990). (<http://bit.ly/gnvictim>)

*structure of dominion.* God rules through families. His transfer of ownership to families is His way to maximize His return. But this return is not primarily monetary. His return on investment is far beyond monetary. It involves such things as ethical faithfulness, biological multiplication, and kingdom extension.

Every plan necessarily involves five factors. These are the familiar five factors that historians use to assess what happened in the past. Historians ask five questions: who, why, what, where, when? *Who* identifies the primary responsibility for the plan's launching and its fulfillment. It identifies responsible agents needed to implement the plan. *Why* identifies the motivation of the steward's plan. Both of these are aspects of part two of the biblical covenant: representation. *What* and *where* identify legal and geographical boundaries: the scarce economic resources required to implement the plan. To gain access to these resources, men must ask permission or buy control. *When* identifies temporal limits: point five of the biblical covenant. A plan must begin at a point in time and end in a point of time. The process of creation takes time. Time must be paid for. It must be allocated. When you do one thing, you cannot do another. Time is in strict fixed supply. It is an irreplaceable resource. Once spent, it cannot reclaimed. It does not move backward. implementation of the plan begins somewhere and ends somewhere. It does not operate in a geographical vacuum. It involves dominion over nature. The missing first point is God. The traditional list of five questions does not begin with God. It begins with the individual. The missing fourth point of the biblical covenant in this list is causation: *how?*

## B. Ownership

Family ownership reflects covenantal hierarchy: God over man over woman over children. It also is reflected in the family's dominion over nature (Gen. 1:26–28).<sup>3</sup> Ownership is not original. It is derived from God's grant of authority. While ownership is point one of the biblical covenant with respect to God, for man, ownership is point two: stewardship.

Parents are responsible for non-adult children. They possess authority over them. This makes them economically responsible for their children. This rule of law always applies: *where there is authority, there is also responsibility.* Individuals must give an account to God for their stewardship (Matt.

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3. North, *Sovereignty and Dominion*, chaps. 3, 4.



25). This involves giving an account of themselves for their joint authority as members of families. No one is autonomous. Every individual answers to God. Our attitudes and behavior toward others do count, meaning they are counted by God: assessed and evaluated.

Husbands and wives are involved in constant plan reconciliation. In no other institutional arrangement is plan reconciliation more central. There are more instances of plan reconciliation in business, because negotiations are constant. One negotiation is completed or abandoned. Another takes its place. In a family, negotiations must be minimized in order to achieve peace. But the plans are far more fundamental in families than in businesses. The reconciliations are far more permanent. The stakes are far higher. The judicial bond of marriage is the result of plan reconciliation.

Ownership involves asset allocations. This includes the allocation of work and time. This is inherent in any joint venture. Someone must take responsibility for performance. This is the division of labor in action. Other members of the family defer on this matter to the decision of one member to take on responsibility. *This deference is an act of subordination.* The person who does the deferring is transferring responsibility to the other person. He is saying this: "I trust your judgment. I have now become dependent on your performance." This is crucial in any long-term arrangement. *The division of labor is both mutual and hierarchical.* Each of the parties becomes dependent on the other. Each of them exercises authority over the other. This is true in every institutional arrangement. The family is the primary model.

When children reach adulthood, they are under far less family authority. They establish their own households. Their parents let go, or should. Over time, the relationship of authority may reverse. If the parents become infirm, the children must step in and take over. This involves a transfer of economic responsibility. The children must support the parents. This is an aspect of the fifth commandment: honoring parents (Ex. 20:12). In most circumstances, this involves paying attention to parents' wishes. As children mature, they pay less attention, because they must focus on their children's needs. This takes time and resources. At the end of the parents' lives, this may mean that their children must take over their finances. Here, plan reconciliation is crucial. It involves a surrender of authority by the parents. They must surrender authority, because they are surrendering responsibility.

All of this stems from the fact of the division of labor. There is mutuality. But mutuality involves dependency. Each party must give up something of value in order to obtain something of value. Mutuality involves a surrender of responsibility. It therefore involves a transfer of authority. "I will do this for you, if you will do that for me." In the market, it is usually easy to substitute a new supplier. This is especially true in the consumer goods markets. There are many competing offers. Loyalty is weaker. *The more specialized the exchange, the more expensive it is to substitute a new supplier for an old one.* There are fewer available suppliers. Mutual dependence is therefore greater. The disruption of the division of labor is greater. *In marriage, this division of labor is highly specific.* This is why partner substitution is prohibited by the Bible, except for major moral violations.<sup>4</sup> A covenant is more binding than a contract is. It is affirmed by an oath under God.

### C. Boundaries

The primary boundaries are sexual: exclusive access. These boundaries include, but they also exclude. The archetype on this exclusion aspect is the tree of the knowledge of good and evil. God definitively excluded mankind from this tree. The sexual boundaries of marriage mark many other aspects of the family. The rights of exclusion are fundamental.

Property rights are boundaries. These boundaries/rights are clearer in boundaries against intrusion by non-family members. The boundaries around the family are more easily understood and enforced: by individuals, family members, church, and state. Inside the family, these boundaries become less clear. Also, the general boundary of the family reduces the authority of outside agencies to intervene to settle disputes. For example, unless one of the parties is being threatened by serious physical violence, the state should not intervene in family disputes.

The division of labor in a family involves boundaries of responsibility. But because it is not easy to substitute other agents in most important activities within a family, the hierarchy becomes more important in plan reconciliation. Someone with greater authority establishes the boundaries of responsible performance. Voluntary reconciliation is replaced by orders from above.

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4. R. J. Rushdoony, *The Institutes of Biblical Law* (Nutley, New Jersey: Craig Press, 1973), p. 402.

Inherently, the nature of family authority is personal. The participants are known to each other. There is no system comparable to the free market, with its information system based on price signals. The boundaries of the free market are impersonal in the sense that decision-makers are unknown to each other. Prices establish the boundaries. Anyone who makes decisions without paying attention to prices is going to lose money in most cases. The restraining boundaries of prices are very tight. The market adjusts prices by means of arbitrage: simultaneously buying slightly lower in one market and selling in another.

Boundaries in the family are personal. The quirks of each participant are known to the others in the household. This content of information is fundamentally different from market prices. People make adjustments based on their knowledge of each other's reactions and patterns of behavior. There is much greater flexibility of responses. Appeals based on price changes are not as effective as appeals based on the threat of sanctions other than price.

People learn which boundaries not to violate in a family. But these boundaries are far more problematical than the boundaries imposed by price. Negotiations are based more on personalities than price. Thus, the outcome of these negotiations is less predictable. *The complexity of negotiations makes the outcomes less predictable.* There is no rule in family negotiations comparable to this familiar law of economics: "At a higher price, less is demanded."

People in a family seek their goals, just as people in a market do. They are self-interested. But love is a factor that is highly personal. It broadens the definition of self-interest. Unlike a price, we cannot calculate love. Love is therefore like economic value. It is ordinal, not cardinal. It is "more than," but not "precisely this much more than." A price is objective. Love is not. The boundaries imposed by love are broader than the boundaries imposed by prices. The predictability of law enforcement in a family is far less than the predictability of the restraints imposed by objective prices.

Economists cannot easily pretend to provide meaningful equations to describe family boundaries. They can and do pretend to provide meaningful equations regarding price relationships. The illusion of scientific precision is more easily adopted with respect to objective prices in open markets than with subjective boundaries inside families.<sup>5</sup>

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5. The pages of equations in Gary Becker's book, *A Treatise on the Family*, mark the book as one of the most amusing examples of economic science ever

People are committed to family solidarity far more than they are committed to market solidarity. They defend their families from intervention by government bureaucrats far more vigorously than they defend the free market from intrusion by government bureaucrats.

Plan adjustment in a family is imposed by force on young children. As children mature, techniques of plan adjustment, under parental plan adjudication, become more influenced by mutual bargaining than by the threat of physical sanctions. But the currency of a family is less likely to be money than barter. The division of labor is partially established by price competition, but this competition is more likely to be in time exchanges and task exchanges than monetary exchanges.

Families spread across geographical boundaries. Children become productive in society mainly after they leave their parents' homes and start their own families. But economic production always mandates service: (1) serving present customers; (2) serving their own children. Their service to their children is their primary motivation for serving present customers. Their service to their children is also their primary *means* for serving future customers. They do this representatively. Their children will serve future customers. Family service involves sacrifices in the present. It requires reduced consumption for parents during the years of child-raising. *The parents become investors in the future.* To the extent that they hope their children will support them in their old age, this is a capital investment in their own futures. But the bulk of their children's net output will go toward raising their own children.

## D. Imputation

I begin with a statement that I made in the Introduction to Chapter 4 of Part II. Part II deals with the individual covenant. I wrote:

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written. The utter uselessness of these equations for any practical purpose other than the pretense of scientific rigor, marks this book as a classic of scientism. If any social policy based on the book has been adopted by any profit-seeking firm, I am unaware of it. Becker won the Nobel Prize in economics in 1992. In his Nobel Prize lecture, "The Economic Way of Looking at Life," he admitted that his theory of the family rested on the idea that altruism is basic to family relationships. This assumption severs the economic discussion of family relationships from a theory of market relationships. But equations fill the book. Yet there are no equations for altruism.

Modern economic thought is officially nominalistic. But there is no escape from covenantal realism: the doctrine of original creation by God. Humanists who defend realism do not accept covenantal realism, so they adopt autonomous philosophical realism. They sneak philosophical realism through the methodological back door of price indexes and other statistical techniques. These indexes require the aggregation of subjective value—individuals' subjective imputations—which cannot be done without violating the principle of subjectivism-nominalism.<sup>6</sup> All economic policy-making necessarily rests on an implicit denial of nominalism, for it relies on the assumption that an economist can make objectively valid interpersonal comparisons of subjective utility. So, there is an inherent dualism in humanistic economic thought.

Families are covenantal institutions. They are created by oaths under God. This means that God holds individual members of families accountable for the sins committed by the head of the household. The most obvious example of this in the Bible is the story of Achen, who brought his entire household under covenantal judgment when he committed sacrilege when he hid stolen prohibited goods from Jericho inside his tent (Josh. 7).<sup>7</sup> The family members would have shared in the profits of this theft. They therefore shared in the corporate negative sanction imposed on the family.

The Trinitarian God is both plurality and unity. Therefore, in His capacity as the cosmic Imputer of economic value, He is both plural and individual. The family reflects this combination of plurality and unity. Individual family members impute economic value, but the God-sanctioned decision-makers in the family make representative imputations of economic value. These judgments are judicially bonding on the members.

Here is an example. A woman decides that she wants to live in a specific house. Her husband does not veto her decision. He signs the note for the mortgage. He signs the deed. So does she. Then the family moves into the

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6. North, *Sovereignty and Dominion*, ch. 5.

7. Gary North, *Boundaries and Dominion: An Economic Commentary on Leviticus*, 2nd ed. (Dallas, Georgia: Point Five Press, [1994] 2012), Appendix A; North, *Disobedience and Defeat: An Economic Commentary on the Historical Books* (Dallas, Georgia: Point Five Press, 2012), ch. 5.

house. All members are beneficiaries. They all impute value to the house. They do this as individuals. But they are corporately bound. If the income-earner loses his job, and the family is evicted from the property because of a default on the mortgage, the members all suffer a loss. They moved in as a corporate unit. They move out as a corporate unit.

Work performed by family members has economic value to each member. This economic value is imputed by each member. To assess this value accurately, members must take into consideration the value to all other members. Economists must do the same. Not to do so would be to ignore the corporate value of the work. But secular economists face an epistemological dilemma. They can argue in favor of the existence of the economic value of work to any family member, but to make a judgment of corporate value mandates the interpersonal comparison of subjective utilities. This is impossible, according to the subjectivism of modern economic theory.

Family ownership brings the owners under special responsibilities. Stewardship is inescapable from ownership. This stewardship is upward to God, outward to other economic bidders, downward to family members, and inward to each individual owner. To say that this office of steward belongs only to the head of the household is to ignore the legal and moral claims to ownership of other family members. As members, they benefit. They impute economic value to these claims of ownership. But they cannot sell these claims. This is the problem of corporate ownership. *Without a functioning public market for the exchange of family ownership claims, the free market cannot establish a price.* This is why economic theory faces conceptual boundaries in analyzing the economics of the family.

The head of the household must decide how to budget. He makes assessments regarding the value to members of the family associated with the ownership of an asset. He makes representative judgments regarding individual imputations. These judgments must involve the summing up of the costs and benefits of ownership for each family member. Yet there is no scientific way that he can do this, meaning no methodologically valid way, given the epistemology of subjective economic theory.<sup>8</sup> There is no objective measure of economic value.

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8. Lionel Robbins, *An Essay into the Nature and Significance of Economic Science* (London: Macmillan, 1932), ch. VI.

The fact that there is no objective economic measure of value is not a valid argument against the necessity of making representative economic value judgments. But these value judgments do not rest on a system of objective pricing established by exchange. The judicial roles of each family member cannot be sold to the highest bidder. Therefore, the individual economic imputations of family members must be taken into consideration by the decision-maker if he is to do justice—legal justice in God’s system of imputation of personal responsibility—to other members. He is in a legal position to oppress them. This is an inescapable aspect of his office as head of the household. He is required by God to act representatively. He is required by God to act justly.

## E. Legacy

The family owns property. This property is held in trust by the family. The family’s name and reputation are supposed to mark the kingdom of God.

So important was the family’s legacy under the Mosaic law that God mandated that a brother who lived on the same land with his childless married brother had to go to his brother’s widow and father a child after his brother died. This child would carry the name of his deceased brother. The child’s landed inheritance would be whatever his covenantal father owned. The surviving brother would not inherit this land.<sup>9</sup> This was the law of what we call the levirate marriage. The most famous example of a levirate marriage in the Bible is Ruth’s marriage to Boaz, her deceased husband’s second-nearest of kin. The nearest of kin had refused to marry her, so Boaz did (Ruth 4:3–4).<sup>10</sup> In my comments on this passage, I wrote:

This case law was a seed law. As a law governing inheritance, it was also a land law. The firstborn of a levirate marital union inherited the deceased father’s name. The inheritance was above all covenantal: part of God’s promise to Abraham. The deceased man’s name was imputed to the heir by God and by law, even though he was born of the

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9. Gary North, *Inheritance and Dominion: An Economic Commentary on Deuteronomy*, 2nd ed. (Dallas, Georgia: Point Five Press, [1999] 2012), ch. 64.

10. North, *Disobedience and Defeat*, ch. 11.

levir. *The imputation of a man's name was the essence of his inheritance*: from his fathers and to his children. God had revealed this to Abraham: "And I will make of thee a great nation, and I will bless thee, and make thy name great; and thou shalt be a blessing: And I will bless them that bless thee, and curse him that curseth thee: and in thee shall all families of the earth be blessed" (Gen. 12:2–3).

What the levirate law tells us is that the imputation of a man's name was more fundamental than either genetic inheritance or family discipline. In the context of the continuing academic debate between "nature" (genetics) and "nurture" (social environment), neither was fundamental in Israel. What was fundamental was *judicial imputation*. The levir performed a redemptive act on behalf of his brother's covenant line. This act was far more judicial than biological or social. He provided biological seed and family discipline, but the decisive factor was judicial-covenantal-eschatological, not biological or social. It was so decisive that the law prohibiting a brother from marrying his sister-in-law was suspended. That law had specifically stated that the negative sanction would be childlessness (Lev. 20:21). The levirate marriage was mandated by God specifically for producing an heir.<sup>11</sup>

This law was annulled when Jesus, as the Kinsman-Redeemer—the nearest of kin—established the foundation of a new marriage. His name is supreme, not the family's name, as it was in Mosaic Israel. The tribes of Mosaic Israel are gone. So is family name within the holy commonwealth. But the importance of that name, while no longer a matter of the Mosaic seed laws and land laws, which are annulled in the New Covenant, is still great. But it is not supreme. A man's grandsons through his daughters do not usually bear his name in the West. But they bear Christ's name if they are part of the church covenant. This name counts most.

"A good man leaveth an inheritance to his children's children: and the wealth of the sinner is laid up for the just" (Prov. 13:22).<sup>12</sup> This has to do

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11. *Ibid.*, pp. 79–80.

12. Gary North, *Wisdom and Dominion: An Economic Commentary on Prov-*



with capital of all kinds, including spiritual. But it surely includes economic capital. The biblical focus is on inheritance, which is point five of the biblical covenant.

This transfer of ownership across generations is supposed to extend the kingdom of God. The expansion of the kingdom across time and across borders is sustained by the effects of compounding: more children, more capital, more property brought under God's covenant.

## Conclusion

God is both unity and diversity. So, this aspect of God is reflected in mankind. Specifically, it is reflected most universally by the family, which is found in every society. God announced the dominion covenant to mankind as a whole, by way of the family: male and female. Adam was the representative head of a family.

God plans. He executes His plan. Man is required by God to do the same. But man is corporate. This corporate aspect of mankind appears most clearly in the family. Therefore, planning must be corporate. But because there is a hierarchy of authority in the family, which reflects the *hierarchy of the economical Trinity*—as distinguished from the ontological Trinity—there has to be plan reconciliation. This is perfect in the Trinity. It is not perfect in fallen humanity.

The family is not governed by the commercial principle of *high bid wins*. This is because the value of any participant cannot lawfully be capitalized. We are not allowed to sell our children into slavery for a capitalized price. We may be able to rent out their labor services, but not all of their services can be rented. Similarly with the spouses' owed services to each other. So, the *factor-pricing arrangements* of commercial markets do not apply inside a family.

Economic theory must deal with this, but it rarely does. Economic theory rests on a theory of ownership that is denied by the family and to the family. The family covenant is legally binding and exclusive in a way that market-priced contracts are not. So, the conceptual tools of what Mises called catallactics do not apply well to a family or to any other covenantal institution: church or state. Wives are not harlots. The economics of harlotry does not apply to families.

Family ownership of assets is based on hierarchy far more than equality. The legal equality of market participants to make bids for control over scarce resources does not exist in a family. The division of labor is far more hierarchical than horizontal. Market bids are far more horizontal than hierarchical.

Personal knowledge is central to the family. It is peripheral in a commercial market. Money prices are dominant in a commercial market. They are not dominant in a family. Allocation decisions are made by the head of a household based on personal knowledge. An entrepreneur in a market that is marked by widespread ownership of assets pays little attention to personal knowledge. A wheat farmer is not interested in the moral outlook of a buyer, except with respect to payment. If the buyer pays his bills on time, the farmer will sell his crop to him.

God holds families accountable. The head of a household must factor this in to any allocation decisions. God has plans for every family. The heads of households are supposed to factor this into their plans.

The family is supposed to extend its legacy through time. The family's name is important. Family capital is important. But the central name in New Testament times is Jesus' name. He is the head of every Christian household.

The joint responsibility of the family makes it imperative that the decision makers consider each other's imputation of value. The individualism of economic theory's subjectivism makes impossible a theoretical justification for the interpersonal comparison of subjective utilities. Yet this must be done all the time by the head of the household. He must act representatively on behalf of those under his jurisdiction. In terms of the nominalism of modern economic theory, he cannot do this. But God mandates that he do this. God holds him accountable for this representative summing up of multiple imputed economic values inside the family. What every head of every household does constantly, economic theory says is scientifically impossible. This is why subjectivist economics is epistemologically naïve.

## 2

# STEWARDSHIP

### Introduction

I do not want to reproduce the chapter on individual stewardship here. Many of the general principles of stewardship that apply to individual stewardship apply to family stewardship. But some do not. We must understand these differences. We must also understand the implications, both in theory and in practice, of these differences.

The most obvious difference is the application of the fundamental principle of pricing: *high bid wins*. Within a family, the high bid is rarely monetary. The bids are in terms of individual characteristics, assignments, and responsibilities. The decision-maker, meaning the head of the household, allocates scarce resources. As a representative agent of the members of the household, he makes these allocation decisions on behalf of all of the members of the household. He guesses as to costs and benefits of those under his authority. In other words, he makes interpersonal comparisons of subjective utilities.

As with individual stewardship, there are three aspects of family stewardship: trusteeship (legal), sharecropping (economic), and auctioneering (economic). First, the head of the household acts as a legal representative agent. He represents God to the members of his household, and he represents them before God. Representation is mediatorial and hierarchical. This representation is corporate.

Second, the sharecropper keeps a percentage of the crop. In the case of the tithe, this is a high percentage: 90%. The family owes the tithe to the local church, which represents God to its members.<sup>1</sup> The head of the

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1. Gary North, *The Covenantal Tithe* (Powder Springs, Georgia: American Vi-

household makes this allocation on behalf of the family. This representation is corporate. It is hierarchical. It has to do with the head of the household as a covenantal economic agent.

There is a third aspect of stewardship: allocational. This has to do with the decision to put a resource to work on behalf of other people. This is a horizontal relationship. It is not covenantal. It is contractual. In a free market, it is the role of the auctioneer. He acts on behalf of the legal owner in his quest for a new owner. The general principle of free market stewardship is this: *high bid wins*. By inviting other resource owners to bid for ownership, the steward maximizes the income of the owner. He transfers ownership to the person who offers the highest bid.

## A. Delegated Sovereignty

I begin this paragraph with the words I used to begin the parallel paragraph on individual stewardship. Point one of the biblical covenant is sovereignty.<sup>2</sup> God possesses absolute sovereignty. Yet He shares sovereignty through delegation. This was manifested in the original dominion covenant (Gen. 1:26–28).<sup>3</sup> This was re-confirmed with Noah (Gen. 9:1–3).<sup>4</sup> It was confirmed ontologically with the Incarnation, when God became a man. God clearly delegated sovereignty to man.

In both cases, Adam and Noah, God was dealing with families. He spoke to mankind through Adam, but it is clear in Genesis 1:26–28 that God was dealing with the family: male and female. He was dealing with a covenantal unit. It is not just that individual members of a family are judged by God in terms of their adherence to God's law. It is that the family as a corporate unit is the focus of God's concern. Achen's family is the archetype (Josh. 7).<sup>5</sup> It is not sufficient to point out that Achan was under the Mosaic law. Adam was not. Noah was not.

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sion, 2011), ch. 10. (<http://bit.ly/covtithe>)

2. Ray R. Sutton, *That You May Prosper: Dominion By Covenant*, 2nd ed. (Tyler, Texas: Institute for Christian Economics, [1987] 1992), ch. 1. (<http://bit.ly/rstymp>)

3. Gary North, *Sovereignty and Dominion: An Economic Commentary on Genesis* (Dallas, Georgia: Point Five Press, 2012), chaps. 3, 4.

4. *Ibid.*, ch. 18.

5. Gary North, *Boundaries and Dominion: An Economic Commentary on Leviticus*, 2nd ed. (Dallas, Georgia: Point Five Press, [1994] 2012), Appendix A; North,

The father's delegation of ownership to children is always conditional. He has the authority to revoke this grant. He can legally override a child's allocation decision. But this authority ends with the departure of the child from his household. In the case of Jesus' parable of the prodigal son, the father granted him a preliminary inheritance (Luke 15:11–24).<sup>6</sup> The son took his money and squandered it. He was an adult.

The father must deal with those under his authority in a way analogous to God's dealing with him as an individual. He must delegate sovereignty. But, unlike God, he surrenders sovereignty when he delegates. This moves the covenantal issue from point one to point two: hierarchy.

## B. Representative Stewardship

The head of the household has a responsibility to train his children how to manage wealth. This means that he must delegate authority. He monitors their use of the assets he delegates. In this, he is analogous to God, who also monitors performance. But he must surrender sovereignty over the decisions of his children. He retains a veto, but he puts the asset at risk. If he turns over a tool to his child, the child may break it. The head of the household may lose the asset permanently. This will reduce his wealth.

So, in making the decision as to how much authority to delegate, he must count the cost. He must assess the readiness of his child to handle wealth. This is what the father in the parable of the prodigal son did not do well. The wealth subsidized the rebellion of his son. The father might have retained control over the wealth until he died. Instead, he made an early transfer of ownership. As it turned out, this wealth transfer was exactly what his son needed. The son lost the wealth, but gained respect for his father's way of life. The process of losing his wealth, reaching bottom, and returning home was the means of his redemption. But the father had no guarantee that the events would produce this result.

The head of the household must allocate capital within the household on the basis of his trusteeship assignment. He says: "Serve God." He must

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*Disobedience and Defeat: An Economic Commentary on the Historical Books* (Dallas, Georgia: Point Five Press, 2012), ch. 5.

6. Gary North, *Treasure and Dominion: An Economic Commentary on Luke*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2013), ch. 37.

assess the competing claims of family members to a share in the family's wealth. He is a fiduciary agent.

He must also listen to competing bids of those outside the family. They ask: "Serve me." These bids are mainly offers to exchange money for assets owned by the family. Price bids are most common in a mass-production economy. An asset owner does not have the time or specialized knowledge to hear the case to sell from every bidder. So, he uses price as a form of shorthand. Price bids reduce his obligation to investigate the details of each bidder's situation.

In specialized trades, such as local real estate, a specialized investor can make profits based on his ability to focus on one property, either as a buyer or seller. He listens to individual stories in search of the most profitable way to structure the transaction. The motto of such a specialist is this: "If I can structure the payments, I will give you your price." This process makes use of time preference, meaning the payment for forfeited use: the interest rate. There also may be special desires of buyers or sellers that will motivate them. In such situations, the high monetary bid is probably not the best bid for either the buyer or the seller. It takes personal knowledge of the other negotiator's desires to arrange the deal to meet his desires and the other person's desires. But to the extent that such personal knowledge is expensive to collect, price is substituted by buyers and sellers for personal knowledge.

In the case of the virtuous wife of Proverbs 31, she is a skilled entrepreneur of real estate deals. "She considereth a field, and buyeth it: with the fruit of her hands she planteth a vineyard" (v. 16). Her husband transfers authority to her. This frees up his time, so that he serve as a judge. "Her husband is known in the gates, when he sitteth among the elders of the land" (v. 23). His delegation of authority to her is based on trust. "The heart of her husband doth safely trust in her, so that he shall have no need of spoil" (v. 11). This delegation of responsibility over capital is to the benefit of the head of the household. But his wife is focused on the needs of the household. She acts as a steward on their behalf. "She looketh well to the ways of her household, and eateth not the bread of idleness" (v. 27). She pursues her plans in terms of her economic representation of other members in her family.<sup>7</sup>

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7. Gary North, *Wisdom and Dominion: An Economic Commentary on Proverbs* (Dallas, Georgia: Point Five Press, [2007] 2012), ch. 86.

## C. Capital Accumulation

The accumulation of capital is an ethical command. It is not optional. The building of God's kingdom requires capital. It is a redemptive process. The meaning of redemption is to buy back. Covenant-keepers are required to buy back the world on behalf of God. This is why the biblical covenant is governed by Deuteronomy 8:18: "But thou shalt remember the LORD thy God: for it is he that giveth thee power to get wealth, that he may establish his covenant which he sware unto thy fathers, as it is this day."<sup>8</sup> Who were the fathers? Abraham, Isaac, and Jacob. They left an inheritance.

A family head pursues capital accumulation, but on behalf of the family. He is a judicially representative agent. Abram was rich in cattle, silver, and gold (Gen. 13:2). But Abram was not accumulating capital on his own behalf. He was accumulating it for his heir. He did not have an heir. He did not know who his heir would be. His servant (Gen. 15:2)? God told him he would have a son (15:4). Through this son, he would have more heirs. God changed his name to Abraham: father of nations. This story focuses attention on the accumulation of family capital. Abram had accumulated it. He just did not know who would inherit.

What was the value of this capital? It was of greater value to Abram if a son would inherit. He did not know who would inherit until God told him. The value was higher after that, because he knew his capital would play an important role in history. His name would be on it in a special way. What he had accumulated would produce fruit more reliably through a family blessed by God than through a servant not singled out by God as the heir, and therefore the recipient of the blessing.

As the head of the household, Abram had to make an assessment of the value of his capital in terms of the future. This is true of all capital. Its present value is based on the expected future stream of income. It is also based on the evaluator's degree of future-orientation. If he is future-oriented, his capital is worth more to him than if he were present-oriented. The rate of discount he applies to future income is lower. Hence, the outcome is higher.

The longer the estimated time period of the expected stream of net income, the higher the market value to the owner. But the degree of time ori-

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8. Gary North, *Inheritance and Dominion: An Economic Commentary on Deuteronomy*, 2nd ed. (Dallas, Georgia: Point Five Press, [1999] 2012), ch. 22.

entation has far greater impact on present economic value than the term of expected income. If the rate of long-term interest doubles, this will depress the present value of the stream of income by almost half. A doubling of the expected period of net income from the asset will not compensate for the doubling of the rate of interest. Why not? Because the extra years are so far out chronologically. The discount applied by the doubled rate of interest will have even more depressing effects on the value of income far out than it has on income that will arrive sooner.

The head of the household makes his judgment representatively: *on behalf of*. He makes it on behalf of himself, but within a context: the family. He has legal and moral obligations to them. "A good man leaveth an inheritance to his children's children" (Prov. 13:22a).<sup>9</sup> The longer the line of heirs, the more capital he must accumulate. Far more important, he must educate his heirs in the basics of investing. The capital must grow in order to provide heirs with tools of production. The heirs must know how to use these tools. Otherwise, the capital will be dissipated within a few generations: too many heirs (population growth), not enough capital.

The biblical goal is capital accumulation, not capital consumption. This is an inter-generational assignment. Each generation is supposed to leave more behind than it accumulated. This is the meaning of value-added living, as applied to capital ownership.

The person who accumulates wealth does not know for sure who will inherit, or what this person will do with the inheritance. This was a continuing theme in the Book of Ecclesiastes.<sup>10</sup> He may be accumulating capital for the sake of a fool. So, he must accumulate capital that his heirs can administer. He must look to the future in order to decide what kind of capital is appropriate for the long-term accumulation and inheritance. He must make judgments on behalf of God, and then in terms of his circumstances.

The accumulation of family capital must include the worldview he passes to his children. This will be their primary tool of production. This will shape their administration of inherited wealth. It will shape their ability to make decisions on behalf of future generations. There is a law element to consider: ethics. There is a sanctions aspect: causation in history. There is a time element to consider.

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9. North, *Wisdom and Dominion*, ch. 41.

10. Gary North, *Autonomy and Stagnation: An Economic Commentary on Ecclesiastes* (Dallas, Georgia: Point Five Press, 2012), chaps. 4, 21.



## D. Success Indicators

The individual or the head of a business uses these success indicators: profit and loss. But the concept of profit and loss must extend beyond numbers in a ledger. They must include evidence of God's approval or disapproval. For the individual, the final judgment is the archetype of historical sanctions. The individual is singled out. So, the focus is on individual benefits. This is not true of the family. The family does not pass over the sanction of death into eternity.

Then what is God's goal for the family? Maintaining the covenant. This keeps the capital within the kingdom of God. The confession of faith is central. It is a matter of oath: point four of the biblical covenant.<sup>11</sup> The extension of the oath through time is sacramental. But the family has no sacraments. So, these must be the church's sacraments: baptism and the Lord's Supper.

The numerical indicators are valid as secondary indicators. If a family sees its capital shrinking, due to losses, the decision-makers must pay attention to the market. Why is the capital base declining? What must be done to reverse this? Unless there are adjustments in the allocation of family capital, there will be no inheritance to pass on.

## E. Contract Renewal

The covenant-keeper inherits wealth beyond the grave.<sup>12</sup> The family does not. Then how is the economic covenant renewed? By covenant succession. The family's capital is transferred to the next generation of covenant-keepers within the family. This is the biblically mandated means of extending God's kingdom through time. The time factor is the basis of economic compounding. The parents die. The children inherit the task of extending the kingdom of God in history.

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11. Sutton, *That You May Prosper*, ch. 4.

12. "Lay not up for yourselves treasures upon earth, where moth and rust doth corrupt, and where thieves break through and steal: But lay up for yourselves treasures in heaven, where neither moth nor rust doth corrupt, and where thieves do not break through nor steal: For where your treasure is, there will your heart be also" (Matt. 6:19–21). Gary North, *Priorities and Dominion: An Economic Commentary on Matthew*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 13.

If the heirs keep the terms of the covenant, they will usually be in a position to add value. This means they will have to increase their productivity. They will then leave more behind than they inherited. This is the meaning of the redemption of the world. The heirs participate in an inter-generational increase in capital. Ownership of resources progressively is transferred to covenant-keepers. "A good man leaveth an inheritance to his children's children: and the wealth of the sinner is laid up for the just" (Prov. 13:22).

This inter-generational process of inheritance, compound economic growth, and accumulation of capital is the covenantal basis of *economic redemption in history*. The accumulation of capital under a covenantal oath is the economic basis of redemption in other spheres. The covenantal family extends its jurisdiction by means of the process of economic compounding. This process of wealth creation is entirely voluntary. It does not involve the use of force. The kingdom of God expands its jurisdiction primarily in terms of families. Individuals play a crucial role, but only in the judicial context of the covenantal family.

A limited liability corporation is the modern economy's substitute for the family. It extends through time. The compounding process builds capital. It also is voluntary. It generally is not bound by a Trinitarian confession, although it could be. It is not bound by a valid oath. It is a contractual institution, not covenantal. It is therefore secular-contractual, not theocentric-covenantal. It is the most important non-covenantal institutional alternative to the family in man's history. It has been at the heart of the expansion of economic productivity in modern times. In terms of the accumulation of capital, it is the greatest engine of wealth-creation in man's history, other than the family. In today's world, the corporation is far greater in its control of capital than all of the families combined. The Pareto distribution of wealth has placed 80% of the world's capital in the hands of no more than 20% of the world's population. The institutional means of this accumulation has been the corporation. The richest 2,000 corporations own about \$100 trillion in assets. This is about two-thirds of the world's assets.<sup>13</sup> But the ownership of corporate shares is mainly held by families or by non-profit foundations controlled by families.<sup>14</sup>

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13. David, Rothkopf, *Superclass: The Global Power Elite and the World They Are Making* (New York: Farrar, Straus and Giroux, 2008), p. 121.

14. In an astounding book on the world's richest people, David Rothkopf writes: "The world's billionaires, those roughly one thousand individuals, have combined

I have now at long last arrived at the crucial dividing line between the Bible's explicit teaching on inheritance and the statistical reality of inheritance in the modern world. A tiny handful of anti-Christians control most of the world's wealth and power. There are about 6,000 people who are at the top in terms of wealth and power.<sup>15</sup> In other places, Rothkopf has said this elite numbers 6,600. There are about 7 billion people. This elite is fewer than one in a million. But this is normal. In every era, about one person in a million stands out from all the rest. This has been known for almost a century.<sup>16</sup> Yet Jesus said that few rich people enter the kingdom of God (Matt. 19:24).<sup>17</sup> So, the issue is this: Given the fact of the Pareto 20/80 distribution of wealth, which is close to universal, is Proverbs 13:22 annulled by Matthew 19:24? Is the wealth of the just laid up for the sinner?

The market order benefits customers. The rich serve customers. Customers spend their money, and the rich accumulate capital, but this is a stewardship function. The super-rich own capital. They cannot spend all of this wealth. They can sell their ownership shares, but they cannot consume their wealth fast enough to reverse capital accumulation. Their wealth enables them to buy the trinkets of civilization, but it does not extend their life expectancy by much, nor does it enable them to enjoy their wealth. What is known as the *hedonic treadmill* takes over. People adjust to increasing economic benefits. They are no happier with greater wealth—above subsistence—as a result of their increasing net worth.<sup>18</sup>

Yet there is no question that the truth of Matthew 19:25 remains true. Few rich people enter the kingdom. Then what of Proverbs 13:22? If it is still in force, as I believe it is, it points to a world-transforming Christian revival in the future that will change the theological confessions of the very wealthy. They will inherit from sinners, by being delivered from their

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greater wealth than that of the poorest 2.5 billion." *Ibid.*, p. 66.

15. *Ibid.*, p. 40.

16. David Stove, *The Enlightenment* (New Brunswick, New Jersey: Transaction, 2003), ch. 3. He called this "the Bateson fact," named after the British geneticist, who wrote about it in 1928.

17. North, *Priorities and Dominion*, ch. 38.

18. Dan Ariely, *The Upside of Irrationality: The Unexpected Benefits of Defying Logic at Work and at Home* (New York: Harper, 2010), ch. 6. This works both ways. People adjust to catastrophes in their lives. A person loses his eyesight or the use of his legs, yet in a few years, he says he is happy.

prior judicial status as covenant-breakers. In short, *this passage points to the truth of postmillennialism*. For, if postmillennialism is not an option, then the wealth of the just is laid up for the sinner. This is what we have seen on a scale never imagined by earlier generations. The great revival will negate Matthew 19:25. Inevitably, either Proverbs 13:22 has been negated by Matthew 19:24 on a permanent basis, or else Matthew 19:24 will not be in force at some time in the future.

If we take Matthew 19:24 as fixed throughout man's history, then we must adopt amillennialism: the doctrine of utter failure of the gospel to displace the society of Satan. The wealth of the just is laid up for the sinner. Money and power will remain the inheritance of covenant-breakers throughout history. They will provide leadership in all areas of life outside the Christian household and the Christian church, both of which will remain under siege until time ends. Jesus spoke of the defensive gates of hell as being unable to resist the offensive onslaught of institutional church (Matt. 16:18), yet in history, the defensive gates of the church will only just barely be able to resist the offensive cultural onslaught of covenant-breakers. In short, nice guys finish last.

## Conclusion

The economics of the family is inherently vertical: from father to children. The economics of the free market is inherently horizontal: competing bids for the use or ownership of scarce resources. The principle of *high bid wins* governs the free market. This bid is overwhelmingly monetary. It is impersonal. It is open to new bidders and new sellers. In contrast, the high bid of the family is established by the head of the household. This bidding system is non-monetary and highly personal. It is not open to new bidders and new sellers.

The deciding authority is the head of the household. He has the power and the authority to reject any bid. Society grants him this right, meaning this *legal immunity*, from outside bidding. His word prevails, because society holds him legally responsible for the outcome of his allocation of resources. In the language of economics, the head of the household retains ownership of family assets as the highest bidder. He ignores higher monetary bids. This is sometimes called *reservation demand*.<sup>19</sup> The goods that

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19. Murray N. Rothbard, *Man, Economy, and State: A Treatise on Economic Principles*, 2nd ed. (Auburn, Alabama: Mises Institute, [1962] 2009), pp. 137, 247.

he owns, as an agent of God and his family, do not enter into exchange. They are used or consumed inside the household. Some things he is not allowed by God's law or man's law to sell: those under his authority. On their behalf, he allocates scarce resources that the family possesses.

The head of the household, as both a legal agent (trustee) of God and an economic agent (sharecropper) of God, can act in terms of either his own hierarchy of economic values or the hierarchy of those under his authority. The drunkard acts solely in terms of his hierarchy of values. The covenant-keeper acts in terms of what should be the hierarchy of economic values of those under his authority. This hierarchy should conform to God's assessment of this hierarchy. Both God and the head of the household have the ability of compare interpersonally the subjective utilities of those under his authority. Modern economic theory officially rejects the existence of God as a meaningful analytical concept. It also rejects the ability of anyone to make such comparisons scientifically. But as soon as any economist offers a policy recommendation to the civil government, he does so only on the implicit but rarely stated methodological assumption that he can make such comparisons scientifically, and therefore people in power should adopt his recommendations.

The existence of the household is the greatest testimony against the methodological principle of the exclusive and universal reign of methodological individualism. The original realm of economics—the household—was the center of most economic decision-making until the modern world. Not until around 1875, at least seven decades after compound economic growth appeared as the relentless confirmation of private property, entrepreneurship, and the market economy, did economic theorists adopt the dual nominalism of methodological individualism and subjective imputation as the source of economic value. It was the widespread development of the limited liability corporation, which escalated in the United States around 1875, which made possible the transfer of economic power from the family to the corporation. The corporation is a legal fiction: an individual which can survive across generations. It is not an economic fiction. It has become the most powerful institutional and legal reality of the modern world. Legally, its model is not the family. Rather, it is the church: the first limited liability corporation.<sup>20</sup>

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20. Gary North, "Rothbard's Defense of Contractual Limited Liability," *LewRockwell.com* (Sept. 28, 2005). (<http://www.garynorth.com/snip/1062.htm>)

# 3

## BOUNDARIES

### Introduction

The central judicial-covenantal fact of the family is the right to exclude. The marital union is exclusive. This right of exclusion involves every area of the family's operations: property, authority over children, and inheritance.

In Chapter 3 of Part II, I discussed the relationship between name and boundaries. God announced His defense of His name in the Third Commandment. This is the third law in the list of five priestly laws. He announced the prohibition against theft—a defense of property—in the Eighth Commandment. This is the third in the list of five commandments relating to kingly rule or civil society.<sup>1</sup>

Families are legally separate judicial social units. They are covenantal units, because they are established by a mutual oath under God. They are identified by names. These names establish legal liability. A name is associated with a legal boundary.

### A. Name and Ownership

As I wrote in Chapter 3 of Part II, private property begins with a person's name. He is a legally identifiable agent. His name identifies him. It says, "you, not someone else." This is the basis of judicial responsibility. It is also the foundation of economic authority. This same analysis applies to a family as well as to an individual. I also went on to write this: "The authority

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1. On the dual lists, priestly and kingly, of the Ten Commandments, see Gary North, *Authority and Dominion: An Economic Commentary on Exodus* (Dallas, Georgia: Point Five Press, 2012), Part 2, *Decalogue and Dominion* (1986), Preface B:I.

to name things is a God-given authority. The person with the authority to establish names possesses a unique hierarchical position at the top. The question, ‘Who’s in charge here?’ can be accurately answered by identifying the person with the legal authority to name people and things.” This analysis also applies to a family.

Abram was a rich man (Gen. 13:2). He was the head of a household. He had a problem. He had no heir. He had a steward, Eleazar (Gen. 15:2). Unless he adopted Eleazar as his son, his family’s name would not extend beyond his death. God told him that he would have a biological heir (v. 4). God established a covenant with Abram at that point (vv. 5–6). His heirs would descend into Egypt. The fourth generation after the descent in Egypt would inherit the land of Canaan (v. 16).

The head of the family names the children. This usually is the father. He provides his children with legally identifiable boundaries: names. These names identify them as under his judicial authority until they become legal adults. Then their names identify them as judicial authorities. This act of separation marks them as trustees: legal administrators on behalf of God of God’s property. Whatever they own in their names belongs to God.

A married couple is no more married after three decades of marriage than they were at any time after their marriage. But their responsibilities have changed. Similarly, an individual is no more an individual at age 70 than he was on the day he was born. But his responsibilities have changed. The degree of responsibility increases with increased knowledge (Luke 12: 47–48).<sup>2</sup> The existence of a name makes clear who is responsible. This has to do with the book of life (Phil. 4:3).

A family’s name is less important covenantally under the New Testament than it was under the Mosaic covenant. In Israel, the family’s name was so important that if two brothers lived together, and a married brother died without leaving an heir, his brother was required to marry his sister-in-law (Deut. 25:5). Their oldest male would inherit the land that had belonged to the deceased brother (v. 6). This was the levirate marriage law.<sup>3</sup> Once the tribal system ended with the coming of the promised Messiah, Shiloh (Gen. 49:10), the levirate marriage law ended.

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2. Gary North, *Treasure and Dominion: An Economic Commentary on Luke*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 28.

3. Gary North, *Inheritance and Dominion: An Economic Commentary on Deuteronomy*, 2nd ed. (Dallas, Georgia: Point Five Press, [1999] 2012), ch. 64.

Family property comes under the head of the household, who is in charge of the family's property. He serves as a trustee, both for God and for those under his authority. By extending the family's ownership, it extends its jurisdiction. In the case of covenant-keeping families, this is the process of redemption: buying back the world forfeited by Adam as the trustee for his heirs.

With the decline of family-owned businesses, the connection of a family to its name has weakened. The degree of responsibility associated with a family's name has been reduced. Buyers trust names. A family name places the family's reputation on the line. This reputation extends to the family's business. This becomes a prejudice that can give a family an advantage or a disadvantage. The costs associated with a disadvantage make it profitable to avoid a bad reputation.

## **B. Resource Allocation**

My discussion on resource allocation in Section B of Part II, Chapter 2, goes over the basics of subjective value and objective pricing of scarce resources. The free market is governed by the principle of *high bid wins*. This is usually a monetary bid. It is impersonal on well-organized markets. Buyers and sellers do not know each other.

The head of a family acts representatively. He allocates in terms of his judgment regarding the conflicting values of members of the family. Inside the legal boundaries of the family, he treats people differently from those outside these boundaries. He is responsible to God for the administration of assets. He represents them legally (trustee). He acts as a trustee for family members as individuals, but also as an agent of the family as a covenantal unit.

This allocation is not governed by legal rules based on contract. He can give either more or less to a member in relation to another. If a child suffers from an illness or other handicap, the father allocates more time and money to that child than to a healthy child. This is unequal treatment. The family's resources are not part of a system of equality or even a system of fixed proportional claims. The family cares for the weak member. This is highly personal. A free market-based system of allocation is far more dependent on contracts between strangers.



Children are economic resources as well as liabilities. As they mature, their labor adds to the family's output. The two sons of a prophet who went into debt served as collateral for the loan. "Now there cried a certain woman of the wives of the sons of the prophets unto Elisha, saying, Thy servant my husband is dead; and thou knowest that thy servant did fear the LORD: and the creditor is come to take unto him my two sons to be bondmen" (II Kings 4:1).

When children mature and leave the household, the responsibilities of the head of the household are reduced. He represents fewer people. He is no longer required to balance as many conflicting values and goals as he did before. He still has a role as the builder of capital to be passed on to the adult children and their families. This responsibility is less intense and less immediate than it was when the children were under his authority. With reduced authority comes reduced responsibility (Luke:12:47–48).<sup>4</sup>

### C. Time and Place

Families extend beyond time and place. They begin in a time and a place, but extended families can extend the worldview of the family. This is another reason why fathers are to teach biblical law to their children (Deut. 6:7). The family's boundaries expand beyond time and place.

There is loss involved in such an extension. Competing ideas and experiences threaten to overcome the confessional inheritance of the family. Children who are out from under their parents' geographical authority may not maintain the same degree of confessional rigor as their parents did. This may affect the family inheritance in the broadest sense. But while the rigor of the family's confession can get weaker, the geographical impact of whatever confession remains may be greater. It reaches more people.

This weakening of the family's confession is well known with respect to recent converts to a worldview. The first generation defines itself in terms of the break that it made from the traditional confession. The children grow up in the confessional environment established by their parents. They did not experience the confessional break which their parents did. They did not pay a heavy price or experience negative sanctions. The family's confessional boundaries are familiar to them. These boundaries may be little more than background noise: easily adapted to and ignored. Their children will in

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4. North, *Treasure and Dominion*, ch. 28.

turn grow up in a confessional setting, but one far less rigorous than either their parents' confession or their grandparents' confession.<sup>5</sup>

Conventional economic theory would focus on the accumulation of capital over time. A family increases its per capita capital over time. But this is rarely achieved. In the modern world, only one family is legendary for this: the Rothschilds. Were the Sassoons better known, they might receive accolades as long-term builders of capital. In the United States, the Rockefellers are famous, but the founding father of the Du Ponts established his fortune at least 50 years before John D. Rockefeller began to establish his. There is no other family to match it in terms of manufacturing: growth and innovation for over two centuries. But as to their confession of faith, there has been no continuity. The entry on Wikipedia in 2014 did not mention the family's church connection. With 2,000 living relatives, the confessions are no doubt highly diverse.

The more skilled the children become in economic affairs, the greater the process of economic redemption. The children are supposed to carry the vision of the parents. This is part of the multiplication process. But we find that children depart confessionally from their ancestors' confessions. Also, large families disperse any inheritance. To maintain this inheritance per capita, the lineal families must achieve economic growth. To increase per capita inheritance down through the generations is exceedingly rare. Per capita wealth regresses to the mean when families become larger. The law of large numbers asserts itself.

Only through the maintenance of the confession, which includes the Bible's inter-generational postmillennial vision of the future,<sup>6</sup> can a family

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5. In early colonial American history in New England, 1630 to 1700, this theological decline was accompanied by the invention of a theological doctrine, the halfway covenant. The founding generation, 1630 to 1660, gave verbal testimony of their faith as a requirement to gain church membership in Congregational churches. This requirement was a new doctrine. Continental Calvinism did not require such personal testimony of conversion. The second generation tended not to join churches, not having had their parents' experience. Then what was the legal status of their children, who were not the children of church members? A new doctrine arose: the halfway covenant. The churches decided that they could be baptized lawfully, but they could not take communion or vote in church elections. The main book on this is Edmund S. Morgan, *Visible Saints: The History of a Puritan Idea* (New York: New York University Press, 1963).

6. Gary North, *Confidence and Dominion: An Economic Commentary on Psalms* (Dallas, Georgia: Point Five Press, 2012).

overcome regression to the mean beyond three or four generations. The Second Commandment says that this is possible to achieve. “Thou shalt not bow down thyself to them, nor serve them: for I the LORD thy God am a jealous God, visiting the iniquity of the fathers upon the children unto the third and fourth generation of them that hate me; And shewing mercy unto thousands of them that love me, and keep my commandments” (Ex. 20:5–6). The word “thousands” applies here to “generations.”<sup>7</sup> The observation that this has not been achieved in the past does not prove theologically that the promise of the Second Commandment is null and void under the New Covenant.

The amillennialist necessarily argues as follows. “The promise of the Second Commandment is hypothetical. It is an ideal. It is not connected to historical reality. It never has been. It never will be. Bible prophecy teaches this. History reveals that the blessings of God are showered on covenant-breakers, who down through the ages keep and extend the kingdom of man, which is the kingdom of Satan. God visits the iniquity of the fathers upon the third and fourth generation of those who hate him, and then He rewards this iniquity. The kingdom of man in culture will not be replaced by the kingdom of God. It is in fact a sin for covenant-keepers to pursue the creation of a Christian civilization. It is triumphalism. It is Constantinianism politically. God shows lovingkindness to covenant-keepers by placing them at the mercy—the tender mercy—of covenant-breakers. So, the correct way of interpreting the Second Commandment’s historical manifestations of blessings and cursings is to reverse the cultural positions of covenant-breakers—thousands of generations of cultural victory—and covenant-keepers: three or four generations of cultural victory, and then defeat through replacement of the confession. Or, putting this in the words of the Brooklyn Dodgers’ baseball manager Leo Durocher, ‘Nice guys finish last.’”

## D. Scarcity

I wrote this in Section D of Chapter 3 of Part II, on the individual covenant.

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7. Gary North, *Authority and Dominion: An Economic Commentary on Exodus* (Dallas, Georgia: Point Five Press, 2012), Part 2, *Decalogue and Dominion* (1986), ch. 22:C:3.

Scarcity is defined by economists as follows: “At zero price, there is greater demand than supply.” This is another way of saying “it commands a price.” Scarcity imposes boundaries on men. It means that they must gain more assets in order to increase their consumption. They must extend their jurisdiction. There is also a scarcity of time. People die.

This applies differently to institutions. They need not die. There is replacement: *succession*. Surely this is true of the church. It is somewhat less true of the state. Families extend through time, but their continuity is far less meaningful than the continuity of churches and states. Few people know anything about their ancestors a hundred years previously. They know a great deal about their nations’ histories. They can find out a great deal about the history of large denominations. But church history is not a popular field, even within denominations.

Scarcity can be overcome through compound economic growth, but until 1800, it was always reversed. Population growth always led to a reversal of economic growth—what is called the Malthusian trap.<sup>8</sup> Population pushed to the limits of man’s environment. Then the rate of population growth slowed, and per capita wealth stagnated once again. Men have prayed some version of “give us this day our daily bread” down through history. Famines were real threats. So was malnutrition. They no longer are in the industrial West.

It was not that birth rates fell before 1800. Infant mortality and child mortality rose. Families buried their children. Adam Smith wrote in 1776,

But poverty, though it does not prevent the generation, is extremely unfavourable to the rearing of children. The tender plant is produced, but in so cold a soil, and so severe a climate, soon withers and dies. It is not uncommon, I have been frequently told, in the Highlands of Scotland for a mother who has borne twenty children not to have two alive. Several officers of great experience have assured me, that so far from recruiting their regiment, they have never been able to supply it with drums and fifes from all the soldiers children that were born in it. A greater number of fine

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8. Gregory Clark, *A Farewell to Alms: A Brief Economic History of the World* (Princeton, New Jersey: Princeton University Press, 2007), Part I.

children, however, is seldom seen anywhere than about a barrack of soldiers. Very few of them, it seems, arrive at the age of thirteen or fourteen. In some places one half the children born die before they are four years of age; in many places before they are seven; and in almost all places before they are nine or ten. This great mortality, however, will every where be found chiefly among the children of the common people, who cannot afford to tend them with the same care as those of better station. Though their marriages are generally more fruitful than those of people of fashion, a smaller proportion of their children arrive at maturity.<sup>9</sup>

Parents burying their children has been uncommon in the era after the development of sulfa drugs in the 1930s. Yet it had been universal throughout recorded history. No greater economic benefit exists—no more universally recognized economic benefit—than this: children bury their parents with far more regularity than parents bury their children.

## E. Economic Growth

There is an intense desire of parents to see their children living as adults in a better world. Mainly, this refers to economic growth. Parents in Western Europe since about 1850 have had legitimate hope in the West that their children would live in a richer world. This was not clear in 1800. It was becoming clear in 1850. The culturally representative turning point was probably the London exhibition of 1851. Manufacturers came from all over the West to display their products in national pavilions. It was called the Great Exhibition, and great it was. Wikipedia reports: “Six million people—equivalent to a third of the entire population of Britain at the time—visited the Great Exhibition. The average daily attendance was 42,831 with a peak attendance of 109,915 on October 7. The event made a surplus of £186,000 (£16,190,000 as of 2013), which was used to found the Victoria and Albert Museum, the Science Museum and the Natural History Museum.”

With the arrival of compound economic growth in 1800, the thinking of the Western world began to change. What had been understood in

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9. Adam Smith, *The Wealth of Nations*, Book I, Chapter 8, “On the Wages of Labour.”

theory as early as 1650 in Holland became a reality in 1800. This was a kind of economic postmillennialism, but without a Christian confession. Before 1800, specific families would grow larger, but at some point, families in general could not, unless some families ceased to grow or there was sufficient economic growth to accommodate new arrivals. This restraint hampered population growth until 1800. Then it was loosened. World population grew from a billion people to seven billion in two centuries. The birth rate increased because of younger marriages, infant mortality decreased, and life expectancy increased. Per capita wealth worldwide increased by at least a factor of 10.<sup>10</sup> It may have increased by a factor of 45 in Norway, and by 40 in the United States.<sup>11</sup> South Korea is the most astounding case. Its per capita wealth increased by a factor of 18 in the four decades after 1953.<sup>12</sup> McCloskey capitalizes this economic growth as the Great Fact of the modern world. This process deserves to be capitalized. We have seen the preliminary conquest of scarcity in the last two centuries. If this growth continues for another five decades, there will be few destitute people in the world,<sup>13</sup> and there will be nine billion people. Two questions arise: (1) Why did this begin in 1800? (2) Why did it begin in Great Britain and the United States? There is no answer as of 2014, although I regard this as the most important historical question there is. The world changed after 1800 as never before in recorded history. It got rich. We do not know why.

## Conclusion

The family is bounded. It is bounded by confession, by the number of children, by the size of its capital, by geography, and by time. But it can extend across borders and through time. It need not die out. The possibility of family growth is basic to the covenantal promises of the Mosaic law.

The absence of long-term family growth until 1800 seemed like a negation of this promise for most of man's history. Families always reached their limits to growth, and did so within a few decades. The death rate then rose for children and adults. Families reached their economic limits. But

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10. Dierdre McCloskey, *Bourgeois Dignity: Why Economics Can't Explain the Modern World* (Chicago: University of Chicago Press, 2010), p. 2.

11. *Idem*.

12. *Ibid.*, p. 50.

13. *Ibid.*, p. 3.

then, without warning in 1800, this changed in Great Britain and English-speaking North America. The vast lands of Canada and the United States allowed migration westward. The narrow band of about a hundred miles from the Atlantic ceased to be a major barrier to expansion. Families grew.

One man had seen this as early as 1783, the year that the United States attained its treaty of independence from Great Britain. In a long election day sermon, Rev. Ezra Stiles, the president of Yale college, forecasted that the United States might have 300 million residents in 2000. This is almost exactly what it had. “Already for ages has Europe arrived to a plenury, if not declining, population of one hundred millions; in two or three hundred years this second enlargement may cover America with three times that number, if the present ratio of increase continues with the enterprising spirit of Americans for colonization and removing out into the wilderness and settling new countries, [...]”<sup>14</sup> This was published 15 years before T. Robert Malthus’ anonymously published book, *An Essay on Population*, appeared in print. Malthus argued that population will always reach the limits of its food supply. He had the weight of history on his side, but he was wrong—at least so far. But this unprecedented expansion of population seemingly had nothing to do with national confession. Politically-judicially, the national confession is adherence to the United States Constitution, an explicitly non-biblical document.<sup>15</sup>

Christian families do not retain their confessions down through the generations. Jews seems to be an exception, but what they maintain is not theological confession. They are identifiable by their commitment to cultural Judaism. (Reform Judaism is as liberal theologically as liberal Protestantism.) This abandonment of Trinitarian confession breaks the covenantal promise of Deuteronomy 8:17–18. The law of large numbers—regression to the mean—overcomes the per capita wealth of future generations. This seems to annul the promises. Amillennialists prefer to argue that these promises did not extend into the New Covenant. But if this is true, then the promises were nothing more than unattainable ideals, for the theology of the Mosaic covenant was not maintained in Persia by the creators of the oral tradition that became the written Talmud after Bar Kochba’s rebellion against Rome in A.D. 133–35. So, the confession was not maintained by the

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14. Ezra Stiles, *The United States Elevated to Glory and Honor* (1783).

15. Gary North, *Conspiracy in Philadelphia: Origins of the United States Constitution* (Dallas, Georgia: Point Five Press, [2004] 2013). (<http://bit.ly/gnconspire>)

Hebrews. Neither was per capita wealth. The Jews in Jesus' time were not known for their wealth.

Either the promise is still in force, or else it was always an unattainable ideal. The theonomic postmillennialist argues that it is still binding. There can still be confessional continuity over generations. There can be sustained economic blessings based on covenantal faithfulness. Families are bounded, but far less so than before 1800. Economic blessings have accompanied increasing apostasy. The secularization of culture has accompanied economic growth. The period of the most rapid economic growth in the United States, 1865 to 1914, was marked by the harnessing of energy: coal, oil, and electricity. It was also marked by huge immigration.<sup>16</sup> It was not marked formally by a confession of faith, although the culture remained Protestant, with a strong Catholic subculture.

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16. Robert Higgs, *The Transformation of the American Economy, 1865–1914: An Essay in Interpretation* (Auburn, Alabama: Mises Institute, [1971] 2011).



## 4

# IMPUTATION

## Introduction

My introductory remarks in the chapter on “Imputer” in Part II covers the connection between the Calvinist doctrine of judicial imputation and the Austrian School’s doctrine of economic imputation. Calvin began with the presupposition of God’s judicial imputation to each individual regarding his status as either saved or lost. Carl Menger in 1871 began with the autonomous individual who imputes economic value to specific goods and services. Calvin’s doctrine of imputation was judicial and theocentric. Menger’s doctrine of imputation was economic and anthropocentric. Calvin believed in the sovereignty of God. Menger believed in the sovereignty of the individual.

Calvin’s doctrine then moved from God to man: casuistry. Casuistry is the individual’s application of God’s law to specific cases. The individual can make such imputations only because of the fact that he is made in God’s image. He can think God’s thoughts after Him, as a creature. In contrast, Menger had no comparable epistemology: an epistemology of *judicial representation*. He began with the fact of economic imputation. He did not make an epistemological case for the possibility of imputation. He did not ask the crucial question: “What can a man know, and how can he know it?” His follower, Ludwig von Mises, adopted Kant’s epistemology. Kant’s dualism<sup>1</sup>—phenomenal (ideal of science) vs. noumenal (ideal of personality)—is inherent in Mises’ epistemology. The same was true of Mises’ disciple, F. A. Hayek.<sup>2</sup>

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1. Richard Kroner, *Kant’s Weltanschauung* (Chicago: University of Chicago Press, [1914] 1956).

2. Gary North, *Sovereignty and Dominion: An Economic Commentary on Gen-*

The central question for all epistemologies that are based on a theory of individual imputation of meaning, causation, and value is this: *How can the imputations of theoretically autonomous individuals explain decision-making by groups?* This is an application of the recurring philosophical problem of the one and the many. If we begin with the autonomy of the individual, we soon must face the fact that he is not autonomous. There are other imputing individuals in this world. He interacts with lots of them. To make sense of our world, we must have a way to assess the relevance of competing imputations. We must assign “weight” to individual imputations, and then “add up” the value of all of them. But no such value scale exists, according to the methodological individualist.<sup>3</sup> If this is true, then this makes all representative decision-making on behalf of a group scientifically impossible. It also raises the question of who possesses the lawful authority to make such representative decisions. On what basis? *Every epistemology of autonomous man soon crashes into the rocks of competing men.* No individualist epistemology is known to have survived this crash.

Once a procedure becomes scientifically impossible on its own terms, the humanistic economist is reduced to sociology. This is the fate of all economic theories of individual imputation. The alternative to sociology is either physics or silence. Either the methodological individualist must dismiss the scientific relevance of representative imputations and therefore also representative decision-making, thereby remaining mute with respect to collectives, or else he must lay down the economist’s toolkit and pick up the sociologist’s knapsack. This is a humiliating experience, but epistemologically necessary.

### A. Valuation Is Inescapable

God evaluated the effect of His daily creative work on all days except day two (Gen. 1). This was an individual’s evaluation of His individual work. But Christianity teaches that God is three persons as well as one God. So, this imputation was also corporate. So was the creation. Only Christianity announces such a doctrine.

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*esis* (Dallas, Georgia: Point Five Press, 29012), Appendix B.

3. Lionel Robbins, *An Essay on the Nature and Significance of Economic Science* (London: Macmillan, 1932), ch. VI.

There was unity of purpose in the creation. But God said "Let us make man in our image" (Gen. 1:26a). The image of God is both singular and plural. Therefore, so is mankind, who as a species is made in God's image. The ability of men to make corporate judgments is inherent in the being of God and the being of man, both individual man and corporate man. This is why Christian economics can deal successfully with the epistemological issue of the one and the many. In the field of economics, the problem of the one and the many begins with epistemology, as it does in all other academic disciplines. The question of epistemology is this: "What can man know, and how can he know it?" It applies to individuals and collectives in every area of thought.

In every area of philosophy there is *axiology*: value theory. The same questions arise. What is value? How can men discover it? Is it independent of men? Is it imputed by men? Are we speaking of individuals or collectives? But in no social science is the question of axiology more important than economic theory. The central issue that the economist deals with is this: "What is the relationship between value and price?" This question has its individualistic side, but more important is its corporate side. If value is imputed individually, how do we know that the outcome of competitive bidding in a free market corresponds to the aggregate valuation of the participants? The socialist denies that it does. He denies that the process of competitive bidding leads to socially beneficial outcomes. He calls for state coercion to establish socially beneficial collective value. *To establish socially beneficial outcomes, a representative state agency must allocate scarce resources.* This is the heart, mind, and especially soul of socialism.

The problem of socialist valuation is an extension of the problem of family valuation. The outcome of allocation by the head of the household is the central epistemological issue. How can the head of the household maximize the value of the scarce resources at his command? He must consider the individual evaluations of family members. Then he must evaluate the accuracy of these judgments in terms of a standard. What standard? His own value scale? Or a composite value scale of all family members? Or a weighted value scale, weighted in terms of the capacities and responsibilities of each family member? Methodological individualism denies the existence of any such scale. But, if this is true, then are the estimates of the head of the household epistemologically irrelevant, an exercise in self-delusion? If there is no Trinitarian God, the answer is yes. There is no judicially authoritative

corporate many in any autonomous act of individual economic imputation. There can therefore be no economically authoritative corporate many in the act of imputation. So, the head of a household cannot represent such a God. He is on his autonomous own. Nevertheless, he must make decisions. He allocates resources. By what standard?

## B. Responsible Evaluation

My comments here are extensions of what I wrote in Section B of Chapter 4 in Part II. They have to do with thinking God's thoughts after Him. This exercise begins with the presupposition of God's law. This law applies to individuals, who are held responsible in history and eternity. But it also applies to corporate entities. The decision-makers must begin with any laws of God that apply to the corporate entity, either through biblical revelation or through the logical extension of biblical revelation. This is Christian casuistry: the application of biblical principles to historical circumstances.

We know from the story of Achan that families are held responsible for decisions made by the head of the household (Josh. 7:22–26).<sup>4</sup> Achan believed that his family would prosper through his theft of forbidden wealth at Jericho. He hid the goods in his family's tent. There was corporate knowledge of this act. There was consent. God's judgment came on the family. There was corporate judgment, so there was responsible evaluation by the head of the household, but also by other members. They evaluated judicial cause and effect. Then they evaluated economic cause and effect.

Responsibility is four-way: upward to God, outward toward society—as manifested both in market demand and charitable need—downward toward family members, and inner: ethical conscience and personal needs. The head of the household is required by God to consider this complex array of competing demands on the family's resources. The allocation is economic, but the responsibility is judicial.

The head of a household makes valuations on behalf of each of the members of the family. He must take into consideration what God requires of each member. He must also consider God's expectations regarding the family as a covenantal unit. This makes his position as the head of the

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4. Gary North, *Disobedience and Defeat: An Economic Commentary on the Historical Books* (Dallas, Georgia: Point Five Press, 2012), ch. 5.

household highly complex. God holds him responsible for the accurate assessment of the value scales of each member, as well as the potential net output of each member. He must consider short-run net output and long-run. He then must motivate each member to maximize his or her output. He must assess their legitimacy. He must fund these individual plans.

Because there are sometimes market prices of comparable services outside the household, the decision-maker can substitute market prices. He must discover the prices charged for comparable services, and then assess to what extent these “shadow prices” are relevant inside the household. Maybe he can pay one family member the equivalent of what it would cost to mow the lawn. But how can he charge this member what room and food would cost? These would be pseudo prices. The exact market value of this family member’s living space, shared with siblings, is not available.

The mixture of market prices, pseudo-market prices, and no market prices confronts decision-makers in every corporate organization. It confronts the heads of corporations. Corporations have difficulty in assessing the costs of research divisions and most other divisions. Only the sales division, operating on commissions alone, is close to a market pricing system. The exact economic value of a salaried employee is difficult to assess, both for the employers and the employee. It has something to do with replacement value. But it also has something to do with the market value of loyalty, the market value of understanding the unwritten rules, and the market value of career inertia. Corporate managers are loosely restrained by the profit-and-loss statement, but they are rarely sure which institutional arrangements should be left alone, which should be restructured, and at what cost. This calls for *intuitive judgment*, i.e., judgments where economic cause and effect are not strictly numerical. But economic judgments are never strictly numerical. The complexity of such imputations of value has led to a highly abstract and little-understood theory of the firm. Yet we might imagine that a theory of the firm would be explainable in terms of simple principles of market substitution of services.

### **C. Criteria: Individual and Corporate**

In Chapter 4 of Part II, I explained why economic value is derived from ethical value, an epistemological position that is contrary to the prevailing notions of humanistic economic theory. I stated that the criterion of eco-

conomic value is this: *the extension of the kingdom of God in history*. Economic theory is not value-free. It is value-derived.

The head of a household is required by God to use the kingdom of God as his standard of economic value in assessing the profitability of any course of action. He is supposed to allocate family capital based on this criterion. He acts as a steward of God, both judicially (authority) and economically (wealth). He acts on behalf of God: extending the kingdom of God. He acts as a steward of his family: extending its inheritance in history. The steward has the middleman aspect of it. It is both judicial and economic. He is judicially responsible before God. The rewards and penalties of stewardship are both judicial and economic. By means of successful stewardship, his responsibilities increase (Luke 12:47–48).<sup>5</sup>

The parable of the talents focuses on economic investment. A resource owner gives capital to three servants. He tells them to administer it until he returns. At his return, he assesses each steward's performance. The details of the parable are different in Matthew and Luke. In Matthew's version, the focus is on economics: investing a total of five coins (Matt. 25:14–30). In Luke's version, the focus is on rulership (Luke 19:12–27). Ten servants get one mina (small coin) each. At the accounting, one man has made 10 to one; another man has made five to one. The first man is given rulership over 10 cities. The second is given rulership over five cities. The third man in both versions is cast out. Luke's version makes this point: *success in economics is a surrogate for effective rulership*. Why should this be true? Because of the principle of biblical stewardship: it is both judicial and economic. I will consider Luke's version in greater detail in Part V, on the civil covenant.

The criteria of family economic success are varied. Parents are to teach their children the law of God (Deut. 6:7).<sup>6</sup> We see this applied in the instruction in Proverbs, especially chapters 1 through 9. This instruction is based on the assumption that God's law is valid through history and across geographical borders. Second, it assumes that children can be taught the principles of understanding this law and then exercising judgment in applying the appropriate laws to specific cases. This is the skill of biblical casuistry.

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5. Gary North, *Treasure and Dominion: An Economic Commentary on Luke*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 28.

6. Gary North, *Inheritance and Dominion: An Economic Commentary on Deuteronomy*, 2nd ed. (Dallas, Georgia: Point Five Press, [1999] 2012), ch. 15.

This skill begins in the context of the family. The family, not the church, is the central agency in the transmission of the skill of casuistry.

The classic example in the New Testament of the transmission of family values is Jesus' parable of the prodigal son (Luke 15:11–24).<sup>7</sup> At his son's request, a father gives his younger son an early inheritance. He squanders it. He departs from his home. He departs from his country. He falls into bad company. Then, penniless in a pig sty, he comes to his senses. He correctly evaluates his condition. The pigs live better than he does. He then devises a plan of action. He will return to his father's house, where he will apply for work as a servant. When he returns, penniless, to offer his services as a servant, his father rejoices at his return. "For this my son was dead, and is alive again; he was lost, and is found. And they began to be merry" (Luke 15:24). This was *covenantal resurrection*. His judicial condition had been lost. Now it was found. The son had come to his senses, meaning covenantal senses.

The older son was upset. Why throw a party for the younger son? Because sonship had been restored. But the older brother remains the heir: "all that I have is thine" (Luke 15:31b). The restoration of sonship did not change the economics of inheritance. The family was restored judicially, but the inheritance of the prodigal son still reflected his squandered capital. It was gone.

The parable is about the gentiles and Israel. The gentiles were being restored, after years of wandering. The Israelites resented this. They did not understand that the judicial restoration of the family of God did not threaten the Israelites' economic inheritance, assuming that they remained faithful, which meant rejoicing at the restoration of the gentiles. But the Israelites remained hostile. So, they lost their inheritance, as Jesus had prophesied. "Therefore say I unto you, The kingdom of God shall be taken from you, and given to a nation bringing forth the fruits thereof" (Matt. 21:43). The repentant prodigal sons re-claimed their judicial status as sons of God. The Israelites refused, and they were disinherited in A.D. 70. So, the parable is about judicial imputation. It is about the role of repentance, and the context is the family. The younger brother had evaluated poorly, and then came to his senses. The older brother had evaluated wisely, but then faced a choice: to uphold his own righteousness or to rejoice with his father. *The issue was the judicial restoration of the family*. "It was meet [fitting] that we should make merry, and be glad: for this thy brother was dead, and is alive again; and was

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7. North, *Treasure and Dominion*, ch. 37.

lost, and is found" (v. 32). The father rejoiced, the younger son rejoiced, but the older brother hesitated. Jesus was making a point: rejoice with God the Father regarding the restoration of sonship of the gentiles.

### D. Value and Price

The parable of the prodigal son is about judicial imputation. This judicial imputation is based on the father's announcement of the son's judicial status as a son. But this is different from economic imputation. The prodigal son was not made richer than he was before he departed. But he was richer than he was in the pig sty. He had correctly imputed his economic condition then, which is why he returned to his father's house.

The father was the owner of the resources that remained after the prodigal son departed, inheritance in hand. The father told the older brother that all which he possessed belonged to the older brother. Why did he say this? Because he understood his role as a steward of the family's capital. He held it in trust judicially for the future heirs. The heir would be the older brother.

The older brother—Israel—so resented the party put on by the father to celebrate the return of the younger brother that he was threatening his own inheritance. By breaking covenant with his brother through his resentment, he displayed envy. He was willing to put his inheritance at risk by resisting the celebration of the return of his brother. He regarded his father's celebration as an affront. He imputed greater value to the party his father had never celebrated for him than he imputed to his inheritance. He wanted to be honored for his steadfastness. He was willing to risk disinheritance by refusing to attend the party. If his father disinherited him, the younger brother would become the heir.

This is the pattern in the Bible. *The younger brother inherits because of the sin of the older brother.* Seth is the first example; he replaced Cain. Isaac is another; he replaced Ishmael. Jacob is another; he replaced Esau. Jesus is the central example: the second Adam (I Cor. 15:45–47), not the first. The sin of Israel was the sin of the older brother in the parable of the prodigal son. He relied on his own works. His younger brother relied on his father's mercy.

The younger brother imputed greater value to his father's house than to the pig sty. His older brother imputed greater value to his own economic steadfastness than to his father's mercy. These were competing economic



evaluations within the household. Jesus warned His listeners not to side with the leaders of Israel. He sent the disciples to the cities of Israel, but He acknowledged that the great examples of faith in His day were the Roman centurion (Matt. 8:10) and the Canaanite woman (Matt. 15:28). This was a warning to Israel, the older brother. The gentiles were more concerned with receiving Jesus' mercy than with receiving the inheritance, which they could not legally claim. Yet Jesus told the Jewish leaders that God's kingdom would be removed from them and given to a new nation (Matt. 21:43). This new nation was the gentile church.

When the inheritance is transferred from the older son to the younger son, because of the repentance of the younger son, there are rival evaluations of economic value. The older brother places greater value on his own external obedience—self-righteousness—than on his need for submission and repentance. God the Father places greater value on submission and repentance. In the parable of the prodigal son, the prodigal son evaluates the comparative value of the income stream from feeding pigs vs. the income stream from working as a servant back home. His evaluation is correct. The price is his return home. He pays this price. The older brother evaluates the income stream from separating himself from his brother's party vs. his own disinheritance. He seems ready to choose disinheritance. This is what Israel did choose.

*Imputation economically reflects imputation judicially.* The meek shall inherit the earth. But this imputation is based on faith. It is not always clear in history that covenant-keepers have an advantage economically over covenant-breakers. Indeed, history seems to testify to the opposite. But history is not over. This same anomaly initially bothered the author of Psalm 73. He changed his mind later.<sup>8</sup>

## E. Value-Added Living

Individuals impute economic value. Individuals are responsible for the accuracy of these imputations, case by case. This ability is grounded in God's economic imputation.<sup>9</sup>

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8. Gary North, *Confidence and Dominion: An Economic Commentary on Psalms* (Dallas, Georgia: Point Five Press, 2012), ch. 17.

9. Part II, ch. 3:E.

There is no possibility of a cardinal scale of value: numerical designations. There is only an ordinal value scale: first, second, third. This is because man is an analogical being. He is not digital. He is made in God's image. God is personal, not digital.

The act of imputation is always representational. Man imputes value on behalf of God: the cosmic Owner. He also imputes it on behalf of any subordinate owners of the assets involved. This act of economic imputation is always governed by the judicial category of ownership. *Economic ownership is always an extension of judicial ownership.* It is not autonomous. Nothing in the creation is autonomous.

The head of a household makes estimates of the value of future potential streams of income. He then allocates resources under his control to buy or lease control over these income streams. In other words, he estimates in terms of *the economic value of future legal ownership.* Imputed economic value drives legal ownership, but legal ownership secures future economic value. If there were no possibility of securing ownership, the division of labor would contract. The range of cooperative ventures would shrink. The ability to make estimates influences the array of assets owned, but this ability is valuable only because of the possibility of securing ownership.

The art of estimating future value presupposes cause and effect: sanctions. It also assumes linear history. There is causation over time. If there were not, the ability to estimate future value could not exist. It would be overwhelmed by randomness. The individual could not plan for an objective outcome. This outcome is in part legal and in part economic. Legal: "Will I still own it?" Economic: "What will it be worth?"

The head of the household acts on behalf of others. This is the *trustee* function. He also acts in terms of expected future value. This is the allocation or *auctioneer* function. He may have no present legal relationship with future customers, but at some point, there will be a legal exchange of ownership. He acts as a steward for future owners, who will pay him to secure ownership. He is not a legal trustee for these people, but he is an economic agent: an auctioneer. This is why ownership is a social function.

Abram was a trustee of family assets. He was a trustee for sons to come, God told him (Gen. 15, 17). This was a covenantal promise. He was told that he would have many heirs. God changed his name to Abraham: father of nations. This mandated a stewardship function. He would have to leave an inheritance. It would have to increase in order to match the increase in

heirs. He had to plan for an objective outcome: biological heirs. He had to make resource allocation decisions in terms of this objective outcome. The numerical units were analogical: like the stars above and the sand of the sea. That is, they were objective. What was not objective was the future capital legacy per capita. That would have to be imputed.

Part of this inheritance was collected by the Israelites at the time of the exodus. They borrowed from the Egyptians. They would not repay, for they were leaving Egypt. This was a *transfer of inheritance* from the families of the dead firstborn sons. It was also a *restitution payment* from the entire population on behalf of the line of Pharaohs, who had enslaved them.<sup>10</sup>

Economic growth is the product of accurate forecasting coupled with resource allocation. These activities assume a system of private ownership. They also assume a world of economic causation: predictable sanctions. If there were no sanctions—profit and loss—there could not be economic rationality. But these twin sanctions must be enforced by customers in a free market order. *There must be decentralized private ownership.* Without this, central planners are flying blind. This was Ludwig von Mises' point in his 1920 essay, "Economic Calculation in the Socialist Commonwealth."

## Conclusion

The biblical explanation of economic imputation rests on the biblical system of private ownership. An owner is a legal trustee (vertical-judicial), an economic steward (vertical-economic), and an auctioneer who acts on behalf of high bidders (horizontal-economic). The head of a household is the biblical model of this arrangement. He acts legally on behalf of God, himself, and his heirs. He acts economically on behalf of all these, plus future customers: the resource-bidding public.

Subjective economic imputation undergirds the system of competitive bidding, which is objective. People with resources make estimates of future economic value. Then they enter the market and make bids for legal control over scarce resources. This produces prices on capital markets. These markets assume the existence of a system for transferring ownership. It is governed by this economic principle: *high bid wins*.

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10. Gary North, *Authority and Dominion: An Economic Commentary on Exodus* (Dallas, Georgia: Point Five Press, 2012), Part 1, *Representation and Dominion* (1985), chaps. 6, 12.

Economic planning is an extension of the practice of casuistry: the application of unchanging principles to changing historical circumstances. These are moral principles, according to the Bible. Humanistic economics denies this. It treats the unchanging principles as autonomous. It treats them as value-free. But it suffers from the dualism that afflicted Greek philosophy: there is no point of contact between the unchanging logical principles (Parmenides) and historical flux (Heraclitus). The models are separated from history.<sup>11</sup>

The skill of economic casuistry is to be taught to one's heirs. This is an aspect of the teaching of God's law (Deut. 6:4–8).<sup>12</sup> God's law encompasses the realm of economic theory resource allocation. So does covenantal instruction.

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11. Mises was less vulnerable to this criticism, but by invoking the evenly rotating economy as a substitute for neoclassical equilibrium, he exposed his system to this criticism.

12. Anyone searching for an explanation of why Jews are prosperous should begin here.

## 5

# LEGACY

### Introduction

The Introduction to this chapter is Chapter 5 of Part II. Everything I wrote there serves as an introduction to this chapter.

### A. Multiplication

The call to multiplication comes in the dominion covenant. “And God blessed them, and God said unto them, Be fruitful, and multiply, and replenish the earth, and subdue it: and have dominion over the fish of the sea, and over the fowl of the air, and over every living thing that moveth upon the earth” (Gen. 1:28). It was repeated with Noah: “And God blessed Noah and his sons, and said unto them, Be fruitful, and multiply, and replenish the earth” (Gen. 9:1). There is no question that this is an ethical mandate given to all mankind.

Population growth internationally is the product of two factors: (1) a birth rate higher than the reproduction rate, which is 2.1 children per couple; (2) longer lifespans, beginning with newborns. The world since 1800 has achieved the second through the advent of capitalism. In every society, this increase in lifespans has been accompanied by declining birth rates. The world had about a billion people in 1800. It has well over seven billion today. There is no record of such rapid expansion prior to 1800. Large populations were not sustained. This is sometimes called the Malthusian check on population. When Malthus’ initially anonymous *Essay on Population* was published in 1798, he appeared to have all of the demographic evidence on his side. By the time of his death in 1834, it was not clear that he had been

correct about natural limits to population growth. By 1850, it was clear that he had been incorrect.

The advancing technologies of food production expanded production rapidly after 1840, most notably the mechanical reaper. The falling costs of transportation by canals and especially railroads and ocean shipping also added to the food supply. This has continued ever since. The supply of food has remained ahead of population growth. Farm output per capita went exponential under capitalism. The expansion of cities is the best proof of this.

Birth rates began falling in industrial societies in the late 1800s. Only after 1916 did contraceptive information become generally available in the United States. Margaret Sanger was arrested for having provided this in 1916. Great Britain followed suit in 1921. This led to a fall in the birth rate in both nations. The Great Depression accelerated this decline. It rose after World War II in the United States, peaking in 1958 at four children per family. It has declined since then.<sup>1</sup>

When families become richer, they have fewer children. This phenomenon has become universal. In backward societies, this decline is both rapid and steep when women receive formal education. In the industrial West, including Japan, all nations are reproducing below the replacement rate. At some point, this will reverse. New attitudes will replace today's attitudes, unless the human race dies off. It will not die off.

## **B. Future-Orientation**

In Section B of Chapter 2 of Part II, I discuss future-orientation and population growth. My basic point is that having a large family is an assertion of low time-preference. The costs of children today are seen as worthwhile, given the increased output of adult children in the future. So, a large family is a capital investment.

This future-orientation exists in primitive societies with high death rates for children. Having large families is a form of capital investment: an old age insurance contract. Large families increase the likelihood that one son will reach adulthood. He will then be able to support his aged parents. But in the twentieth century, the increase in per capita wealth and the rise of compulsory state-funded retirement programs persuaded families

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1. In the recession year of 2008, the birth rate in the United States fell below the replacement rate.

that they would not need to become dependent on their own children for support in their old age. Also, mortality rates for infants and young children plummeted. So, the personal incentive to have large families declined. So did family size. This change in outlook has become universal in the West.

When the service aspect of a growing population is seen as extending beyond the family, birth rates are less likely to fall below replacement rate. Parents who view large families as a means of extending their worldview have a greater incentive to have large families. They see the return on investment in terms of the benefits to a future society.

This need not be a denial of personal self-interest. Jesus told His disciples to lay up treasure in heaven by paying for this by reduced income in history. "Lay not up for yourselves treasures upon earth, where moth and rust doth corrupt, and where thieves break through and steal: But lay up for yourselves treasures in heaven, where neither moth nor rust doth corrupt, and where thieves do not break through nor steal: For where your treasure is, there will your heart be also" (Matt. 6:21–23).<sup>2</sup> This principle applies to the costs associated with large families. Parents experience reduced net personal income in their child-rearing years. They may see this as a kingdom-building activity. They rely on Jesus' promise of greater rewards beyond the grave. This is not self-denial. It is low time-preference. It is high future-orientation. It is what Edward Banfield called the upper-class mentality.<sup>3</sup> This refers to post-resurrection economic status.

For those who affirm postmillennialism, this willingness to accept lower net income in the present for the sake of the future refers also to history. The postmillennialist does not believe, as the premillennialist does, that Christian capital in the aggregate will suffer a discontinuity prior to the time when Jesus comes to set up a thousand-year earthly kingdom.<sup>43</sup> He sees continuity. He does not believe, as the amillennialist does, that Satan inherits in history through his earthly disciples. He does not believe, as the

2. Gary North, *Priorities and Dominion: An Economic Commentary on Matthew*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 13.

3. Edward Banfield, *The Unheavenly City Revisited* (Boston: Little, Brown, 1974), pp. 57–59.

4. The historic premillennialist believes in a future "great tribulation," which will immediately precede Christ's bodily return. The non-tribulational dispensational premillennialist believes that the church will be raptured out of history before the great tribulation, but Christian capital will be destroyed during this tribulation period.

amillennialist does—but refuses to say in public—that the wealth of the just is laid up for the sinner. He believes in compound economic growth of the kingdom of God in history. The wealth of the sinner is laid up for the just (Prov. 13:22b).<sup>5</sup>

National governments, beginning with the Nazis (National Socialists) in Germany, encouraged large families. In the post-World War era, Scandinavian nations adopted pro-natal policies of birth subsidies and child care subsidies. These policies have invariably failed to reverse the decline in birth rates. The substitution of state subsidies to offset a decline future-orientation has failed to bring the birth rate back to the replacement rate.

### C. Imitation

Fathers are to teach their sons the law of God (Deut. 6:7; Prov. 4:3-4). This is an aspect of covenantal continuity in history. The law of God is supposed to bind the generations. The family is the chief agency of this binding. This continuity is supposed to be a continuity of word-and-deed evangelism. The children are to see that the law of God produces success in history. They are supposed to see what pagan nations are supposed to see (Deut. 4:5-8).<sup>6</sup>

Success should have imitators. This concept is basic to economic theory. Economists believe that a competitive advantage in the free market that produces an above-average rate of return will be imitated. Entrepreneurs want to appropriate a share of these above-average profits. So, they will seek to discover what advantage a competitor possesses, and then they will imitate it. When they do, output increases. The prices of resources associated with this line of production increase, at least until new innovation emergences. Thus, the spread between costs and revenues narrows. The original competitive advantage disappears. This process of competition brings benefits to customers. They are the long-term beneficiaries of the entrepreneurs' continual quest for profits.

This imitation process is always limited by *ceteris paribus*: “other things remaining equal.” When covenant-breakers grow weary of copying successes that are based on adherence to biblical law and its implications, they

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5. Gary North, *Wisdom and Dominion: An Economic Commentary on Proverbs* (Dallas, Georgia: Point Five Press, [2007] 2012), ch. 41.

6. Gary North, *Inheritance and Dominion: An Economic Commentary on Deuteronomy*, 2nd ed. (Dallas, Georgia: Point Five Press, [1999] 2012), ch. 8.



eventually rebel. They refuse to continue to imitate covenant-keepers. They cannot tolerate their increasing conformity to the terms of biblical law. This resentment is the basis of the final rebellion of Satan at the end of history.<sup>7</sup> He rebels against the success of God's kingdom, not its failure.

What gets imitated then? What if the social benefits associated with one set of ethical rules are no longer recognized as the result of these rules? What if there is widespread abandonment of these rules? What if the negative consequences of this abandonment are not blamed by most people on the abandonment of the previously dominant rules? What if the negative consequences are widely accepted as part of the historical process? What if experts and representatives of the policy-making groups in society identify as the sources of the negative consequences things that were in fact the sources of the positive consequences and served as barriers against the negative consequences? What if this is a case of throwing gasoline on the fire? Then what? This is the scenario described by Fred Reed. As he says, it all makes sense.<sup>8</sup>

To the extent that the foundations of capitalism are based on biblical norms, it can prosper. If private property is upheld by custom and civil law, then capitalism can and will flourish. If future-orientation becomes widespread, an outlook that is the result of optimism concerning history, then the rate of investment will increase. If a rejection of envy is widely adopted, then cooperation across economic classes will increase. If taxes remain lower than Samuel's warning figure of 10% (I Sam. 8:14, 17),<sup>9</sup> economic growth will be maintained. If wealth gained through entrepreneurship is upheld by the people who influence public opinion, there will be economic growth. Societies can adopt the fruits of a biblical worldview, but without adopting Christianity. Conversely, Christian societies have adopted non-Christian attitudes toward time and wealth.

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7. Gary North, *Dominion and Common Grace: The Biblical Basis of Progress* (Tyler, Texas: Institute for Christian Economics, 1987), ch. 9. (<http://bit.ly/gndcg>)

8. Fred Reed, "Making Sense: A Guide to Our Times" (July 8, 2013). (<http://bit.ly/ReedSense>).

9. Gary North, *Disobedience and Defeat: An Economic Commentary on the Historical Books* (Dallas, Georgia: Point Five Press, 1012), ch. 14.

## **D. Entrepreneurship**

The head of a household looks to the future. He acts as an economic representative of the family.

Entrepreneurship manifests itself in the launching of family businesses. The head of a household looks to the future of his nuclear family. Heads of households sacrifice present income for better education, both for his children and himself. He looks to the future of his family. He seeks to avoid becoming an economic liability in his old age. This is a way to transfer capital to his heirs on a tax-free basis. He does not consume all of his capital. His children's after-tax finances are not drained by the cost of supporting parents.

In pre-modern times, families sought to accumulate more land. Land was an asset that maintained its value over time. Mobility was limited. In Europe, arable land was very scarce. It stayed in families for generations. Accumulating land was not always a zero-sum arrangement: accumulation/divestiture. Entrepreneurs could increase the output of land. They could drain it. They could learn new methods of agriculture. But, on the whole, land retained its value for two reasons: (1) limited supply; (2) population pressure. The Malthusian checks worked, but population growth created demand for living space. The price of land remained high for generations. When population pressure was reduced in the twentieth century by falling birth rates, and when per capita productivity increased more rapidly in cities than on farms, land as an investment lost some of its allure as a sure-thing investment.

Long-term entrepreneurship is different from short-term entrepreneurship. The head of a household may imagine capital value several generations in the future, but this is rare. The unknown is too great a barrier. He has no control over the confession of faith of each succeeding generation in his family. He knows that his ability to establish institutional means of preserving wealth is limited. The size of future families is also beyond his control. Therefore, per capita wealth in the family is beyond his control. Entrepreneurship is wasted on the long run.

Because conditions change, and because people's responses to these changing conditions change, it is close to impossible to specify in advance how family capital should be used. The general principles will become subject to debate among heirs. This debate may be taken into the civil

courts. The outcome of these disagreements is unknown to the head of the household. After he dies, his responsibility ends. So, his focus is medium-term. It relates to his own lifetime and the lifetime of his children. It cannot extend to the adulthood of his grandchildren.

The head of a household can train his children in a craft, but will this craft match the skills of his children? Probably not. The division of labor is so great that specialization grows ever greater. The skills required for mastery in a craft become more specialized. Sons do not often follow in their father's craft. We see few companies named "Jones and Son" today. The sons depart from more than their fathers' households.

## **E. Compounding**

The increase in family capital in the narrow sense—tools of production—is the same as it is for individuals' capital. The difference is this. An individual can benefit from any expansion of personal capital by means of personal consumption. If he times his exit from life well, he will run out of capital about five seconds before he runs out of time. He leaves no inheritance. If he has no heirs, he departs in peace. A family cannot benefit in this way. It extends in time. Only if there are no heirs, meaning that the family line dies out, can individuals in a family consume their wealth without self-doubt regarding inheritance. But as heirs multiply down through the generations, there is little likelihood statistically of such a one-generation cessation of inheritance.

The family's time perspective is long-term. The representative of a family is supposed to act on behalf of future generations. While he can know little of what future generations will require, he can make some guesses. Gold holds value through the ages. It is recognized in most societies in most eras. But Jesus was clear that the accumulation of gold for an individual involves a trade-off between capital in this life and capital in the next life: more here, but less there. So, this form of inter-generational wealth transfers has distinct limitation. A wise man does not accumulate large quantities of gold except in times of potentially great social disruptions. The gold is capital for use on the far side of the disruption. It can be sold. The money generated can be converted into growth-producing tools. Gold's advantage is the advantage of money: it is highly marketable. It therefore is a way to protect capital value against unexpected changes in market demand.

Personal capital is easier to manage, for its value need be increased in only one lifetime. An individual specializes in dealing with the trials and tribulations of his time period and geography. This specialization enables him to make better allocation decisions. But inter-generational forecasting of future capital value, aside from gold, is an exercise in futility. If men cannot intelligently impute value to future capital, due to their lack of specialized knowledge about future economic conditions, then the accumulation of capital for wealth transfer mandates the use of trustees. The capital must be transferred to trustees. But this problem arises: identifying trustee who will act as a fiduciary for the heirs rather than as an agent of his own self-interest.

I knew a woman who was the heiress of a fortune. Her father had founded a national chain of what used to be called five<sup>10</sup>-and-dime<sup>11</sup> stores: low-cost goods for the masses. The chain long ago succumbed to market forces. It disappeared. He designated a trustee for this fortune. The woman was a wise and well-educated woman, who was married to one of the great historians of the twentieth century. She told me that the trustee was a large bank. The bank gave her 2% of the earnings of the invested pool of capital every year. The bank kept the rest in reserve. It collected management fees for decades. When she died, the bank no doubt went on serving as the family trustee. That was working capital for the bank: an inter-generational source of management fees. That was the bank's inheritance. The rich man disinherited his daughter. His heir was a bank.

So, for capital to multiply over generations, the heirs must be trained in the principles of wealth-creation and inheritance. They also must accept this vision, and then have the foresight and competence to implement it. This involves a confession of faith of some kind. Any confession of faith is easily abandoned by any heir. Furthermore, in most communities, there is no self-conscious link between theological confession and wealth accumulation. If anything, this link is rejected on the basis of a rejection of worldliness. Within certain subcultures there is a link. Among Jews and Armenians, there is at least a cultural link. Their theological confessions have not been maintained in the post-1800 world. We sometimes see this connection in small business cultures. Again, Jews and Armenians are examples. But

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10. Five pennies—the lowest-value coin: one one-hundredth of a dollar.

11. Ten pennies.

those Jews who have become enormously wealthy have not generally maintained the theological confession of Orthodox Judaism.

Families are not effective instruments for the creation of inter-generational wealth. Corporations are. Corporations have only one major goal: to make a profit. All other goals are eventually sacrificed to the goal of profit. A firm may begin with a mission statement, but a century later, that mission statement will be a museum piece. Families launch small businesses that occasionally become successful medium-size businesses. These businesses do not become conglomerates. At some point, they cease to be family enterprises. The knowledge required to continue to expand them cannot be found in one family.<sup>12</sup> In the United States at the end of the twentieth century, about 80% of American businesses were family-owned. But only one-third would survive into the second generation. By the third generation, most surviving companies have passed into the hands of professional managers.<sup>13</sup> In contrast, Chinese businesses rarely survive into the third generation. Family bonds make it difficult to trust professional managers<sup>14</sup>

## Conclusion

As an institution, the family can either add value or reduce it. If a family is covenantally established by oath as an agency in the kingdom of God, it adds value by extending the kingdom through productivity. It does this by biological multiplication or multiplication through adoption. It does this by educating children: a way to extend the worldview of the covenant. It can do this by a family business that serves customers in a free market. It can do this by serving individuals outside the family through unpaid charitable service.

Unlike the covenanted individual, the family does not extend into eternity (Matt. 22:29–30). So, it is not possible for a family to build capital in eternity by foregoing the use of wealth in history. This is possible for individuals, who can forfeit present wealth in exchange for permanent wealth beyond the grave (Matt. 6:21–23). The family is temporally limited. But, unlike the individual, the family extends in history through future genera-

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12. Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity* (New York: Free Press, 1995), pp. 64–65.

13. *Ibid.*, p. 78.

14. *Ibid.*, pp. 78–82.

tions. So, the trade-off is consumption now vs. consumption later in history. The effects of personal saving and wealth-building today extend posthumously by means of the family. Participation in a family adds a degree of future-orientation to individual decision-making.

This element of future-orientation gives an incentive for wealth-creation in societies that place the family at the center of society. But wealth-creation is limited by the capacities and vision of a limited group: the family. Apart from the intervention of the Holy Spirit, this limitation eventually overcomes long-term wealth-creation by a family. The confessions of faith, the visions of the future, and the creativity of future members have been limited in the past by the law of large numbers, which includes the phenomenon known as regression to the mean. Genetics limits the productivity of family members. The family has a limited gene pool. This is why successful family enterprises must recruit workers and managers from outside the family. The businesses must broaden the pool of available talent. The only way that this can be done while maintaining the family structure is by the adoption of managers into the family. Operationally, this can be done only through arranged marriages. This raises a problem. How can good managers be retained after divorces? The family is not the proper institution for running successful growing businesses.

The family is an effective institution for creating businesses, but it is not an effective institution for taking small businesses and extending them through growth. The requirements of running the business exceed the capabilities of family members. Wealth-creation was limited historically by this limitation. The development of the limited-liability corporation in the late nineteenth century in the United States gave the United States a huge advantage. It allowed the accumulation of capital through the generations, for the corporation is legally immortal. Corporations can reinvest profits. They can focus the talents of senior managers and employees on a limited goal: making a profit. This concentration of capital and narrowing of vision has led to compound economic growth, both for corporations and for societies.

The corporation is more like a church than a family in this respect: limited liability. Members of a church are not legally liable for the debts of the church. Neither are investors in a corporation personally liable for the debts of the corporation. In a family, members of the nuclear family suffer losses when a family-run business suffers losses. The head of the

household places his spouse and children at risk by starting a business. The head of a corporation places the value of the shares of ownership at risk, which a family may own, but he does not place at risk the employees' personal assets.

## CONCLUSION TO PART III

We return, as always, to the five institutional questions.

1. Who's in charge here?
2. To whom do I report?
3. What are the rules?
4. What do I get if I obey (disobey)?
5. Does this outfit have a future?

The family is universal. It is established in every culture by an oath. This oath is enforceable institutionally: by family, church, and state. To this oath are attached sanctions: positive and negative.

The family as an institution has a future until the end of time. But the confessional continuity of the family is weak. Any adult can renounce it, defy it, or ignore it. Over time, some family branches depart. Some maintain it. The historical archetypes were Cain and Seth. There were Ishmael and Isaac. There were Esau and Jacob. Ultimately, there are Adam and Jesus. Note: in all these cases, the younger brother inherited, due to superior ethics. The older brother was disinherited.

A head of household is a judicial agent: a trustee. He acts on behalf of God to family members, and on behalf of family members to God. This is hierarchical-judicial. There is also economic stewardship: the sharecropper function. It is also hierarchical. The mandated payment is the tithe. Finally, there is the auctioneer function: service to other society members. The general rule is *high bid wins*. But this can also be a charitable function. It is horizontal. It looks outward.

The family is a judicial unit. It is therefore responsible to God, to other covenantal institutions, and to those who trade with it. This responsibility is corporate. Family members sink or swim with the family. Responsibility



in the family is to a corporate entity. Thus, methodological individualism does not apply well to the family. The family is more than the participants. God holds it responsible. The classic example is Achan's theft of the valuable assets from Jericho. Wealth and poverty apply to the family, not to individual members. All economic approaches that rely on methodological individualism as the sole tool of explanation founder on family, church, and state.

The time horizon of a family is short. This is because death removes each generation from responsibility. The ability of any generation to specify the use of family capital from beyond the grave is highly limited and fades rapidly. The Book of Ecclesiastes returns repeatedly to this fact.

Because the head of the household must make decisions on behalf of family members, he must make interpersonal comparisons of subjective utility. He must "balance" or "weigh" the goals and aspirations of multiple members. He must also make estimates regarding God's assessment of these aspirations. So, in order to make accurate assessments of multiple subjective valuations, he must rely on his ability to assess God's assessments. He acts as God's fiduciary agent in his allocation of family capital. But he also acts as his family's fiduciary agent with God and with the world outside the family. There are multiple acts of economic imputation.

This must be done without reference to money prices. The family is an agency that implements the division of labor. But this is not marked by a money economy. This division of labor is far more personal than impersonal. Money has some role as a way to compensate older participants for work performed inside the family: "chores." But money is geared to voluntary exchange, so most services performed in a family cannot be out-sourced. If children are to learn how to work, they can be paid in terms of the going rate outside the family. But the use of outside prices is for purposes of establishing fairness, not for threatening the family member with replacement by a price-competitive non-family member. The family member must learn how to work.

In a covenantal unit, pricing is not based on substitution. So, the logic of exchange that applies to a free market does not apply in a covenantal unit. There is no substitution allowed by law. This is why that which Mises called catallactics is highly limited. This is why he never attempted to apply the science of human action outside the market, the realm in which high bid wins.

A family is supposed to add value. So is an individual. This is the basis of compound economic growth. The extension of a family's influence is by means of capital accumulation. But the law of large numbers reasserts itself over time. Families do not seem to be able to increase the per capita wealth of its members over many generations. The performance of the members, especially heads of households, reverts to the mean. Confessions revert to the mean. The more influential that a family is in extending God's kingdom, the more performance over the generations reverts to the mean. New families appear. Old confessions are revised and improved. The replacement process continues. This is true of families, churches, and states. But it is most obvious in families. The reversion takes place more rapidly.

## **Part IV**

# **THE ECONOMIC STRUCTURE OF THE CHURCH COVENANT**



## INTRODUCTION TO PART IV

### A. You Cannot Sell That Pew

It is clear that the modern church is involved in the economy. Churches own real estate. They have bank accounts. They are legal entities that are responsible for the administration of property. Yet any suggestion that the church ought to be run as a profit-seeking business is usually greeted with skepticism. People understand that the church is not a business. The suggestion that the church should sell access to the sacraments would be rejected outright by Christians, and it would be ridiculed by non-Christians. Yet there was a time, not so long ago, when some churches in the United States sold prime pew space to the highest bidders. It was sufficiently common for Wikipedia to devote a section to it in the entry for “Pews.”<sup>1</sup> There is a scene in the autobiographical book, Broadway play, and movie, *Life With Father* (1947), in which the father in a financially successful New York City household around 1900 confronts the pastor of his Episcopal Church. The father is a nominal member. He attends only because his wife, Vinnie, pressures him.

Rev. Dr. Lloyd: After considerable thought, we voted that our supporting members should each contribute a sum equal to the cost of their pew.

Father: I paid \$5,000 for that pew.

Vinnie: Yes, Clare, that makes our contribution \$5,000.

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1. [Http://bit.ly/PewRents](http://bit.ly/PewRents).

Father: That's robbery. Do you know what that pew is worth today? \$3,000. That's what the last one sold for. I've taken a dead loss on that pew of \$2,000 already. Frank Bags sold me that pew when the market was at its peak. He knew when to get out. And I'm warning you, Vinnie. If the market ever goes up, I'm going to unload that pew!

The audience laughed. What great fun! Yet the incident, or something like it, really did happen. The irony of this scene is this: the father had a better sense of what was involved in pew-selling than the minister did.

This simple example raises a crucial organizational issue: the nature of success indicators for managing a church. They are clearly not profit and loss. That is because the market principle of *high bid wins* does not apply in matters eternal. We do not buy our way into heaven. Christ paid this representatively for His people. His people do not pay it. Even the sale of indulgences in Luther's day did not claim that anyone could buy his way into heaven. The indulgence was said merely to offer a way to reduce penalties in purgatory.

The moment that the principle of product substitution no longer applies, "high bid wins" no longer applies. Yet there can be product substitution in church membership. This was a basic principle of the Protestant Reformation. People can and do leave. When they leave, they seek out other ways to use their time and money than by attending a particular congregation. We assume that the principle of "high monetary bid" should not apply. But the free market principle of "high bid wins" in theory is not limited to monetary exchange. It applies to individual satisfaction: subjective utility. "What's in it for me?" So, why doesn't the market principle of product substitution and "high bid wins" apply to churches? We sense that it doesn't, but it is difficult to specify why not.

## B. The Priestly Function

The closer we come to life and death, the less we trust the price system to solve our problems. We understand that money can at best buy extra time. We apply this understanding to market exchange.

A physician who comes across a seriously injured person may bargain with the person for payment. He may demand a very high price. He may

get the person to sign a contract to this effect. But no court will enforce it. A jury will not force the victim to pay. The medical guild or the state might even revoke the physician's license to practice. The ethics of healing places limits on the price charged. The public understands this. So does the medical guild. But this raises the issue of tax-funded medical care. Should the state intervene and prohibit profit-seeking medical services? If it does, what criteria for capital allocation should the state substitute? First come, first served? Age? Should old people receive care at below-market prices? Or should old people not be put on waiting list for organ transplants?

The church deals with issues of eternal life and death. Therefore, access to church care is supposed to be open. But this is in fact a myth. Because of the high price of real estate in large cities, the number of churches is limited. The gospel cannot go to all who might receive the message. There is not enough church space for a mass revival. The way around this is the World Wide Web. Sermons, Sunday school courses, and singing can be delivered to any place that has access to the Web. But churches resist this. They deny that such meeting places are real churches. So, price competition—"free church"—is resisted by traditional church hierarchies. This can be regarded as resistance to price competition by oligopolies. In America before 1834, churches received tax subsidies and free rent in community buildings. In Europe, they still receive support. But these churches are liberal, poorly attended, and barely functional. They are being replaced by mosques attended by North African immigrants, and by Pentecostal congregations attended by sub-Sahara African immigrants. There is product substitution going on.

The market's principle of "high bid wins" is modified for application by churches. The element of priestly authority substitutes quality competition for price competition. Because the church is a covenantal institution, it is not governed by the market's principle of "high bid wins." Neither is the family. Neither is the state. There is no profit-and-loss system of monetary accounting. And yet a congregation can die off. Its building will be sold to a more successful congregation. But it probably will not house a commercial enterprise. Aging members may decide that a replacement church should take possession, not a commercial enterprise.

At the corner of Wall Street and Broadway in New York City there is a church. It has been there for over three centuries. It will come as no surprise that it is an Episcopal Church. The value of that real estate is immense. It is not taxed by the city. It is Trinity Wall Street. Its URL is [www.Trinity-](http://www.Trinity-)

[WallStreet.org](http://WallStreet.org). It is not .com. We understand this. No one would expect it to become .com.

The members of the congregation have made a decision: keep the property; forfeit the money that it could be sold for. This is a “high bid wins” decision. The church retains ownership. Economists call this “reservation demand.” The church is the highest successful bidder. The decision is based on a superior principle. At least the members believe it is a higher principle. But the members must pay for that decision: forfeited uses that the money could be used to support.

The church has a gift shop. It is online. There, you can buy—I am not making this up— an Alexander Hamilton doll.<sup>2</sup> Hamilton was the main American proponent behind the First Bank of the United States (1791–1811), the precursor to the Federal Reserve System. He surely deserves recognition on Wall Street. But not in a church, I think. And especially, not in a church gift shop.

Sometimes the lines between the market and the priestly function grow vague.

## C. The Conservation of Resources

The issues of corporate ownership and stewardship are much the same in the church as in the family. Thus, there is an opportunity for me to conserve resources: time and effort. Where the issues are the same, I extract text from the chapters on the family. Why not? Why not use good arguments where they apply equally well? Word processing makes this easy: cut and paste. A good argument is like a good friend. Spend more time with him.

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2. [Http://bit.ly/AlexDoll](http://bit.ly/AlexDoll)



# 1

## PLANNING

### Introduction

Individuals plan. They plan as individuals, but in most cases, they plan as participants in corporate bodies. The institutional church is such a body.

In a church, there are mutual claims on its members. Paul speaks of the church as a body. A body is composed of members. The body functions properly only when all of the members are functioning individually.

For the body is not one member, but many. If the foot shall say, Because I am not the hand, I am not of the body; is it therefore not of the body? And if the ear shall say, Because I am not the eye, I am not of the body; is it therefore not of the body? If the whole body were an eye, where were the hearing? If the whole were hearing, where were the smelling? But now hath God set the members every one of them in the body, as it hath pleased him. And if they were all one member, where were the body? But now are they many members, yet but one body. And the eye cannot say unto the hand, I have no need of thee: nor again the head to the feet, I have no need of you. Nay, much more those members of the body, which seem to be more feeble, are necessary: And those members of the body, which we think to be less honourable, upon these we bestow more abundant honour; and our uncomely parts have more abundant comeliness. For our comely parts have no need: but God hath tempered the body together, having given more abundant honour to that part which lacked. That there should be no schism in

the body; but that the members should have the same care one for another. And whether one member suffer, all the members suffer with it; or one member be honoured, all the members rejoice with it. Now ye are the body of Christ, and members in particular (I Cor. 12:14–27).<sup>1</sup>

### 1. *God's Ownership*

As with every other academic discipline, Christian economics must begin with *the doctrine of God*. This governs the first and foremost issue of economics: *ownership*. God owns the world. He created it, so He owns it. But He owns it both individually and corporately. He is both one and many. The New Testament says that the Second Person of the Trinity created everything that was created.

Giving thanks unto the Father, which hath made us meet to be partakers of the inheritance of the saints in light: Who hath delivered us from the power of darkness, and hath translated us into the kingdom of his dear Son: In whom we have redemption through his blood, even the forgiveness of sins: Who is the image of the invisible God, the firstborn of every creature: For by him were all things created, that are in heaven, and that are in earth, visible and invisible, whether they be thrones, or dominions, or principalities, or powers: all things were created by him, and for him: And he is before all things, and by him all things consist (Col. 1:12–17).

This affirmation reveals that there is *specialization within the Godhead*. There is a division of labor. The Person who is subordinate to the Father was the original Creator. In this sense, the creation is an aspect of stewardship. The creation is under God the Son, for He was its Creator. He possesses ownership, but always on behalf of the Father. Christ will deliver up the creation to the Father at the end of time.

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1. Gary North, *Judgment and Dominion: An Economic Commentary on First Corinthians*, 2nd ed..(Dallas, Georgia: Point Five Press, [2000] 2012), ch. 16.

But now is Christ risen from the dead, and become the firstfruits of them that slept. For since by man came death, by man came also the resurrection of the dead. For as in Adam all die, even so in Christ shall all be made alive. But every man in his own order: Christ the firstfruits; afterward they that are Christ's at his coming. Then cometh the end, when he shall have delivered up the kingdom to God, even the Father; when he shall have put down all rule and all authority and power. For he must reign, till he hath put all enemies under his feet. The last enemy that shall be destroyed is death. For he hath put all things under his feet. But when he saith all things are put under him, it is manifest that he is excepted, which did put all things under him. And when all things shall be subdued unto him, then shall the Son also himself be subject unto him that put all things under him, that God may be all in all (I Cor. 15:20–28).<sup>2</sup>

## 2. Church Ownership

An institutional church may own property. In most Western societies, church buildings are common. This was not true in the early church. It was not true in times of persecution. But as the church gains influence, individual congregations begin to purchase land. They build buildings. They become responsible for the administration of property, including money.

The church is a separate legal institution. Its members have claims against each other within a congregation. These claims are moral rather than legal. The church does not threaten negative sanctions against members who do not participate in charitable activities. There is no indication in the New Testament that such sanctions exist.

In his two epistles to the church at Corinth, Paul spoke of fund-raising. He was raising money to support the church at Jerusalem. He cajoled them. He unquestionably attempted to humble them into giving more. He referred back to the congregation's corporate promise of support.

For ye know the grace of our Lord Jesus Christ, that, though he was rich, yet for your sakes he became poor, that ye through his poverty might be rich. And herein I give

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2. *Ibid.*, ch. 17.

my advice: for this is expedient for you, who have begun before, not only to do, but also to be forward a year ago. Now therefore perform the doing of it; that as there was a readiness to will, so there may be a performance also out of that which ye have. For if there be first a willing mind, it is accepted according to that a man hath, and not according to that he hath not (I Cor. 8:9–12).

The congregation had made a commitment. Paul was asking them to fulfill that commitment. There had been a corporate plan. Now he reminded them of their obligation. He appealed to individuals. “For if there be first a willing mind, it is accepted according to that a man hath, and not according to that he hath not” (v. 12). But this was in the context of a joint commitment.

In Acts 5, we have the story of Ananias and Saphira. They had sold a property. They had pledged that they would donate the proceeds to the congregation. But they held back some of the purchase price. Peter challenged Ananias on this. He asked him if he had received a specific amount of money. Ananias said that he had. Peter announced this.

But Peter said, Ananias, why hath Satan filled thine heart to lie to the Holy Ghost, and to keep back part of the price of the land? Whiles it remained, was it not thine own? and after it was sold, was it not in thine own power? why hast thou conceived this thing in thine heart? thou hast not lied unto men, but unto God. And Ananias hearing these words fell down, and gave up the ghost: and great fear came on all them that heard these things. And the young men arose, wound him up, and carried him out, and buried him (Acts 5:3–6).

Peter repeated this exercise with Ananias’ wife. She also lied. The results were identical. “And great fear came upon all the church, and upon as many as heard these things: (v. 11). This was a matter of ownership. The church had a legal claim on all of the money. The two had made a pledge to the church. God enforced the terms of this pledge. They had made a transfer of wealth to the church. They owed even more. The church had an ownership claim on whatever money they had set aside. This claim originated with

the initial pledge of a family. But Peter acknowledged that each party was responsible. He interrogated both of them separately. God imposed sanctions separately.<sup>3</sup>

## A. Cooperation

Planning has to do with the allocation of scarce resources. It therefore is based on ownership. God owns everything. He delegates control over assets to individuals. But He also delegates control to collectives. The idea of joint ownership is inherent in the biblical doctrine of the church.

Plan reconciliation is basic to the free market's processes. This has its original roots in the family, which is a voluntary institution, but which becomes permanent by a formal oath. The exchange arrangements within a family are not based on "high bid wins." *Justice trumps profit*. Authority is not based on the purchase of an office. *The planning arrangement reflects the hierarchical structure of dominion*.

God rules through churches. His transfer of ownership to churches is His way to maximize His return. But this return is not primarily monetary. His return on investment is far beyond monetary. It involves such things as ethical faithfulness. It involves extension of membership through biological multiplication and evangelism: *kingdom extension*.

Every plan necessarily involves five factors. These are the familiar five factors that historians use to assess what happened in the past. Historians ask five questions: who, why, what, where, when? *Who* identifies the primary responsibility for the plan's launching and its fulfillment. It identifies responsible agents needed to implement the plan. *Why* identifies the motivation of the steward's plan. Both of these are aspects of part two of the biblical covenant: representation. *What* and *where* identify legal and geographical boundaries: the scarce economic resources required to implement the plan. To gain access to these resources, men must ask permission or buy control. *When* identifies temporal limits: point five of the biblical covenant. A plan must begin at a point in time and end in a point of time. The process of creation takes time. Time must be paid for. It must be allocated. When you do one thing, you cannot do another. Time is in strict fixed supply. It is an irreplaceable resource. Once spent, it cannot be reclaimed. It does not

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3. Gary North, *Sacrifice and Dominion: An Economic Commentary on Acts* (Dallas, Georgia: Point Five Press, 2012), ch. 4.

move backward. The implementation of the plan begins somewhere and ends somewhere. It does not operate in a geographical vacuum. It involves dominion over nature. The missing first point is God. The traditional list of five questions does not begin with God. It begins with the individual. The missing fourth point of the biblical covenant in this list is causation: *how?*

Churches cannot escape these obligations, any more than families can. But churches are under an additional set of restraints. They are part of a larger covenantal association. The church as a whole is the bride of Christ (Rev. 19:7–9; 21:2). As such, it extends into eternity. A family has limited temporal responsibility. Parents cannot plan much beyond the inheritance of grandchildren. But a church must look to eternity. It has a far longer temporal limit than a family does.

## B. Ownership

The church is not governed by the commercial principle of “high bid wins.” This is because the value of any participant cannot lawfully be capitalized. Economic theory must deal with this, but it rarely does. Economic theory rests on a theory of ownership that is denied to the church. The church covenant is legally binding and exclusive in a way that market-priced contracts are not. So, the conceptual tools of what Mises called catallactics do not apply well to a church or to any other covenantal institution.

Personal knowledge is central to the church. It is peripheral in a commercial market. Money prices are dominant in a commercial market. They are not dominant in a church. Allocation decisions are made by the elders based on personal knowledge. An entrepreneur in a market marked by widespread ownership of assets pays little attention to personal knowledge. A wheat farmer is not interested in the moral outlook of a buyer, except with respect to payment. If he pays his bills on time, the farmer will sell his crop to him.

God holds churches accountable. The elders of a church must factor this into any allocation decisions. God has plans for every church. The elders are supposed to factor this into their plans.

Christian theology undergirds the doctrine of hierarchical authority. Christian theology is Trinitarian. God is both unity and diversity. So, this aspect of God is reflected in mankind. Specifically, it is reflected in the church. God plans. He executes His plan. Man is required by God to do the

same. But man is corporate as well as individual, just as the Trinity is. This corporate aspect of mankind appears most clearly in the family. Therefore, planning must be corporate. But because there is a hierarchy of authority in the church, which reflects the *hierarchy of the economical Trinity*—as distinguished from the ontological Trinity—there has to be plan reconciliation. This is perfect in the Trinity. It is not perfect in fallen humanity.

Church ownership of assets is based on hierarchy far more than equality. The legal equality of market participants to make bids for control over scarce resources barely exists in a church. It exists only for inanimate physical objects. The division of church labor is far more hierarchical than horizontal. Market bids are far more horizontal than hierarchical. Church ownership reflects covenantal hierarchy. Church officers possess authority over church property. Ownership is not original. It is derived from God's grant of authority. While ownership is point one of the biblical covenant with respect to God, for man, ownership is point two: stewardship.

Church officers are responsible for the spiritual care of church members. They possess authority over them. There is a charitable element in this authority. This makes them economically responsible for members. This rule of law always applies: *where there is authority, there is also responsibility*. Individuals must give an account to God for their stewardship (Matt. 25). This involves giving an account of themselves for their joint authority as members of churches. No one is autonomous. Every individual answers to God. Our attitudes and behavior toward others do count, meaning they are counted by God: assessed and evaluated.

Church officers are involved in constant plan reconciliation. There are more instances of plan reconciliation in business, because negotiations are constant. One negotiation is completed or abandoned. Another takes its place. In a church, negotiations must be minimized in order to achieve peace. But the plans are far more fundamental in churches than in businesses. The reconciliations are far more permanent. The stakes are far higher: eternal. The judicial bond of membership is the result of plan reconciliation.

Ownership involves asset allocations. This includes the allocation of work and time. This is inherent in any joint venture. Someone must take responsibility for performance. This is the division of labor in action. Other members of the church defer on this matter to the decision of one member to take on responsibility. *This deference is an act of subordination*. The person who does the deferring is transferring responsibility to the other person. He

is saying this: "I trust your judgment. I have now become dependent on your performance." This is crucial in any long-term arrangement. *The division of labor is both mutual and hierarchical.* Each of the parties becomes dependent on the other. Each of them exercises authority over the other. This is true in every institutional arrangement. The family is the primary model.

All of this stems from the fact of the division of labor. There is mutuality. *But mutuality involves dependency.* Each party must give up something of value in order to obtain something of value. Mutuality involves a surrender of responsibility. It therefore involves a transfer of authority. "I will do this for you, if you will do that for me." In the market, it is usually easy to substitute a new supplier. This is especially true in the consumer goods markets. There are many competing offers. Loyalty is weaker. *The more specialized the exchange, the more expensive it is to substitute a new supplier for an old one.* There are fewer available suppliers. Mutual dependence is therefore greater. The disruption of the division of labor is greater. A covenant is more binding than a contract is. It is affirmed by an oath under God.

### C. Boundaries

The division of labor is an aspect of specialization. There is an inherent responsibility of specialized function: mutuality. Specialization of function is closely associated with ownership. Therefore, it is associated with boundaries. Within the church, there is specialization. This is taught clearly in Romans 12 and I Corinthians 12. Paul described the church as a body. A body has specialized members. This is analogical: members as bodily parts. We call church members *members*, as a result of Paul's teaching.

The primary church boundaries are sacramental: the sacraments. These boundaries include, but they also exclude. The archetype on this exclusion aspect is the tree of the knowledge of good and evil. God definitively excluded mankind from this tree. The sacramental boundaries of the church mark many other aspects of the church. The rights of exclusion are fundamental.

Property rights are boundaries. These boundaries/rights are clearest in boundaries barring intrusion by non-family members. The boundaries around a family are more easily understood and enforced: by individuals, family members, church, and state. Inside the church, these boundaries



become less clear. Also, the general boundary around a church reduces the authority of outside agencies to intervene to settle disputes.

The division of labor in a church involves boundaries of responsibility. The hierarchy becomes more important in plan reconciliation. Someone with greater authority establishes the boundaries of responsible performance. Voluntary reconciliation is replaced by orders from above. But the officers have very limited initiating authority over church members. This means that they have very little initiating responsibility. With reduced authority comes reduced responsibility.

Inherently, the nature of church authority is personal. The participants are known to each other. There is no system comparable to the free market, with its information system based on price signals. The boundaries of the free market are impersonal in the sense that decision-makers are unknown to each other. Prices establish the boundaries. Anyone who makes decisions without paying attention to prices is going to lose money in most cases. The restraining boundaries of prices are very tight. The market adjusts prices by means of arbitrage: simultaneously buying slightly lower in one market and selling in another.

Boundaries in the church are personal. The quirks of each participant are known to the others in the church. But intimacy is limited. This content of information is fundamentally different from market prices. People make adjustments based on their knowledge of each other's reactions and patterns of behavior. There is much greater flexibility of responses. Appeals based on price changes are not as effective as appeals based on the threat of sanctions other than price.

Church members learn what boundaries not to violate in a church. But these boundaries are far more problematical than the boundaries imposed by price. Negotiations are based more on personalities than price. Thus, the outcome of these negotiations is less predictable. *The complexity of negotiations makes the outcomes less predictable.* There is no rule in church negotiations comparable to this familiar law of economics: "At a higher price, less is demanded."

People in a church seek their goals, just as people in a market do. They are self-interested. But love is a factor that is highly personal. It broadens the definition of self-interest. Unlike a price, we cannot calculate love. Love is therefore like economic value. It is ordinal, not cardinal. It is "more than," but not "precisely this much more than." A price is objective. Love is not.

The boundaries imposed by love are broader than the boundaries imposed by prices. The predictability of law enforcement in a church is far less than the predictability of the restraints imposed by objective prices.

Economists cannot easily pretend to provide meaningful equations to describe church boundaries. They can and do pretend to provide meaningful equations regarding price relationships. The illusion of scientific precision is more easily adopted with respect to objective prices in open markets than with subjective boundaries inside churches.

People are committed to church solidarity far more than they are committed to market solidarity. They defend their churches from intervention by government bureaucrats far more vigorously than they defend the free market from intrusion by government bureaucrats.

## D. Imputation

I begin with a statement that I made in the Introduction to Chapter 4 of Part II. Part II deals with the individual covenant. I wrote:

Modern economic thought is officially nominalistic. But there is no escape from covenantal realism: the doctrine of original creation by God. Humanists who defend realism do not accept covenantal realism, so they adopt autonomous philosophical realism. They sneak philosophical realism through the methodological back door of price indexes and other statistical techniques. These indexes require the aggregation of subjective value—individuals' subjective imputations—which cannot be done without violating the principle of subjectivism-nominalism.<sup>4</sup> All economic policy-making necessarily rests on an implicit denial of nominalism, for it relies on the assumption that an economist can make objectively valid interpersonal comparisons of subjective utility. So, there is an inherent dualism in humanistic economic thought.

Churches are covenantal institutions. They are created by oaths under God. This means that God holds individual members of churches accountable for the sins committed by the elders. They remain as members, obli-

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4. North, *Sovereignty and Dominion*, ch. 5.

gated by God to pay tithes.<sup>5</sup> They do not seek to change the leadership, and they do not transfer their membership. Their money is going to support causes that may be anti-biblical. This was the case in the twentieth century, when mainline Protestant churches went liberal, but members remained. Their money supported their theological enemies.

The Trinitarian God is both plurality and unity. Therefore, in His capacity as the cosmic Imputer of economic value, He is both plural and individual. The church reflects this combination of plurality and unity. Individual church members impute economic value, but the God-sanctioned decision-makers in the church make representative imputations of economic value. These judgments are judicially binding on the members.

The joint responsibilities of the church's members make it imperative that the decision makers consider each other's imputation of value. The individualism of economic theory's subjectivism makes impossible a theoretical justification for the interpersonal comparison of subjective utilities. Yet this must be done all the time by church elders. They must act representatively on behalf of those under his jurisdiction. In terms of the nominalism of modern economic theory, they cannot do this scientifically. But God mandates that they do it. God holds them accountable for this representative summing up of multiple imputed economic values inside the church. What every elder does constantly, economic theory says is scientifically impossible. This is why subjectivist economics is epistemologically naïve.

Church ownership brings the owners under special responsibilities. Stewardship is inescapable from ownership. This stewardship is upward to God, outward to other economic bidders, downward to church members, and inward to each individual member. To say that this office of steward belongs only to church officers is to ignore the legal and moral claims to ownership of other church members. As members, they benefit. They impute economic value to these claims of ownership. But they cannot sell these claims. This is the problem of corporate ownership. *Without a functioning public market for the exchange of church ownership claims, the free market cannot establish a price.* This is why economic theory has trouble in analyzing the economics of a church.

The elders must decide how to budget. They make assessments regarding the value to members of the church associated with the owner-

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5. Gary North, *The Covenantal Tithe* (Powder Springs, Georgia: American Vision, 2011). (<http://bit.ly/gncovtithe>)

ship of an asset. They make representative judgments regarding individual imputations. These judgments must involve the summing up of the costs and benefits of ownership for each church member. Yet there is no scientific way that he can do this, meaning no methodologically valid way, given the epistemology of subjective economic theory.<sup>6</sup> There is no objective measure of economic value.

The fact that there is no objective economic measure of value is not a valid argument against the necessity of making representative economic value judgments. But these value judgments do not rest on a system of objective pricing established by exchange. The judicial roles of each church member cannot be sold to the highest bidder. Therefore, the individual economic imputations of church members must be taken into consideration by the decision-maker if he is to do justice—legal justice in God’s system of imputation of personal responsibility—to other members. He is in a legal position to oppress them. This is an inescapable aspect of his office as an elder. He is required by God to act representatively.

## E. Legacy

A local church owns property. This property is held in trust by the elders. The church’s name and reputation are supposed to mark the kingdom of God. A name conveys information. In markets, brand loyalty is an important aspect of marketing. In families, children’s names provoke specific responses. So does a family’s reputation. This is especially true in “old” circles: old money and old families. So do churches’ names. The name has to do with confession. Specific church traditions are associated with certain beliefs. The name also has to do with liturgy. A name often has to do with social positioning in a community. “First Baptist” and “First Methodist” have meanings in small towns in the United States. Families belong to these churches because their grandparents did. Churches own buildings in specific locations. But capital extends beyond real estate. A church has a bank account. A church has a reputation, which is an aspect of its name. All of this constitutes legacy.

The church is supposed to extend its legacy through time. Its name is important. Church capital is important. But the central name in New Tes-

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6. Lionel Robbins, *An Essay into the Nature and Significance of Economic Science* (London: Macmillan, 1932), ch. VI.

tament times is Jesus' name. He is the bridegroom of the church (Matt. 25:5–15).

The decision-makers in a congregation must pay attention to the long-term effects of their decisions. They must be future-oriented. They must assess presents costs in terms of future returns. They must bear responsibility in the future for the outcomes of their present decisions. Their activities will have effects in the long run, possibly after they are dead. Their ownership is limited temporally, but the results of their decisions will have repercussions after they are no longer owners.

Because of the doctrine of the final judgment, Christianity has a long-term perspective. This judgment is personal, not impersonal. It will be individual, not corporate. So, church authorities will be held accountable. The fact that they will no longer be held accountable in a human court is not the whole story.

## Conclusion

Ownership is an inescapable concept. It is never a question of ownership vs. no ownership. It is always a question of whose ownership.

Ownership establishes sovereignty. The owner is the final judge. He is also the initiating entrepreneur. He deals with uncertainty. Only God is omniscient.

Churches own property in the broadest sense: real estate, bank accounts, and reputation. Ordained leaders exercise ownership as legal stewards (point two). They are oath-bound (point four). They are stewards of God, both in a general sense as administrators of property in society, but also specifically, as ordained agents of God in His unique institution. The church alone among institutions extends into eternity. It is the bride of Christ. So, stewardship of church property is more important than the stewardship of any other kind of property.

The church is under the general market principle of “high bid wins” with respect to property held in terms of economic stewardship. There are bids for its property: land, bank accounts, and similar market assets. This stewardship is horizontal: society at large. But, far more important, this economic stewardship is vertical: on behalf of God, but also on behalf of members. This vertical stewardship is clear to church members in ways that

family stewardship and state stewardship is not. That is because members understand the church as divinely appointed for eternity.

## 2

# STEWARDSHIP

### Introduction

I do not want to reproduce the chapter on individual stewardship here. Many of the general principles of stewardship that apply to individual stewardship apply to church stewardship. But some do not. We must understand these differences. We must also understand the implications, both in theory and in practice, of these differences.

The most obvious difference is the application of the fundamental principle of pricing: *high bid wins*. Within a church, the high bid is never supposed to win. The bids are in terms of individual characteristics, assignments, and responsibilities. The decision-makers, meaning the elders or the pastor, make the allocation of scarce resources. As representative agents of the members of the church, they make these allocation decisions on behalf of all of the members. They guess as to costs and benefits of those under their authority. In other words, they make interpersonal comparisons of subjective utilities.

As with individual stewardship, there are three aspects of church stewardship: trusteeship (legal), tithe (economic), and auctioneering (economic). First, the elders act as legal representative agents. They represent God to the members of the church, and they represent them before God. Representation is mediatorial and hierarchical. This representation is corporate. Second, the church gets tithes and donations. The families owe their tithes to the local church, which represents God to its members.<sup>1</sup> There is a third aspect of stewardship: allocational. This has to do with the decision to put

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1. Gary North, *The Covenantal Tithe* (Powder Springs, Georgia: American Vision, 2011), ch. 10. (<http://bit.ly/covtithe>)

a resource to work on behalf of other people. This is a horizontal relationship. It is not covenantal. It is contractual. In a free market, it is the role of the auctioneer. He acts on behalf of the legal owner in his quest for a new owner. The general principle of free market stewardship is this: *high bid wins*. This would normally apply only to church buildings, plus a few vehicles. Churches have charitable programs and missions. The various claimants apply to a local church. They present their competing cases. High bid wins, but this is not a monetary bid. It is a “bid for need.” They resolve disputes submitted to them.

### A. Delegated Sovereignty

I begin this paragraph with the words I used to begin the parallel paragraph on individual stewardship. Point one of the biblical covenant is sovereignty.<sup>2</sup> God possesses absolute sovereignty. Yet He shares sovereignty through delegation. This was manifested in the original dominion covenant (Gen. 1:26–28).<sup>3</sup> This was re-confirmed with Noah (Gen. 9:1–3).<sup>4</sup> It was confirmed ontologically with the Incarnation, when God became a man. God clearly delegated sovereignty to man. In both cases, Adam and Noah, God was dealing with families.

The elders must deal with those under their authority in a way analogous to the state’s system of courts. They decide cases. They do not initiate programs that invade the legitimate and broad authority of families.

### B. Representative Stewardship

The elders have a responsibility to train members in the basics of how to manage wealth. The church has no legal or moral claim on family wealth beyond the tithe. The church’s authorities do not make decisions regarding the budgets of families and individuals, except in rare cases of judicial issues brought to the elders by families.

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2. Ray R. Sutton, *That You May Prosper: Dominion By Covenant*, 2nd ed. (Tyler, Texas: Institute for Christian Economics, [1987] 1992), ch. 1. (<http://bit.ly/rstymp>)

3. Gary North, *Sovereignty and Dominion: An Economic Commentary on Genesis* (Dallas, Georgia: Point Five Press, 2012), chaps. 3, 4.

4. *Ibid.*, ch. 18.



Some of these issues are economic. The question of charity is basic. The apostles appointed deacons as a way to use the division of labor to their advantage. They were spending too much time deciding who deserved what. The institution of the diaconate was their solution (Acts 6:1–4).<sup>5</sup>

### C. Capital Accumulation

The accumulation of capital is an ethical command. It is not optional. The building of God's kingdom requires capital. It is a redemptive process. The meaning of redemption is to buy back. Covenant-keepers are required to buy back the world on behalf of God. This is why the biblical covenant is governed by Deuteronomy 8:18: "But thou shalt remember the LORD thy God: for it is he that giveth thee power to get wealth, that he may establish his covenant which he sware unto thy fathers, as it is this day."<sup>6</sup> Who were the fathers? Abraham, Isaac, and Jacob. They left an inheritance.

Abram was the head of a household. He was also a household priest. He circumcised male children in his household. This was a sacrament. As the priest of the household, Abram had to make an assessment of the value of his capital in terms of the future. This is true of all capital. Its present value is based on the expected future stream of income. It is also based on the evaluator's degree of future orientation. If he is future-oriented, his capital is worth more to him than if he were present-oriented. The rate of discount he applies to future income is lower. Hence, the expected value of the outcome is higher.

The longer the estimated time period of the expected stream of net income, the higher the market value to the owner. But the degree of time orientation has far greater impact on present economic value than the term of expected income. If the rate of long-term interest doubles, this will depress the present value of the stream of income by almost half. A doubling of the expected period of net income from the asset will not compensate for the doubling of the rate of interest. Why not? Because the extra years are so far out chronologically. The discount applied by the doubled rate of interest

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5. Gary North, *Sacrifice and Dominion: An Economic Commentary on Acts* (Dallas, Georgia: Point Five Press, 2012), ch. 5.

6. Gary North, *Inheritance and Dominion: An Economic Commentary on Deuteronomy*, 2nd ed. (Dallas, Georgia: Point Five Press, [1999] 2012), ch. 22.

will have even more depressing effects on the value of income that far out than it has on income that will arrive sooner.<sup>7</sup>

The elders of a church make judgments representatively: on behalf of. They make judgments on behalf of church members, but also the corporate church.

The biblical goal is capital accumulation, not capital consumption. This is in an inter-generational assignment. Each generation is supposed to leave more behind than it inherited. This is the meaning of value-added living, as applied to capital ownership.

The accumulation of church capital must include the worldview the church passes to the members. This will be their primary tool of production. This will shape their administration of inherited wealth. It will shape their ability to make decisions on behalf of future generations. There is a law element to consider: ethics. There is a sanctions aspect: causation in history. There is a time element to consider.

## D. Success Indicators

The individual uses these: profit and loss. But the concept of profit and loss must extend beyond numbers in a ledger. They must include evidence of God's approval or disapproval. For the individual, the final judgment is the archetype of historical sanctions. The individual is singled out. So, the focus is on individual benefits. This is not true of the family. The family does not pass over the sanction of death into eternity.

Then what is God's goal for the church? *Maintaining the covenant*. This keeps the capital within the kingdom of God. The confession of faith is central. It is a matter of oath: point four of the biblical covenant.<sup>8</sup> The extension of the oath through time is sacramental. But the family has no sacraments. So, these must be the church's sacraments: baptism and the Lord's Supper.

The numerical indicators are valid as secondary indicators. If a church sees its capital shrinking, due to losses, the decision-makers must pay attention to the market. Why is the capital base declining? What must be done to reverse this? These traditional standards of profit and loss must not replace

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7. If the expected income stream is 50 years, the value to anyone of the income from 51 years to 100 years is minimal. Life is too short.

8. Sutton, *That You May Prosper*, ch. 4.

the sacramental sanctions, but unless there are adjustments in the allocation of family capital, there will be no inheritance to pass on.

## E. Contract Renewal

The individual inherits beyond the grave.<sup>9</sup> So does the church. But the church's inheritance is not said to be economic. The church's inheritance is the marriage supper of the lamb (Rev. 19:6–9) and everything that follows. Then what about economics? How is the church's economic covenant renewed in history? By covenant succession. The church's capital is transferred to the next generation of covenant-keepers within the church. This is the biblically mandated means of extending God's kingdom through time. The time factor is the basis of economic compounding. The members die. The baptized children inherit the task of extending the kingdom of God in history.

If the heirs keep the terms of the covenant, they will usually be in a position to add value. This means they will have to increase their productivity. They will then leave more behind than they inherited. This is the meaning of the redemption of the world. The heirs participate in an inter-generational increase in capital. Ownership of resources progressively is transferred to covenant-keepers. "A good man leaveth an inheritance to his children's children: and the wealth of the sinner is laid up for the just" (Prov. 13:22).<sup>10</sup> This process includes churches. Why? Because family capital produces income, and churches receive tithes.

In the first half of the twentieth century, mainline denominations in the United States went liberal theologically. The covenant-breakers inherited the assets: denominational name identification and church buildings. In the second half, mainline denominations began to shrink. They sold their buildings. They struggled for support. The conservative denominations grew. Inheritance shifted away from the liberals.<sup>11</sup>

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9. "Lay not up for yourselves treasures upon earth, where moth and rust doth corrupt, and where thieves break through and steal: But lay up for yourselves treasures in heaven, where neither moth nor rust doth corrupt, and where thieves do not break through nor steal: For where your treasure is, there will your heart be also" (Matt. 6:19–21). Gary North, *Priorities and Dominion: An Economic Commentary on Matthew*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 13.

10. North, *Wisdom and Dominion*, ch. 41.

11. Roman Catholicism had a kind of echo effect. It maintained the older the-

This inter-generational process of inheritance, compound economic growth, and accumulation of capital is the covenantal basis of *economic redemption in history*. The accumulation of capital under a covenantal oath is the economic basis of redemption in other spheres. The covenantal church extends its jurisdiction by means of the process of economic compounding. This process of wealth creation is entirely voluntary. It does not involve the use of force. The kingdom of God expands its jurisdiction primarily in terms of families, but covenant-keeping family members are members of churches.

## Conclusion

The economics of the church begins with the trustee function, which is judicial. But the economics of the church is inescapably horizontal: competition for members, which means keeping existing members and recruiting new ones. The church competes against covenant-breaking society for new members. This is the battle for the souls of men. The economics of the free market is also inherently horizontal: competing bids for the use or ownership of scarce resources. The principle of *high bid wins* governs the free market. This bid is overwhelmingly monetary. It is impersonal. It is open to new bidders and new sellers. In contrast, the high bid of the family is established by the head of the household. This bidding system is non-monetary and highly personal. It is not open to new bidders and new sellers. This is not true of the church. The church competes in terms of its worldview, as well as the sanctions associated with the two rival worldviews: heaven or hell.

The deciding authority is the individual. He operates under God's overall sovereignty. He decides which voice of authority to listen to. He decides on which kingdom to live under: the kingdom of God or the kingdom of man. The mark of his decision is his church membership, delineated by the sacraments.

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ology until Pope John XXIII, who came into office in 1958. Then came Vatican II (1962–65). Then came Pope Paul VI (1963–78), a self-conscious liberal. The church did not de-frock its liberal theologians. The number of priests ordained to parish church ministries in the United States in 2010 was around 300. United States Conference of Catholic Bishops, Office of Media Relations, April 16, 2010. (<http://bit.ly/newpriests2010>) The church had almost 80 million members on its rolls. The average age of an American priest was 63 in 2009. In 1970, it was 35. (<http://bit.ly/priestage>)

### 3

## BOUNDARIES

### Introduction

The central judicial-covenantal fact of the church is the right to exclude. The church is bounded by its judicial status: the bride of Christ.<sup>1</sup> She is not for sale. No one but Christ has lawful access to her. This exclusion is reflected by the sacraments. The sacraments are bounded covenantally. Those who are not members of an institutional church do not have lawful access to baptism, unless they are declaring their membership by consenting to baptism. Non-members do not have lawful access to the Lord's Supper.

Churches are legally separate judicial social units. They are covenantal units, because they are established by a mutual oath under God. They are identified by names. These names establish legal liability. A name is associated with a legal boundary.

### A. Name and Ownership

In Chapter 3 of Part II, I discussed the relationship between name and boundaries. God announced His defense of His name in the Third Commandment. This is the third law in the list of five priestly laws. He announced the prohibition against theft—a defense of property—in the Eighth Commandment. This is the third in the list of five commandments relating to kingly rule or civil society.<sup>2</sup>

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1. John 3:29; II Corinthians 11:2; Ephesians 5:25–27; Revelation 19:7–9; 21:2, 9.

2. On the dual lists, priestly and kingly, of the Ten Commandments, see Gary North, *Authority and Dominion: An Economic Commentary on Exodus* (Dallas,

In that same section, I wrote that private property begins with a person's name. He is a legally identifiable agent. His name identifies him. It says, "you, not someone else." This is the basis of judicial responsibility. It is also the foundation of economic authority. This same analysis applies to a family, a church, and an individual. I also went on to write this: "The authority to name things is a God-given authority. The person with the authority to establish names possesses a unique hierarchical position at the top. The question, 'Who's in charge here?' can be accurately answered by identifying the person with the legal authority to name people and things." This analysis also applies to a church.

A local congregation has a name. This act of separation marks it a trustee: a legal administrator on behalf of God of God's property. Whatever it owns in its name belongs to God. Church property comes under the elders, who are in charge of the church's property. They serve as trustees, both for God and for those under their authority. By extending the church's ownership, elders extend its jurisdiction.

## B. Resource Allocation

My discussion on resource allocation in Section B of Part II, Chapter 2, goes over the basics of subjective value and objective pricing of scarce resources. The free market is governed by the principle of *high bid wins*. This is usually a monetary bid. It is impersonal on well-organized markets. Buyers and sellers do not know each other.

The elders of a church act representatively. They allocate time and money in terms of their judgment regarding the conflicting values of members of the congregation. Inside the legal boundaries of the church, they treat people differently from those outside these boundaries. They are responsible to God for the administration of assets. They represent members legally (trustee). They act as trustees for church members as individuals, but also as agents of the church as a covenantal unit.

This allocation is not governed by legal rules based on contract. Elders can give more or less time to one member in relation to another. This is unequal treatment. The church's resources are not part of a system of equality or even a system of fixed proportional claims. The church cares for

the weak members. This is highly personal. A free market-based system of allocation is far more dependent on contracts between strangers.

The members are economic resources as well as liabilities. As they mature spiritually, their labor adds to the church's income.

### C. Time and Place

Churches extend beyond time and place. They begin in a time and a place, but church growth extends the worldview of the church.

There is loss involved in such an extension. Competing ideas and experiences threaten to overcome the confessional inheritance of the church. Confessions of faith change over time, either officially or unofficially. This may affect the church's inheritance in the broadest sense. But while the rigor of a church's confession can get weaker, the geographical impact of whatever confession remains may be greater. It reaches more people.

This weakening of the church's confession is well known with respect to recent converts to a worldview. The first generation defines itself in terms of the break that it made from the traditional confession. The children grow up in the confessional environment established by the elders: ecclesiastical and parental. When a new denomination is born of a split, the issues are clear. But clarity fades over time. The next generation of members did not experience the confessional break which their parents did. They did not pay a heavy price or experience negative sanctions. The church's confessional boundaries are familiar to them. These boundaries may be little more than background noise: easily adapted to and ignored. Their heirs will in turn grow up in a confessional setting, but one far less rigorous than either the founders' confession.<sup>3</sup>

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3. In early colonial American history in New England, 1630 to 1700, this theological decline was accompanied by the invention of a theological doctrine, the halfway covenant. The founding generation, 1630 to 1660, gave verbal testimony of their faith as a requirement to gain church membership in Congregational churches. This requirement was a new doctrine. Continental Calvinism did not require such personal testimony of conversion. The second generation tended not to join churches, not having had their parents' experience. Then what was the legal status of their children, who were not the children of church members? A new doctrine arose: the halfway covenant. The churches decided that they could be baptized lawfully, but they could not take communion or vote in church elections. The main book on the is Edmund S. Morgan, *Visible Saints: The History of a Puritan Idea* (New York: New York University Press, 1963).

Only through the maintenance of the confession, which includes the Bible's inter-generational postmillennial vision of the future,<sup>4</sup> can a church overcome regression to the mean beyond three or four generations. The Second Commandment says that this is possible to achieve. "Thou shalt not bow down thyself to them, nor serve them: for I the LORD thy God am a jealous God, visiting the iniquity of the fathers upon the children unto the third and fourth generation of them that hate me; And shewing mercy unto thousands of them that love me, and keep my commandments" (Ex. 20:5–6). The word "thousands" applies here to "generations."<sup>5</sup> The observation that this has not been achieved in the past does not prove theologically that the promise of the Second Commandment is null and void under the New Covenant.

The amillennialist necessarily argues as follows. "The promise of the Second Commandment is hypothetical. It is an ideal. It is not connected to historical reality. It never has been. It never will be. Bible prophecy teaches this. History reveals that the blessings of God are showered on covenant-breakers, who down through the ages keep and extend the kingdom of man, which is the kingdom of Satan. God visits the iniquity of the fathers upon the third and fourth generation of those who hate him, and then He rewards this iniquity. The kingdom of man in culture will not be replaced by the kingdom of God. It is in fact a sin for covenant-keepers to pursue the creation of a Christian civilization. It is triumphalism. It is Constantinianism politically. God shows lovingkindness to covenant-keepers by placing them at the mercy—the tender mercy—of covenant-breakers. So, the correct way of interpreting the Second Commandment's historical manifestations of blessings and cursings is to reverse the cultural positions of covenant-breakers—thousands of generations of cultural victory—and covenant-keepers: three or four generations of cultural victory, and then defeat through replacement of the confession.

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4. Gary North, *Confidence and Dominion: An Economic Commentary on Psalms* (Dallas, Georgia: Point Five Press, 2012).

5. Gary North, *Authority and Dominion: An Economic Commentary on Exodus* (Dallas, Georgia: Point Five Press, 2012), Part 2, *Decalogue and Dominion* (1986), ch. 22:C:3.



## D. Scarcity

I wrote this in Section D of Chapter 3 of Part II, on the individual covenant.

Scarcity is defined by economists as follows: "At zero price, there is greater demand than supply." This is another way of saying "it commands a price." Scarcity imposes boundaries on men. It means that they must gain more assets in order to increase their consumption. They must extend their jurisdiction. There is also a scarcity of time. People die.

This applies differently to institutions. They need not die. There is replacement: *succession*. Surely this is true of the church. It is somewhat less true of the state. Families extend through time, but their continuity is far less meaningful than with churches and states. Few people know anything about their ancestors a hundred years previously. They know a great deal about their nations' histories. They can find out a great deal about the history of large denominations. But church history is not a popular field, even within denominations.

Scarcity is a major factor in limiting church growth in urban societies. The price of land is bid up by buyers. Businesses generate income from buildings for at least five days a week, and possibly seven. This enables them to buy land. Churches generate income by donations. The building is used only on Sundays, possibly only in the morning. Churches therefore are not successful bidders for property. Also, churches have land requirements for parking. In the United States, a church needs one acre of paved land for every 300 people. Businesses do not need this much land. Their customers do not show up at the same time.

So, churches can afford to grow in two ways. First, by adding worship meetings all day Sunday. Second, by adopting a house church model. This can be done through the World Wide Web. A common sermon can be broadcast. Each home church has a large television. This can be done for at least the adult Sunday school. But it would take multiple television sets and rooms for all Sunday schools.

There is also the scarcity of church officers. The modern churches in the West require training. There are few members ready to serve. The cost is

high. This basic economic law is true: when the cost rises, less is demanded, other things being equal. This acts as a restraint on church growth.

## E. Economic Growth

With the arrival of compound economic growth in 1800, the thinking of the Western world began to change. What had been understood in theory as early as 1650 in Holland became a reality in 1800. This was a kind of economic postmillennialism, but without a Christian confession. Specific families can grow larger, but at some point, families in general cannot, unless some families cease to grow or there is sufficient economic growth to accommodate new arrivals. This restraint hampered population growth until 1800. Then it was loosened. World population grew from a billion people to seven billion in two centuries. The birth rate increased because of younger marriages, lower infant mortality, and longer life expectancy. Per capita wealth worldwide increased by at least a factor of 10.<sup>6</sup> It may have increased by a factor of 45 in Norway, and by 40 in the United States.<sup>7</sup> South Korea is the most astounding case. Its per capita wealth increased by a factor of 18 in the four decades after 1953.<sup>8</sup> McCloskey capitalizes this as the Great Fact of the modern world. It deserves to be capitalized. We have seen the preliminary conquest of scarcity in the last two centuries. If this growth continues for another five decades, there will be few destitute people in the world,<sup>9</sup> and there will be nine billion people. Two questions arise: (1) Why did this begin in 1800? (2) Why did it begin in Great Britain and the United States? There is no answer as of 2014, although I regard this as the most important historical question there is. The world changed after 1800 as never before in recorded history. It got rich. We do not know why.

## Conclusion

A congregation is bounded. It is bounded by confession, by the number of members, by the size of its capital, by geography, and by time. But it can

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6. Dierdre McCloskey, *Bourgeois Dignity: Why Economics Can't Explain the Modern World* (Chicago: University of Chicago Press, 2010), p. 2.

7. *Idem.*

8. *Ibid.*, p. 50.

9. *Ibid.*, p. 3.

extend across borders and through time. It need not die out. The possibility of church growth is basic to the covenantal promises of the Mosaic law.

There can still be confessional continuity over generations. There can be sustained economic blessings based on covenantal faithfulness. The secularization of culture has accompanied economic growth. The period of the most rapid economic growth in the United States, 1865 to 1914, was marked by the harnessing of energy: coal, oil, and electricity. It was also marked by huge immigration.<sup>10</sup> It was not marked formally by a confession of faith, although the culture remained Protestant, with a strong Catholic subculture.

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10. Robert Higgs, *The Transformation of the American Economy, 1865–1914: An Essay in Interpretation* (Auburn, Alabama: Mises Institute, [1971] 2011). (<http://bit.ly/HiggsEcon>)

## 4

# IMPUTATION

### Introduction

My introductory remarks in the chapter on “Imputer” in Part II cover the connection between the Calvinist doctrine of judicial imputation and the Austrian School’s doctrine of economic imputation. Calvin began with the presupposition of God’s judicial imputation to each individual regarding his status as either saved or lost. But church elders must imitate God in their officers. They must master casuistry. Casuistry is the individual’s application of God’s law to specific cases. The individual can make such imputations only because of the fact that he is made in God’s image. He can think God’s thoughts after Him, as a creature.

Elders have a responsibility to allocate resources belonging to the church. They must do this rationally. But what does “rational” mean? It means without excessive waste. How can they do this? For items purchased in a free market, there are prices. But there are no prices associated with relationships. This same problem confronts families. Mises argued that socialist economic calculation is inherently irrational. There are no prices in a socialist commonwealth. There is no capital market. But this criticism does not apply to families and churches. There are rational decisions without capital markets inside covenantal units. They are based on casuistry. They are based on empathy. But there is a problem: the larger the church, the more difficult it is to reconcile plans. This is a problem of epistemology: “What can we know, and how can we know it?”

The central question for all epistemologies that are based on a theory of individual imputation of meaning, causation, and value is this: *How can the imputations of theoretically autonomous individuals explain decision-*

*making by groups?* This is an application of the recurring philosophical problem of the one and the many. If we begin with the autonomy of the individual, we soon must face the fact that he is not autonomous. There are other imputing individuals in this world. He interacts with lots of them. To make sense of our world, we must have a way to assess the relevance of competing imputations. We must assign “weight” to individual imputations, and then “add up” the value of all of them. But no such value scale exists, according to the methodological individualist.<sup>1</sup> If this is true, then this makes all representative decision-making on behalf of a group scientifically impossible. It also raises the question of who possesses the lawful authority to make such representative decisions. On what basis? *Every epistemology of autonomous man soon crashes into the rocks of competing men.* No individualist epistemology is known to have survived this crash.

Once a procedure becomes scientifically impossible on its own terms, the humanistic economist is reduced to sociology. This is the fate of all economic theories of individual imputation. The alternative to sociology is either physics or silence. Either the methodological individualist must dismiss the scientific relevance of representative imputations and therefore also representative decision-making, thereby remaining mute with respect to collectives, or else he must lay down the economist’s toolkit and pick up the sociologist’s knapsack. This is a humiliating experience, but epistemologically necessary.

## A. Valuation Is Inescapable

God evaluated the effect of His daily creative work on all days except day two (Gen. 1). This was an individual’s evaluation of His individual work. But Christianity teaches that God is three persons as well as one God. So, this imputation was also corporate. So was the creation. Only Christianity announces such a doctrine.

There was unity of purpose in the creation. But God said “Let us make man in our image” (Gen. 1:26a). The image of God is both singular and plural. Therefore, so is mankind, who as a species is made in God’s image. The ability of men to make corporate judgments is inherent in the being of God and the being of man, both individual man and corporate man. This

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1. Lionel Robbins, *An Essay on the Nature and Significance of Economic Science* (London: Macmillan, 1932), ch. VI.

is why Christian economics can deal successfully with the epistemological issue of the one and the many. In the field of economics, the problem of the one and the many begins with epistemology, as it does in all other academic disciplines. The question of epistemology is this: "What can man know, and how can he know it?" It applies to individuals and collectives in every area of thought.

Heads of families and heads of churches must make decisions about allocating scarce resources. The reason they can do this is that they are made in God's image. God has delegated sovereignty to them. In this sense, as stewards, they must take on the role of sovereigns. They are not autonomous sovereigns. They are delegated sovereigns. They are the answer to the question: "Who's in charge here?"

## **B. Responsible Evaluation**

My comments here are extensions of what I wrote in Section B of Chapter 4 in Part II. They have to do with thinking God's thoughts after Him. This exercise begins with the presupposition of God's law. This law applies to individuals, who are held responsible in history and eternity. But it also applies to corporate entities. The decision-makers must begin with any laws of God that apply to the corporate entity, either through biblical revelation or through the extension of biblical revelation. This is Christian casuistry: the application of biblical principles to historical circumstances.

Responsibility is four-way: upward to God, outward toward society—as manifested both in market demand and charitable need—downward toward church members, and inner: ethical conscience and personal needs. The elders are required by God to consider this complex array of competing demands on the church's resources. The allocation is economic, but the responsibility is judicial.

The elders make valuations on behalf of each of the members of the church. They must take into consideration what God requires of each member. They must also consider God's expectations regarding the church as a covenantal unit. This makes the elders' position highly complex. God holds them responsible for the accurate assessment of the value scales of each member, as well as the potential net output of each member. They must consider short-run net output and long-run. They then must motivate

each member to maximize his or her output. His is not primarily economic output. It is spiritual output, but with economic implications.

Because there are comparable services outside the local congregation, the decision-makers must offer a superior message and program. There is competition for allegiance in the modern world. Elders must discover information about comparable ecclesiastical programs, and then assess to what extent these programs are relevant inside the congregation.

The mixture of market prices, pseudo-market prices, and no market prices confronts decision-makers in every corporate organization. The exact economic value of a church member is difficult to assess. It has something to do with replacement value. But it also has something to do with the market value of loyalty, the market value of understanding the unwritten rules, and the market value of ecclesiastical inertia. Elders are loosely restrained by the church's budget, but they are rarely sure which institutional arrangements should be left alone, which should be restructured, and at what cost. This calls for *intuitive judgment*, i.e., judgments where economic cause and effect are not strictly numerical. But almost all economic judgments are not strictly numerical.

### C. Criteria: Individual and Corporate

In Chapter 4 of Part II, I explained why economic value is derived from ethical value, an epistemological position that is contrary to the prevailing notions of humanistic economic theory. I stated that the criterion of economic value is this: *the extension of the kingdom of God in history*. Economic theory is not value-free. It is value-derived.

Church leaders are required by God to use the kingdom of God as their standard of economic value in assessing the profitability of any course of action. They are supposed to allocate church capital based on this criterion. They act as a steward of God, both judicially (authority) and economically (wealth). They act on behalf of God: extending the kingdom of God. They act as stewards of the church: extending its inheritance in history. The steward has the middleman aspect of it. It is both judicial and economic. He is judicially responsible before God. The rewards and penalties of stewardship are both judicial and economic. By means of successful stewardship, his responsibilities increase (Luke 12:47–48).<sup>2</sup>

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2. Gary North, *Treasure and Dominion: An Economic Commentary on Luke*,

The criteria of church success are varied. One is membership growth. Another is confessional continuity. Others are stability and peace. These are not matters of “high bid wins.”

## D. Value and Price

*Imputation economically reflects imputation judicially.* The meek shall inherit the earth. But this imputation is based on faith. It is not always clear in history that covenant-keepers have an advantage economically over covenant-breakers. Indeed, history seems to testify to the opposite. But history is not over. This same anomaly initially bothered the author of Psalm 73. He changed his mind later.<sup>3</sup>

Jesus’ parable of the pearl of great price is relevant here (Matt. 13:45–46). A man discovers a pearl on another person’s land. He hides the pearl, and he then sells all that he possesses to buy the land. He values the pearl more than he values his other possessions. He buys the land to obtain the pearl. He pays a high price because he imputes great value.

In business, there is the concept of the lifetime net value of the customer. How much money is a typical customer likely to pay? For how long? What is the expected profit rate? Add up these figures. This is then discounted by the prevailing rate of interest for this estimated time period. The result is the target. The cost of acquiring the customer must be kept below this figure.

In church matters, there is a similar concept. Churches never make this calculation. They also do not estimate the cost of gaining a new member. This would be considered crassly commercial. Yet churches cannot escape these figures. Over time, if number of new members does not equal the losses due to death, transfer of membership, and dropping out, the church will shrink. It will eventually disappear. This is the feedback system. Every organization has feedback systems. They should be used to guide policy. They surely affect outcomes. These are sanctions imposed by the targeted group of potential members. They vote by means of donations of time and money.

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2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 28.

3. Gary North, *Confidence and Dominion: An Economic Commentary on Psalms* (Dallas, Georgia: Point Five Press, 2012), ch. 17.



## E. Value-Added Living

Individuals impute economic value. Individuals are responsible for the accuracy of these imputations, case by case. This ability is grounded in God's economic imputation.<sup>4</sup>

There is no possibility of a cardinal scale of value: numerical designations. There is only an ordinal value scale: first, second, third. This is because man is analogical being. He is not digital. He is made in God's image. God is personal, not digital.

The act of imputation is always representational. Man imputes value on behalf of God: the cosmic Owner. He also imputes it on behalf of any subordinate owners of the assets involved. This act of economic imputation is always governed by the judicial category of ownership. *Economic ownership is always an extension of judicial ownership.* It is not autonomous. Nothing in the creation is autonomous.

The elders make estimates of the value of future potential streams of income in the broadest sense. They then allocate resources under their control to buy or lease control over these income streams. In other words, they estimate in terms of the economic value of future legal ownership. *Imputed value drives legal ownership, but legal ownership secures future economic value.* If there were no possibility of securing ownership, the division of labor would contract. The range of cooperative ventures would shrink. The ability to make estimates of future prices influences the array of assets owned, but this ability is valuable only because of the possibility of securing control over them.

The art of estimating future value presupposes cause and effect: sanctions. It also assumes linear history. There is causation over time. If there were not, the ability to estimate future value could not exist. It would be overwhelmed by randomness. The individual could not plan for an objective outcome. This outcome is in part legal and in part economic. Legal: "Will I own it?" Economic: "What will it be worth?"

The elders act on behalf of others. This is the trustee function. They also act in terms of expected future value. This is the allocation or auctioneer function. They may have no present legal relationship with future members, but at some point, there will be a legal exchange of ownership. They act as stewards for future members, who will join to secure the benefits. Elders are

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4. Part II, ch.. 3:E.

legal trustees for these people. This is why ownership is a social function. This includes the ownership of churches.

Church growth is the product of accurate forecasting coupled with resource allocation. These activities assume a system of private ownership. They also assume a world of economic causation: predictable sanctions.

## Conclusion

The biblical explanation of economic imputation rests on the biblical system of private ownership. An owner is a legal trustee (vertical-judicial), an economic steward (vertical-economic), and an auctioneer who acts on behalf of high bidders (horizontal-economic). The head of a household is the biblical model of this arrangement. He acts legally on behalf of God, himself, and his heirs. He acts economically on behalf of all these, plus future customers: the resource-bidding public.

Subjective economic imputation undergirds the system of competitive bidding, which is objective. People with resources make estimates of future economic value. Then they enter the market and make bids for legal control over scarce resources. This produces prices on capital markets. These markets assume the existence of a system for transferring ownership. It is governed by this economic principle: "High bid wins." Try to buy a church building without facing these constraints. You cannot do this.

Economic planning is an extension of the practice of casuistry: the application of unchanging principles to changing historical circumstances. These are moral principles, according to the Bible. Humanistic economics denies this. It treats the unchanging principles as autonomous. It treats them as value-free. This approach suffers from the same dualism that afflicted Greek philosophy: there is no point of contact between the unchanging logical principles (Parmenides) and historical flux (Heraclitus). The models are separated in history.<sup>5</sup>

The skill of economic casuistry is to be taught to one's heirs. This is an aspect of the teaching of God's law (Deut. 6:4–8).<sup>6</sup> God's law encompasses

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5. Mises was less vulnerable to this criticism, but by invoking the evenly rotating economy as a substitute for neoclassical equilibrium, he exposed his system to this criticism.

6. Anyone searching for an explanation of why Jews are prosperous should begin here.

the realm of economic theory resource allocation. So does covenantal instruction.

## 5 LEGACY

### Introduction

The Introduction to this chapter is Chapter 5 of Part II. Everything I wrote there serves as an introduction to this chapter.

### A. Multiplication

The call to multiplication comes in the dominion covenant. “And God blessed them, and God said unto them, Be fruitful, and multiply, and replenish the earth, and subdue it: and have dominion over the fish of the sea, and over the fowl of the air, and over every living thing that moveth upon the earth” (Gen. 1:28). It was repeated with Noah: “And God blessed Noah and his sons, and said unto them, Be fruitful, and multiply, and replenish the earth” Gen. 9:1). There is no question that this is an ethical mandate given to all mankind.

The church has a comparable command. We call it the Great Commission. “And Jesus came and spake unto them, saying, All power is given unto me in heaven and in earth. Go ye therefore, and teach all nations, baptizing them in the name of the Father, and of the Son, and of the Holy Ghost: Teaching them to observe all things whatsoever I have commanded you: and, lo, I am with you always, even unto the end of the world. Amen.” (Matt. 28:18–20). This commission is more than just ecclesiastical.<sup>1</sup> But the church is the central organization in the extension of the Great Commission.

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1. Kenneth L. Gentry: *The Greatness of the Great Commission: The Christian Enterprise in a Fallen World* (Tyler, Texas: Institute for Christian Economics, 1990). (<http://bit.ly/GentryGGC>)

## B. Future-Orientation

In Section B of Chapter 2 of Part II, I discuss future-orientation and population growth. Future-orientation is what Edward Banfield called the upper-class mentality.<sup>2</sup>

For those who affirm postmillennialism, this willingness to accept lower net income in the present for the sake of the future refers also to history. The postmillennialist does not believe, as the premillennialist does, that Christian capital in the aggregate will suffer a discontinuity prior to the time when Jesus comes to set up a thousand-year earthly kingdom.<sup>3</sup> He sees continuity. He does not believe, as the amillennialist does, that Satan inherits in history through his earthly disciples. He does not believe, as the amillennialist does—but refuses to say in public—that the wealth of the just is laid up for the sinner. He believes in compound economic growth of the kingdom of God in history. The wealth of the sinner is laid up for the just (Prov. 13:22b).<sup>4</sup>

## C. Imitation

Success should have imitators. This imitation process is always limited by *ceteris paribus*: “other things remaining equal.” When covenant-breakers grow weary of copying successes that are based on adherence to biblical law and its implications, they eventually rebel. They refuse to continue to imitate covenant-keepers. They cannot tolerate their increasing conformity to the terms of biblical law. This resentment is the basis of the final rebellion of Satan at the end of history.<sup>5</sup> He rebels against the success of God’s kingdom, not its failure.

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2. Edward Banfield, *The Unheavenly City Revisited* (Boston: Little, Brown, 1974), pp. 57–59.

3. The historic premillennialist believes in a future “great tribulation,” which will immediately precede Christ’s bodily return. The non-tribulation dispensational premillennialist believes that the church will be raptured out of history before the great tribulation, but Christian capital will be destroyed during this tribulation period.

4. Gary North, *Wisdom and Dominion: An Economic Commentary on Proverbs* (Dallas, Georgia: Point Five Press, [2007] 2012), ch. 41.

5. Gary North, *Dominion and Common Grace: The Biblical Basis of Progress* (Tyler, Texas: Institute for Christian Economics, 1987), ch. 9. (<http://bit.ly/gndcgr>)

What gets imitated? What if the social benefits associated with one set of ethical rules are no longer recognized as the result of these rules? What if there is widespread abandonment of these rules? What if the negative consequences of this abandonment are not blamed by most people on the abandonment of the previously dominant rules? What if the negative consequences are accepted as part of the historical process? What if experts and representatives of the policy-making groups in society identify as the sources of the negative consequences what were in fact the sources of the positive consequences and barriers against the negative consequences? What if this is a case of throwing gasoline on the fire? Then what? This is the scenario described by Fred Reed. As he says, it all makes sense.<sup>6</sup>

To the extent that the foundations of capitalism are based on biblical norms, it can prosper. If private property is upheld by custom and civil law, then capitalism can and will flourish. If future-orientation becomes widespread, an outlook that is the result of optimism concerning history, then the rate of investment will increase. If a rejection of envy is widely adopted, then cooperation across economic classes will increase. If taxes remain lower than Samuel's warning figure of 10% (I Sam. 8:14, 17),<sup>7</sup> economic growth will be maintained. If wealth gained through entrepreneurship is upheld by the people who influence public opinion, there will be economic growth. Societies can adopt the fruits of a biblical worldview, but without adopting Christianity. Conversely, Christian societies have adopted non-Christian attitudes toward time and wealth. Fertility rates have then declined.

## D. Entrepreneurship

The elders must look to the future. There is such a thing as ecclesiastical entrepreneurship. This is called missions. Long-term entrepreneurship is different from short-term entrepreneurship. Elders may imagine capital value several generations in the future, but this is rare. The unknown is too great a barrier. They have no control over the confession of faith of each succeeding generation. They know that the ability to establish institutional means of preserving wealth is limited.

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6. Fred Reed, "Making Sense: A Guide to Our Times" (July 8, 2013). (<http://bit.ly/ReedSense>).

7. Gary North, *Disobedience and Defeat: An Economic Commentary on the Historical Books* (Dallas, Georgia: Point Five Press, 1012), ch. 14.

Because conditions change, and because people's responses to these changing conditions change, it is close to impossible to specify in advance how church capital should be used. The general principles will become subject to debate among heirs.

## **E. Compounding**

The increase in church capital in the narrow sense—tools of production—is the same as it is for individuals' capital. The difference is this. An individual can benefit from any expansion of personal capital by means of personal consumption. If he times his exit from life well, he will run out of capital about five seconds before he runs out of time. He leaves no inheritance. If he has no heirs, he departs in peace.

The church's time perspective should be long-term. The representative of a church is supposed to act on behalf of future generations. While he can know little of what future generations will require, he can make some guesses. Personal capital is easier to manage, for its value need be increased in only one lifetime. An individual specializes in dealing with the trials and tribulations of his time period and geography. This specialization enables him to make better allocation decisions. But inter-generational forecasting of future capital value is an exercise in futility. If men cannot intelligently impute value to future capital, due to their lack of specialized knowledge about future economic conditions, then the accumulation of capital for wealth transfer mandates the use of trustees. The capital must be transferred to trustees. This is what ordination helps to establish. So do training programs. For capital to multiply over generations, the heirs must be trained in the principles of wealth-creation in the broadest sense. They also must accept this vision, and then have the foresight and competence to implement it.

This involves a confession of faith of some kind. This raises a problem. In most Christian churches, there is no self-conscious link between theological confession and wealth accumulation. If anything, this link is rejected on the basis of a rejection of worldliness. Within certain subcultures there is a link. Among Jews and Armenians, there is at least a cultural link. Their theological confessions have not been maintained in the post-1800 world. We sometimes see this connection in small business cultures. Again, Jews and Armenians are examples. But those Jews who have become enormously

wealthy have not generally maintained the theological confession of Orthodox Judaism.

Churches are not effective instruments for the creation of inter-generational wealth. Corporations are. Corporations have only one major goal: to make a profit. All other goals are eventually sacrificed to the goal of profit. A firm may begin with a mission statement, but a century later, that mission statement will be a museum piece. A church whose mission statement becomes a museum piece is doomed. It may cease to be a church.

## **Conclusion**

As an institution, the church can either add value or reduce it. If a church is covenantally established by oath as an agency in the kingdom of God, it adds value by extending the kingdom through productivity. It does this by biological multiplication of its members and evangelism. The church does this by educating children: a way to extend the worldview of the covenant.

The church has always had a huge advantage: limited liability. Members of a church are not legally liable for the debts of the church.



## CONCLUSION TO PART IV

We return, as always, to the five institutional questions.

1. Who's in charge here?
2. To whom do I report?
3. What are the rules?
4. What do I get if I obey (disobey)?
5. Does this outfit have a future?

The church is established by an oath. To this oath are attached sanctions: positive and negative.

The church as an institution has a future beyond the end of time. It must maintain its old confessions, but it must adjust to new responsibilities. Any adult can renounce the confession, defy it, or ignore it. Over time, some congregations depart from the confession. Others maintain parts of the confession—possibly most of it. But all of them cross their fingers.<sup>1</sup> Time forces changes, and resistance to all change is futile. There is progressive sanctification for confessions.

An elder is a judicial agent: a trustee. He acts on behalf of God to church members, and on behalf of church members to God. This is hierarchical-judicial. There is also economic stewardship: the tithe. This is hierarchical. Finally, there is the service function: service to other society members. This can also be a charitable function. It is horizontal. It looks outward.

The church is a judicial unit. Responsibility in the church is to a corporate entity. Thus, methodological individualism does not apply well to the church. The church is more than the participants. God holds it responsible. Wealth and poverty apply to the church. All economic approaches that rely

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1. Gary North, *Crossed Fingers: How the Liberals Captured the Presbyterian Church* (Tyler, Texas: ICE, 1996). (<http://bit.ly/gncrossed>)

on methodological individualism as the sole tool of explanation founder on family, church, and state.

The time horizon of a church is long. The church extends judicially in time. In contrast, people die.

Because the elders must make decisions on behalf of church members, they must make interpersonal comparisons of subjective utility. They must “balance” or “weigh” the goals and aspirations of multiple members. They must also make estimates regarding God’s assessment of these aspirations. So, in order to make accurate assessments of multiple subjective valuations, they must rely on their ability to assess God’s assessments. They act as God’s fiduciary agents in his allocation of church capital. But they also act as his church’s fiduciary agent with God and with the world outside. There are multiple acts of economic imputation.

This must be done without reference to money prices. The church is an agency that implements the division of labor. But this is not marked by a money economy internally. This division of labor is far more personal than impersonal. Money is geared to voluntary exchange, so most services performed in a church cannot be out-sourced.

In a covenantal unit, pricing is not based on substitution. So, the logic of exchange that applies to a free market does not apply in a covenantal unit. There is no substitution allowed by law. This is why that which Mises called catallactics is highly limited. This is why he never attempted to apply the science of human action outside the market.

A church is supposed to add value. So is an individual. This is the ethical basis of compound economic growth. The extension of a church’s influence is by means of capital accumulation. But the law of large numbers reasserts itself over time. No church seems to be able to increase per capita wealth of its members over the generations. The performance of the members, especially heads of households, reverts to the mean. Confessions historically have reverted to the mean. The more influential that specific churches are in extending God’s kingdom, the more their performance has reverted to the mean. The solution has been the creation of new congregations and denominations. This is a kind of market testing. Ultimately, individuals are responsible on judgment day. Individuals decide what they are willing to believe. They choose where to belong as church members. There is a form of customer authority in church membership. Churches may choose to ignore this, but they will not grow. That is the cost of maintaining original ortho-

doxy. It grows rigid. It no longer deals authoritatively with the fundamental challenges of each new generation. The art of casuistry fades: applying the Bible, the creeds, and the confessions to specific cases.



**Part V**

**THE ECONOMIC STRUCTURE OF  
THE CIVIL COVENANT**



## INTRODUCTION TO PART V

One of the most important mistakes in the history of Western political theory was Edmund Burke's confusion of the two categories: covenant and contract. This confusion has undermined the theoretical foundation of Western conservatism ever since. Burke wrote *Reflections on the Revolution in France* (1790). Here is probably the most famous passage in this deservedly famous book. He wrote of society as a contract.

Society is indeed a contract. Subordinate contracts, for objects of mere occasional interest, may be dissolved at pleasure; but the state ought not to be considered as nothing better than a partnership agreement in a trade of pepper and coffee, callico or tobacco, or some other such low concern, to be taken up for a little temporary interest, and to be dissolved by the fancy of the parties.

This passage is fundamentally incorrect. Why? *Because there is no such thing as a social contract.* The idea of the social contract was one of the most pernicious ideas in the eighteenth century. A contract is a formal agreement between individuals. It is a legal document. It spells out responsibilities for individual performance. Society is not based on any such formal agreement. *Society is a loose system of cooperating individuals and institutions.* Some of these institutions are contract-based. Others are covenant-based.

In contrast to a contract, a covenant is a formal agreement under God. Participants are bound by a binding oath. This oath explicitly or implicitly calls down God's negative sanctions if the terms of the covenant are broken. God does not authorize signers of contracts to use His name in this way. The use of His name implies a great degree of responsibility on men's part to

obey the terms of the covenant. Breaking the terms of a covenant involves far more personal risk than breaking the terms of a contract.

Burke failed to understand that a civil covenant is not a contract. A covenant is far more authoritative, because it is under special sanctions by God. This is why we are to hold the state in higher regard than an economic contract. God's negative sanctions are a greater threat than some earthly court's negative sanctions.

Burke made another mistake. He failed to see the inter-generational aspect of all private ownership, which is based on contracts. The key distinguishing mark of the state is not its future-orientation. The state shares this with all institutions. The key to the state is the binding oath under God and in front of men.

Burke failed to see that the free market is basic to any system of future-oriented responsibility. He also failed to discuss parents' training of children as governed by the requirements of free market competition for resources, including human labor. He used the idea of an inter-generational future-oriented contract to justify the state. But this same future-orientation is far more relevant to economic inheritance than to affairs of state. Why? Because property owners can increase the present value of their property by paying attention to expected future demand for the long-term net output of every asset. It is far easier for someone to assess the future value of a piece of property that he owns, compared to the future net productivity of state officials. A person can do little to affect the performance of state officials. He can do a great deal to add to the value of what he owns.

Burke did not frame his discussion in terms of binding oaths taken by citizens under God, but he did correctly seek to distinguish the authority of the state from the authority of a contract. The state possesses greater authority than a market contract, he wrote. He was correct, but he did not offer a reason that distinguishes a state covenant from a market contract. He spoke of reverence for the state. But why should the state be revered? I have an answer: because it is *not* based on a contract. He called the state a partnership. This muddled judicial categories even more. A partnership is a form of long-term business contract. It ceases when a partner dies. But a corporation does not die. Burke did not foresee the rise of corporations over the next 70 years.



He waxed eloquent about the state's long-term authority over all aspects of society. This outlook, wherever believed, adds to the legitimacy of the state in areas that ought to be outside of its lawful jurisdiction.

It is to be looked on with other reverence; because it is not a partnership in things subservient only to the gross animal existence of a temporary and perishable nature. It is a partnership in all science; a partnership in all art; a partnership in every virtue, and in all perfection. As the ends of such a partnership cannot be obtained in many generations, it becomes a partnership not only between those who are living, but between those who are living, those who are dead, and those who are to be born. Each contract of each particular state is but a clause in the great *primaeval* contract of eternal society, linking the lower with the higher natures, connecting the visible and invisible world, according to a fixed compact sanctioned by the inviolable oath which holds all physical and all moral natures, each in their appointed place.<sup>1</sup>

This inter-generational aspect of civil government is not unique to the state. It also applies to family government and church government. It is also an inescapable aspect of the individual covenant, because someone will inherit. Because of economic inheritance, there is equally a “great *primaeval* contract of eternal society” in market affairs, as well as civil affairs. This is why inheritance is an inescapable concept, both for individual ownership and collective ownership.

Christians should defend the idea of the civil covenant based on its God-given role as the sanctions-bringer against criminals in history. It defends the other covenants from violence and theft. Christians should not view the state as different from the other covenants with respect to the categories of past, present, and future. They all are marked by these three categories.

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1. Edmund Burke, *Reflections on the Revolution in France* (1970), Book 2, Chapter 1, paragraph 159.



# 1

## PLANNING

### Introduction

Individuals plan. They plan as individuals, but in most cases, they plan as participants in corporate bodies. The state is such a body.

In a state, there are mutual claims on its residents and citizens.

As with every other academic discipline, Christian economics must begin with *the doctrine of God*. This governs the first and foremost issue of economics: *ownership*. God owns the world. He created it, so He owns it. But He owns it both individually and corporately. He is both one and many. The New Testament says that the Second Person of the Trinity created everything that was created.

Giving thanks unto the Father, which hath made us meet to be partakers of the inheritance of the saints in light: Who hath delivered us from the power of darkness, and hath translated us into the kingdom of his dear Son: In whom we have redemption through his blood, even the forgiveness of sins: Who is the image of the invisible God, the firstborn of every creature: For by him were all things created, that are in heaven, and that are in earth, visible and invisible, whether they be thrones, or dominions, or principalities, or powers: all things were created by him, and for him: And he is before all things, and by him all things consist (Col. 1:12–17).

This affirmation reveals that there is specialization within the Godhead. There is a division of labor. The Person who is subordinate to the Father was

the original Creator. In this sense, the creation is an aspect of stewardship. The creation is under God the Son, for He was its Creator. He possesses ownership, but always on behalf of the Father. Christ will deliver up the creation to the Father at the end of time.

But now is Christ risen from the dead, and become the firstfruits of them that slept. For since by man came death, by man came also the resurrection of the dead. For as in Adam all die, even so in Christ shall all be made alive. But every man in his own order: Christ the firstfruits; afterward they that are Christ's at his coming. Then cometh the end, when he shall have delivered up the kingdom to God, even the Father; when he shall have put down all rule and all authority and power. For he must reign, till he hath put all enemies under his feet. The last enemy that shall be destroyed is death. For he hath put all things under his feet. But when he saith all things are put under him, it is manifest that he is excepted, which did put all things under him. And when all things shall be subdued unto him, then shall the Son also himself be subject unto him that put all things under him, that God may be all in all (I Cor. 15:20–28).

## A. Cooperation

Planning has to do with allocation of scarce resources. It therefore is based on ownership. God owns everything. He delegates control over assets to individuals. But He also delegates control to collectives. The idea of joint ownership is inherent in the biblical doctrine of the state.

Plan reconciliation is basic to the free market. This has its roots in the family, which is a voluntary institution, but which becomes permanent by a formal oath. The exchange arrangements within a state are not based on "high bid wins." *Justice trumps profit*. Authority is not based on the purchase of an office. *The planning arrangement reflects the hierarchical structure of dominion*. God rules through states. His transfer of ownership to states is His way to maximize His return. But this return is not primarily monetary. It is the suppression of certain kinds of evil acts.

Every plan necessarily involves five factors. These are the familiar five factors that historians use to assess what happened in the past. His-

torians ask five questions: who, why, what, where, when? *Who* identifies the primary responsibility for the plan's launching and its fulfillment. This identifies the responsible agents needed to implement the plan. *Why* identifies the motivation of the steward's plan. Both of these are aspects of part two of the biblical covenant: representation. *What* and *where* identify legal and geographical boundaries: the scarce economic resources required to implement the plan. To gain access to these resources, men must ask permission or buy control. *When* identifies temporal limits: point five of the biblical covenant. A plan must begin at a point in time and end in a point of time. The process of creation takes time. Time must be paid for. It must be allocated. When you do one thing, you cannot do another. Time is in strict fixed supply. It is an irreplaceable resource. Once spent, it cannot be reclaimed. It does not move backward. The implementation of the plan begins somewhere, and it ends somewhere. It does not operate in a geographical vacuum. It involves dominion over nature. The missing first point is God. The traditional list of five questions does not begin with God. It begins with the individual. The missing fourth point of the biblical covenant in this list is causation: *how*?

States cannot escape these obligations, any more than families and churches can. But states are under an additional set of restraints. They are part of a larger covenantal association. The state has a ministerial function (Rom. 13:4).<sup>1</sup>

## B. Ownership

State ownership reflects covenantal hierarchy. Civil officers possess authority over state property. Ownership is not original. It is derived from God's grant of authority. While ownership is point one of the biblical covenant with respect to God, for man, ownership is point two: stewardship.

State officials are responsible for the maintenance of civil order. They possess authority over residents and citizens. This rule of law always applies: *where there is authority, there is also responsibility*. Individuals must give an account to God for their stewardship (Matt. 25). This involves giving an account of themselves for their joint authority as members of civil jurisdictions. No one is autonomous. Every individual answers to God. Our

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1. Gary North, *Cooperation and Dominion: An Economic Commentary on Romans*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 11.

attitudes and behavior toward others do count, meaning they are counted by God: assessed and evaluated.

State officials are involved in constant plan reconciliation. There are more instances of plan reconciliation in business, because negotiations are constant. One negotiation is completed or abandoned. Another takes its place. In a state, negotiations must be minimized in order to achieve peace. But the plans are far more fundamental in states than in businesses. The reconciliations are far more permanent. The stakes are far higher: life and death. The judicial bond of citizenship is the result of plan reconciliation.

Ownership involves asset allocations. This includes the allocation of work and time. This is inherent in any joint venture. Someone must take responsibility for performance. This is the division of labor in action. Other members of the church defer on this matter to the decision of one member to take on responsibility. *This deference is an act of subordination.* The person who does the deferring is transferring responsibility to the other person. He is saying this: "I trust your judgment. I have now become dependent on your performance." This is crucial in any long-term arrangement. *The division of labor is both mutual and hierarchical.* Each of the parties becomes dependent on the other. Each of them exercises authority over the other. This is true in every institutional arrangement. The family is the primary model.

All of this stems from the fact of the division of labor. There is mutuality. But mutuality involves dependency. Each party must give up something of value in order to obtain something of value. Mutuality involves a surrender of responsibility. It therefore involves a transfer of authority. "I will do this for you, if you will do that for me." In the market, it is usually easy to substitute a new supplier. This is especially true in the consumer goods markets. There are many competing offers. Loyalty is weaker. *The more specialized the exchange, the more expensive it is to substitute a new supplier for an old one.* There are fewer available suppliers. Mutual dependence is therefore greater. The disruption of the division of labor is greater. A covenant is more binding than a contract is. It is affirmed by an oath under God.

A state owns property. In most societies, state buildings are common. It owns weapons. It owns highways. The extent of state ownership in the twenty-first century is too enormous to list. No one knows all that the United States government owns. Its land holdings have been immense ever since the ratification of the Constitution.<sup>2</sup>

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2. Here are estimates in the states with the greatest percentages of federal land.

## C. Boundaries

The primary boundaries of civil government are geographical. These are jurisdictional boundaries. Other states announce “no trespassing.” These geographical boundaries include, but they also exclude. The archetype on this exclusion aspect is the tree of the knowledge of good and evil. God definitively excluded mankind from this tree. The sacramental boundaries of the church mark many other aspects of the church. The rights of exclusion are fundamental. These boundaries are clear as boundaries against intrusion by foreigners. Geographical boundaries are easily understood and can be enforced technologically. The general boundary of a state reduces the authority of outside agencies to intervene to settle disputes. This is usually identified as an aspect of sovereignty. State sovereignty is by far the most widely preached version of sovereignty in the modern era. Boundaries and state sovereignty are intimately related in modern social theory.

The division of labor within a state involves boundaries of responsibility—jurisdictions. There are competing jurisdictions on a scale not fully understood. Rival agencies declare authority over acts and places. The complexity of these rival claims dwarfs the complexity of medieval feudalism. Medieval feudalism had highly personal loyalties and responsibilities. Modern jurisdictions overlap administratively. Legally, there is no personal loyalty. Operationally, there is. We call these agencies fiefdoms, which acknowledges their feudal-like nature. Because of this administrative complexity, hierarchy becomes more important in plan reconciliation in state matters than in family matters or church matters. In churches and families, personal authority counts for far more than in state matters. In state matters, someone with greater written authority establishes the standards of responsible performance. Voluntary plan reconciliation is replaced by orders from above.

The state’s officers have very limited initiating authority, according to biblical law. This means that they have very little initiating responsibility. *With reduced authority comes reduced responsibility.* But modern political

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Nevada, 84.5%; Alaska, 69.1%; Utah, 57.4%; Oregon, 53.1%; Idaho, 50.2%; Arizona, 48.1%; California, 45.3%; Wyoming, 42.3%; New Mexico, 41.8%; Colorado, 36.6%. The huge exception is Texas. Texas came into the Union in 1845 as a separate nation. The federal government owns 1.9% of Texas. These figures, plus an informative U.S. map, are found on the *Strange Maps* site. (<http://bit.ly/FedLands>)

theory does not acknowledge the legitimacy of Bible-based concepts of “sphere sovereignty,” meaning sphere authority.

Inherently, the nature of state authority is impersonal. The participants are not usually known to each other. But there is no system comparable to the free market, with its information system based on price signals. The boundaries of the free market are impersonal in the sense that decision-makers are unknown to each other. Prices establish the boundaries. Anyone who makes decisions without paying attention to prices is going to lose money in most cases. The restraining boundaries of prices are very tight. The market adjusts prices by means of arbitrage: simultaneously buying slightly lower in one market and selling in another. The profit-and-loss system is a system of sanctions that does not depend on the whims of a supervising agent. In this sense, the market is impersonal. It is based on a process of discovery, not hierarchical direction and intervention.

Boundaries within the state are judicial. The quirks of each participant are not known to the others in the society. This content of information is fundamentally different from market prices. People make adjustments based on their knowledge of courts and the law. Customs and etiquette have far more influence than courts. There is much greater flexibility of responses in the free market.

People learn what boundaries not to violate in a state. But these boundaries are far more problematical than the boundaries imposed by price. Negotiations are based more on lawyers than price. Thus, the outcome of these negotiations is less predictable. *The complexity of negotiations makes the outcomes less predictable.* There is no rule in state negotiations comparable to this familiar law of economics: “At a higher price, less is demanded.”

Civil rulers seek their goals, just as people in a market do. They are self-interested.

Economists cannot easily pretend to provide meaningful equations to describe state boundaries. They can and do pretend to provide meaningful equations regarding price relationships. The illusion of scientific precision is more easily adopted with respect to objective prices in open markets than with subjective boundaries inside states. A subdivision of economics, called *public choice theory*, is an attempt to apply the principles of individual self-interest to the civil government. These attempts have had varying degrees of success. The main problem is this: these categories cannot deal with altruism. This same limitation hampered Gary Becker in his attempt to



apply market logic to the family. The public choice economists have been far more successful than Becker was, because altruism has far less influence in bureaucracies than in families. Furthermore, the desire to reform people “for their own good” is a powerful impulse. To apply to the reformers the categories of personal self-interest in a monetary or career framework is to ignore too much of their psychological makeup. But three generations after the reforms, the motivation of self-interest applies far more effectively to the bureaucracies that were founded by the reformers. It may only take two generations.

People are committed to civil solidarity far more than they are committed to market solidarity. They defend their nations from intervention by other state officials. This is why nations go to war.

## D. Imputation

I begin with a statement that I made in the Introduction to Chapter 4 of Part II. Part II deals with the individual covenant. I wrote:

Modern economic thought is officially nominalistic. But there is no escape from covenantal realism: the doctrine of original creation by God. Humanists who defend realism do not accept covenantal realism, so they adopt autonomous philosophical realism. They sneak philosophical realism through the methodological back door of price indexes and other statistical techniques. These indexes require the aggregation of subjective value—individuals’ subjective imputations—which cannot be done without violating the principle of subjectivism-nominalism.<sup>3</sup> All economic policy-making necessarily rests on an implicit denial of nominalism, for it relies on the assumption that an economist can make objectively valid interpersonal comparisons of subjective utility. So, there is an inherent dualism in humanistic economic thought.

States are covenantal institutions. They are created by oaths under God. This means that God holds individual members of states accountable for the

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3. Gary North, *Sovereignty and Dominion: An Economic Commentary on Genesis* (Dallas, Georgia: Point Five Press, 2012), ch. 5.

sins committed by public officials. This was true under the Old Covenant (Lev. 4).<sup>4</sup> In a democratic civil order, citizens can change their representatives. Their tax money is going to support causes that may be anti-biblical. The Trinitarian God is both plurality and unity. Therefore, in His capacity as the cosmic Imputer of economic value, He is both plural and individual. The church reflects this combination of plurality and unity. Individual church members impute economic value, but the God-sanctioned decision-makers in the church make representative imputations of economic value. These judgments are judicially binding on the members.

State ownership brings the administrators under special responsibilities. Administration mandates asset allocation, which means control. This is ownership, but with this qualification: limits on the permanent sale of the assets. Stewardship is inescapable from ownership. This stewardship is upward to God, outward to other economic bidders, downward to voters, and inward to each individual office-holder. As citizens, they benefit. Citizens impute economic value to these claims of ownership. But they cannot sell these claims. This is the problem of corporate ownership. *Without a functioning public market for the exchange of state ownership claims, the free market cannot establish a price.* This is why economic theory has trouble in analyzing the economics of the state, church, and family.

State officials must decide how to budget. They make assessments regarding the value to members of the body politic associated with the ownership of an asset. They make representative judgments regarding individual imputations. These judgments must involve the summing up of the costs and benefits of ownership for each person under the state's jurisdiction. Yet there is no scientific way that anyone can do this, meaning no methodologically valid way, given the epistemology of subjective economic theory.<sup>5</sup> There is no objective measure of economic value.

The fact that there is no objective economic measure of value is not a valid argument against the necessity of making representative economic value judgments. But these value judgments do not rest on a system of objective pricing established by exchange. The judicial roles of each citizen cannot be sold to the highest bidder. Therefore, the individual economic

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4. Gary North, *Boundaries and Dominion: An Economic Commentary on Leviticus*, 2nd ed. (Dallas, Georgia: Point Five Press, [1994] 2012), ch. 4.

5. Lionel Robbins, *An Essay into the Nature and Significance of Economic Science* (London: Macmillan, 1932), ch. VI.

imputations of citizens must be taken into consideration by the decision-maker if he is to do justice—legal justice in God’s system of imputation of personal responsibility—to other citizens. He is in a legal position to oppress them. This is an inescapable aspect of his office as a magistrate. He is required by God to act representatively.

Every system of allocation is governed by a system of feedback. This is the system of sanctions. The state has several. One is the political system: the voters. Another is war. Another is monetary: inflation, deflation, and the ability to borrow at low rates. Another is the court system. Those officials who are involved in allocation must pay attention to these potential vetoes of their policies. They cannot achieve their goals at zero price. There are no free lunches.

The system of free market funding is hierarchical: bottom-up. If customers do not ratify the plans of entrepreneurs, the entrepreneurs lose money. The system of funding for the state is also hierarchical: top-down. The legislature establishes budgets, or else it ratifies or modifies the budgets of the executive. The money comes from above, not below. The money is predictable—a matter of law. This difference in funding is a fundamental difference between profit management and bureaucratic management. Ludwig von Mises identified this distinction in 1944.<sup>6</sup> The bureaucratic hierarchies (point two) are part of a civil system of boundaries (point three), whose operations are structured by tax-funding (point four). The crucial aspect, however, is the original layout of the boundaries. The hierarchical question is this: “To whom do I report?” The answer depends on the judicial boundaries of the agency.

The system of state funding is inherently past-oriented. A legislature has approved an agency’s budget. It is entitled to this money for the fiscal year. Its highest priority in this fiscal year is to persuade the budget-makers to increase the appropriation for the agency in the next fiscal year. This is a universal law. There are not many universal laws in civil government, but this is one of them. The best way to get the increase next year is not to make any mistakes that get exposed this year. “Do it by the book.” This is past-oriented: the book.

In the free market, there are no guarantees. The system is future-oriented, because the sanctions depend on the decisions of customers in the

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6. Ludwig von Mises, *Bureaucracy* (New Haven, Connecticut: Yale University Press, 1944).

future. This is also true of families and churches. Budgets are provisional. Not so in state affairs.

### E. Legacy

The state owns property. This property is held in trust by the magistrates. The state's name and reputation are supposed to mark the kingdom of God. The most powerful statement of this in the Bible is Moses' summary of the testimony of biblical law.

Behold, I have taught you statutes and judgments, even as the Lord my God commanded me, that ye should do so in the land whither ye go to possess it. 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? (Deut. 4:4–8)<sup>7</sup>

God is both unity and diversity. So, this aspect of God is reflected in mankind. Specifically, it is reflected in the church. God plans. He executes His plan. Man is required by God to do the same. But man is corporate. This corporate aspect of mankind appears most clearly in the family. Therefore, planning must be corporate. But because there is a hierarchy of authority in the church, which reflects the *hierarchy of the economical Trinity*—as distinguished from the ontological Trinity—there has to be plan reconciliation. This is perfect in the Trinity. It is not perfect in fallen humanity.

The state is not governed by the commercial principle of “high bid wins.” This is because the value of any participant cannot lawfully be capitalized. Economic theory must deal with this, but it rarely does. Economic theory rests on a theory of ownership that is denied to the state. The civil covenant is legally binding and exclusive in a way that market-priced contracts are

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7. Gary North, *Inheritance and Dominion: An Economic Commentary on Deuteronomy*, 2nd ed. (Dallas, Georgia: Point Five Press, [1999] 2012), ch. 8.

not. So, the conceptual tools of what Mises called catallactics do not apply well to a state or to any other covenantal institution.

State ownership of assets is based on hierarchy far more than equality. The legal equality of market participants to make bids for control over scarce resources barely exists in a state. It exists only for inanimate physical objects. The state's division of labor is far more hierarchical than horizontal. Market bids are far more horizontal than hierarchical.

## Conclusion

Personal knowledge is not central to the state. A judge is supposed to refuse to adjudicate a trial if he personally knows the individuals contending in his court. Price is dominant in a commercial market. It is not dominant in a state: bribery. Allocation decisions are made by the magistrates based on general rules.

God holds magistrates accountable. They must factor this in to every allocation decision. God has plans for every state. The officials are supposed to factor this into their plans.

The state is not required to extend its legacy through time. But most states do.

The joint responsibility of the state makes it imperative that the decision makers consider each other's imputation of value. The individualism of economic theory's subjectivism makes impossible a theoretical justification for the interpersonal comparison of subjective utilities. Yet this must be done all the time by the administrator. He must act representatively on behalf of those under his jurisdiction. In terms of the nominalism of modern economic theory, he cannot do this. But God mandates that he do it. God holds him accountable for this representative summing up of multiple imputed economic values inside the civil commonwealth. What every administrator does constantly, economic theory says is scientifically impossible. This is why pure subjectivist economics is epistemologically naïve.

## 2

# STEWARDSHIP

## Introduction

I do not want to reproduce the chapter on individual stewardship here. Many of the general principles of stewardship that apply to individual stewardship apply to state stewardship. But some do not. We must understand these differences. We must also understand the implications, both in theory and in practice, of these differences.

The most obvious difference is the application of the fundamental principle of pricing: *high bid wins*. Within a civil government, the high bid is never supposed to be. The bids are in terms of individual characteristics, assignments, and responsibilities. The decision-makers, meaning the politicians, make the allocation of scarce resources. As representative agents of the body politic, they make these allocation decisions officially on behalf of all of the citizenry. They guess as to costs and benefits of those under their authority. In other words, they make interpersonal comparisons of subjective utilities.

As with individual stewardship, there are three aspects of civil stewardship: trusteeship (legal), taxation (economic), and auctioneering (economic). First, the magistrates act as legal representative agents. They represent God to the citizens, and they represent citizens before God. *Representation is mediatorial and hierarchical. State representation is corporate*. Second, the state collects taxes. Citizens and residents owe their taxes to the state, which represents God to them.<sup>1</sup> There is a third aspect of stewardship: allocational. This has to do with the decision to put a resource to work on behalf of other people. This is a horizontal relationship. It is not covenantal.

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1. Gary North, *Cooperation and Dominion: An Economic Commentary on Romans*, 2nd Ed. (Dallas, Georgia: Point Five Press, [2002] 2012), Ch. 11.

It is contractual. In a free market, it is the role of the auctioneer. He acts on behalf of the legal owner in his quest for a new owner. The general principle of free market stewardship is this: high bid wins.

In civil government, “high bid wins” applies to voting: one citizen, one vote. But it is not to apply to justice in a jury. Jury-tampering is illegal.

## A. Delegated Sovereignty

I begin this paragraph with the words I used to begin the parallel paragraph on individual stewardship. Point one of the biblical covenant is sovereignty.<sup>2</sup> God possesses absolute sovereignty. Yet He shares sovereignty through delegation. This was manifested in the original dominion covenant (Gen. 1:26–28).<sup>3</sup> This was re-confirmed with Noah (Gen. 9:1–3).<sup>4</sup> It was confirmed ontologically with the Incarnation, when God became a man. God clearly delegated sovereignty to man. In both cases, Adam and Noah, God was dealing with families.

The magistrates must deal with those under their authority through the state’s system of courts. They decide cases. Biblical law teaches that they should not initiate programs that invade the legitimate and broad authority of families and churches.

I want to reaffirm that God delegates sovereignty, but He does not surrender it. He does not lose control. What applies to men does not apply to God. He was not less glorious before He created the world. The creation did not add anything of value to Him. He is autonomous. He is not dependent on the creation for anything. So, when He delegates sovereignty, He does not lose anything.

## B. Representative Stewardship

The magistrates have a responsibility before God to administer justice impartially. “Ye shall do no unrighteousness in judgment: thou shalt not respect the person of the poor, nor honor the person of the mighty: but in

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2. Ray R. Sutton, *That You May Prosper: Dominion By Covenant*, 2nd ed. (Tyler, Texas: Institute for Christian Economics, [1987] 1992), ch. 1. (<http://bit.ly/rstymp>)

3. Gary North, *Sovereignty and Dominion: An Economic Commentary on Genesis* (Dallas, Georgia: Point Five Press, 2012), chaps. 3, 4.

4. *Ibid.*, ch. 18.

righteousness shalt thou judge thy neighbour” (Lev. 19:15). This law, when enforced, makes impossible both socialism and the welfare state.<sup>5</sup> Within the context of the tribal system of pre-exilic Israel, it decentralized civil government.<sup>6</sup> The focus of the law is on the neighbor. Local information is more accurate. It is less expensive to collect. Local habits are also better known. The application of biblical judicial principles to specific cases should begin locally. This is why Moses set up a decentralized, hierarchical system of courts (Ex. 18).<sup>7</sup> Magistrates make judgments representatively: on behalf of. They make judgments on behalf of citizens: present and future.

### C. Capital Accumulation

The accumulation of capital is an ethical command. It is not optional. The building of God’s kingdom requires capital. It is a redemptive process. The meaning of redemption is to buy back. Covenant-keepers are required to buy back the world on behalf of God. This is why the biblical covenant is governed by Deuteronomy 8:18: “But thou shalt remember the LORD thy God: for it is he that giveth thee power to get wealth, that he may establish his covenant which he sware unto thy fathers, as it is this day.”<sup>8</sup> Who were the fathers? Abraham, Isaac, and Jacob. They left an inheritance.

The magistrates must defend private property. In doing so, they allow individuals, churches, and families to accumulate wealth. But the state is not under the same command to accumulate wealth. On the contrary, it is to limit its accumulation of wealth (Deut. 17).<sup>9</sup>

The biblical goal is capital accumulation, not capital consumption. This is an inter-generational assignment. Each generation is supposed to leave more behind than it inherited. This is the meaning of value-added living, as applied to capital ownership. This mandates a system of private property.

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5. Gary North, *Boundaries and Dominion: An Economic Commentary on Leviticus*, 2nd ed. (Dallas, Georgia: Point Five Press, [1994] 2012), ch. 14.

6. *Ibid.*, ch. 17.

7. Gary North, *Authority and Dominion: An Economic Commentary on Exodus*, 2nd ed. (Dallas, Georgia: Point Five Press, 2012), Part 1, *Representation and Dominion* (1985), ch. 19.

8. Gary North, *Inheritance and Dominion: An Economic Commentary on Deuteronomy*, 2nd ed. (Dallas, Georgia: Point Five Press, [1999] 2012), ch. 22.

9. *Ibid.*, ch. 42.



The accumulation of state capital must include the worldview which the state passes to the citizens: the principle of victim's rights.<sup>10</sup> This will be the state's primary administrative tool. This will shape the extent of inherited wealth. It will shape their ability of owners to make decisions on behalf of future generations. There is a law element to consider: ethics. There is a sanctions aspect: causation in history. There is a time element to consider.

## D. Success Indicators

The individual uses these: profit and loss. But the concept of profit and loss must extend beyond numbers in a ledger. It must include evidence of God's approval or disapproval. For the individual, the final judgment is the archetype of historical sanctions. The individual is singled out. So, the focus is on individual benefits. This is not true of the family. The family does not pass over the sanction of death into eternity.

Then what is God's goal for the Christian state? *Maintaining the covenant*. This keeps the capital within the kingdom of God. The confession of faith is central. It is a matter of oath: point four of the biblical covenant.<sup>11</sup> The extension of the oath through time is judicial. The state has sacraments: the initial oath of citizenship and repeated voting (covenant renewal).

## E. Covenant Renewal

The individual inherits beyond the grave.<sup>12</sup> So does the church. The state does not.

Then what about economics? How is the state's economic covenant renewed in history? By covenant succession. The state's capital in the form of *law and voluntary obedience* by citizens and residents is transferred to the next generation of covenant-keepers within the boundaries.

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10. Gary North, *Victims's Rights: The Biblical View of Civil Justice* (Tyler, Texas: Institute for Christian Economics, 1990). (<http://bit.ly/gnvictim>)

11. Sutton, *That You May Prosper*, ch. 4.

12. "Lay not up for yourselves treasures upon earth, where moth and rust doth corrupt, and where thieves break through and steal: But lay up for yourselves treasures in heaven, where neither moth nor rust doth corrupt, and where thieves do not break through nor steal: For where your treasure is, there will your heart be also" (Matt. 6:19–21). Gary North, *Priorities and Dominion: An Economic Commentary on Matthew*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 13.

If the heirs keep the terms of the covenant, they will usually be in a position to add economic value. This means they will have to increase their productivity. They will then leave more behind than they inherited. *This is the meaning of the redemption of the world.* The heirs participate in an inter-generational increase in capital. Ownership of resources progressively is transferred to covenant-keepers. “A good man leaveth an inheritance to his children’s children: and the wealth of the sinner is laid up for the just” (Prov. 13:22).<sup>13</sup> This process includes states. Why? Because family capital produces income, and states collect taxes.

This inter-generational process of inheritance, compound economic growth, and accumulation of capital is the covenantal basis of *economic redemption in history*. The accumulation of capital under a covenantal oath is the economic basis of redemption in other spheres. The covenantal state should not extend its jurisdiction by means of war. This process of wealth creation is entirely voluntary. It does not involve the use of force. The kingdom of God expands its jurisdiction primarily in terms of families, but covenant-keeping family members and individuals are citizens.

## Conclusion

The economics of the state is inherently vertical. It is a pyramid of power. Special-interest groups compete for new votes. This is the battle for the allegiance of men. The economics of the free market is inherently horizontal: competing bids for the use or ownership of scarce resources. The principle of *high bid wins* governs the free market. This bidding process is overwhelmingly monetary. It is impersonal. It is open to new bidders and new sellers. In contrast, the high bid of the state is established by the rule of civil law. This bidding system is non-monetary and impersonal.

The deciding authority is the individual. He operates under God’s overall sovereignty. He decides which voice of authority to listen to. This authority possesses power. Its symbols are the badge and the gun. There is no open entry into its jurisdiction. There is no system of legal competitive bidding for its favors: bribery. There are sanctions. To the extent that bureaucratic independence from politics has been established by law, meaning Civil Service laws, the state is removed from the direct influence of politics.

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13. Gary North, *Wisdom and Dominion: An Economic Commentary on Proverbs*, 2nd ed. (Dallas, Georgia: Point Five Press, [2007] 2012), ch. 41.

The primary sanctions are then indirect: new rules and reduced departmental budgets. Reduced budgets almost never occur, and never occur as public manifestations of political reprisal. The system favors bureaucracy over both politics and the free market.<sup>14</sup>

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14. By far the finest book on bureaucracy is C. Northcote Parkinson's book, *Parkinson's Law: The Pursuit of Progress* (London: John Murray, 1958). It is presented in a humorous format, but it is accurate. See "Parkinson's Law," *The Economist* (Nov. 19, 1955). (<http://bit.ly/Parkinson1955>)

### 3

## BOUNDARIES

### Introduction

The central judicial-covenantal fact of the state is the right to impose negative physical and monetary sanctions. Because the state possesses the God-given authority to use violence against evil-doers (Rom. 13:1–7),<sup>1</sup> it must be placed under restraints. It must not invade areas of life which God has granted lawful immunity from violence. Liberty begins with lawful immunity from coercion by the state. So, to place boundaries on state action, we must define those areas protected by God’s law from invasion: individuals, families, churches, and other units of civil government. The best example of an attempt to specify these limits on state action is the United States Constitution. In other traditions, courts provide this function. As it has turned out, no formal constitutional restraints have been successful in limiting the nation-state’s extension of its jurisdiction. The loss of liberties that began in August 1914 with the outbreak of World War I has continued, at varying rates, in the West.

A state has a confession of faith. This establishes the terms of the oath. Every civil government is established by an oath. This distinguishes a covenant from a contract. This civil confession establishes the covenantal limits on state legitimacy and hence on state power. Religion undergirds all power, all culture. Religion is revealed and enforced through a confession of faith.

Only through a systematic defense of a confession can a state overcome regression to the mean beyond three or four generations. The Second Commandment says that this is possible to achieve. “Thou shalt not bow down

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1. Gary North, *Cooperation and Dominion: An Economic Commentary on Romans*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 11.

thyself to them, nor serve them: for I the LORD thy God am a jealous God, visiting the iniquity of the fathers upon the children unto the third and fourth generation of them that hate me; And shewing mercy unto thousands of them that love me, and keep my commandments" (Ex. 20:5–6). The word "thousands" applies here to "generations."<sup>2</sup> The observation that this has not been achieved in the past does not prove theologically that the promise of the Second Commandment is null and void under the New Covenant.

The amillennialist necessarily argues as follows. "The promise of the Second Commandment is hypothetical. It is an ideal. It is not connected to historical reality. It never has been. It never will be. Bible prophecy teaches this. History reveals that the blessings of God are showered on covenant-breakers, who down through the ages keep and extend the kingdom of man, which is the kingdom of Satan. God visits the iniquity of the fathers upon the third and fourth generation of those who hate him, and then He rewards this iniquity. The kingdom of man in culture will not be replaced by the kingdom of God. It is in fact a sin for covenant-keepers to pursue the creation of a Christian civilization. It is triumphalism. It is Constantinianism politically. God shows lovingkindness to covenant-keepers by placing them at the mercy—the tender mercy—of covenant-breakers. So, the correct way of interpreting the Second Commandment's historical manifestations of blessings and cursings is to reverse the cultural positions of covenant-breakers—thousands of generations of cultural victory—and covenant-keepers: three or four generations of cultural victory, and then defeat through replacement of the confession."

## A. Name and Ownership

States are legally separate judicial social units. They are covenantal units, because they are established by a mutual oath under God. They are identified by names. These names establish legal liability. A name is associated with a legal boundary. In Chapter 3 of Part II, I discussed the relationship between name and boundaries. God announced His defense of His name in the Third Commandment. This is the third law in the list of five priestly laws. He announced the prohibition against theft—a defense of

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2. Gary North, *Authority and Dominion: An Economic Commentary on Exodus* (Dallas, Georgia: Point Five Press, 2012), Part 2, *Decalogue and Dominion* (1986), ch. 22:C:3.

property—in the Eighth Commandment. This is the third in the list of five commandments relating to kingly rule or civil society.<sup>3</sup> The eighth commandment is the judicial foundation of property rights. Private property begins with a person's name. A person is a legally identifiable agent. His name identifies him. It says, "you, not someone else." This is the basis of judicial responsibility. It is also the foundation of economic authority. This same analysis applies to a family, a church, and a state. I also wrote this: "The authority to name things is a God-given authority. The person with the authority to establish names possesses a unique hierarchical position at the top. The question, 'Who's in charge here?' can be accurately answered by identifying the person with the legal authority to name people and things."

A state has a name. This act of judicial separation marks it a trustee: a legal administrator on behalf of God of God's property. Whatever the state owns in its name belongs to God. State property comes under the authority of those ordained (sanctioned) magistrates who are in charge of the state's property. They serve as trustees, both for God and for those under their authority.

The extension of the state's property must not come as the product of theft. Therefore, the boundaries surrounding private property establish the jurisdictional limits of state property. These are contiguous boundaries. The old slogan that defines the growth of empire applies here. The king announces: "I am not greedy. I want control over only land that is contiguous to mine."

## **B. Resource Allocation**

Magistrates exercise power. This puts them in a position to substitute the threat of violence for a monetary bid. In the words of Don Corleone in *The Godfather*: "I will make him an offer he cannot refuse." If boundaries do not restrain such offers, the realm of liberty will shrink. Property will be transferred to the state.

This extension of state power can be done through taxation and inflation. The state extracts wealth from those under its jurisdiction. Then it

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3. On the dual lists, priestly and kingly, of the Ten Commandments, see Gary North, *Authority and Dominion: An Economic Commentary on Exodus* (Dallas, Georgia: Point Five Press, 2012), Part 2, *Decalogue and Dominion* (1986), Preface B:I.

uses this wealth to enhance state power. It buys compliance. This centralizes power. This is best represented graphically in terms of a pyramid. At the top of the hierarchy are the agents who possess (or secretly direct) state power. It is hierarchical.

The magistrates act representatively. They allocate time and money in terms of their judgment regarding the conflicting economic values of citizens. Inside the legal boundaries of the state, they treat people differently from those outside these boundaries: aliens. They are responsible to God for the administration of assets. They represent citizens legally (trustee). They act as trustees for citizens as individuals, but also as agents of the state as a covenantal unit.

The citizens are economic resources as well as liabilities. As they mature spiritually, their labor adds to the state's income.

### **C. Time and Place**

States are bounded by geography through time. They begin at a time and a place. There must be an oath of some kind, meaning a loyalty oath. This is point four of the covenant. But this oath is made at a point in time and in a place. There are time lines and maps associated with the establishment of every state.

A state is defensive toward other states. It has boundaries. It must defend these boundaries against invasion and subversion. There are definitions of treason. Every state has a definition of treason.

Biblically, empire is prohibited. There are always economic losses that are involved in such an extension. Empires are costly to establish, defend, and administer. When they extend their boundaries geographically, they are forced to pay for defense and administration. They tax the nation in order to maintain the empire.

There is a slogan in business: "Pay me now, or pay me later." The Roman Empire grew through warfare. It was able to extract wealth from the conquered lands. But every empire faces this problem: after the conquered lands and populations are integrated into the empire, their taxes go to the central government. What had been spoils of war at the beginning of the process become costs of administration after the boundaries of the empire have extended to the far edges of the conquered nations. These costs are borne from inside the empire. The more that the empire absorbs and integrates

these foreigners, the more the empire must be supported by resources extracted from within the empire. Outside funding becomes internal funding over time. The empire ceases to grow. The costs of conquests at a distance become too great. The empire starts to contract when outsiders invade.

The British Empire in North America was surrendered to the American revolutionaries because of the attempt of the British Parliament in 1765 to impose taxes inside the geographical boundaries of the colonies to pay for about 20% of the costs of keeping troops in North America. The taxes were minimal, but the attempt to impose them created political resistance in 1765, and this resistance grew for a decade, when the revolution began. Taxpayers at home had paid for the expansion of the empire, which culminated with the defeat of the French Empire in North America and also in India in the Seven Years War, 1755–62. As soon as the British Empire in North America reached its geographical limits, the quest for taxes led to its contraction. “Pay me now, or pay me later” received an answer: “We will not pay you at all.”

There are no free lunches. There are no free empires.

## D. Scarcity

I wrote this in Section D of Chapter 3 of Part II, on the individual covenant.

Scarcity is defined by economists as follows: “At zero price, there is greater demand than supply.” This is another way of saying “it commands a price.” Scarcity imposes boundaries on men. It means that they must gain more assets in order to increase their consumption. They must extend their jurisdiction. There is also a scarcity of time. People die.

This applies differently to institutions. They need not die. There is representative replacement: *succession*. Surely this is true of the state. This is why we teach our children national history.

Taxation is required to finance civil government. Taxation should be structured in terms of equity. The Bible is nearly silent on taxation, except to identify a 10% tax by the king as a form of tyranny (I Sam. 8:14, 17).<sup>4</sup>

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4. Gary North, *Disobedience and Defeat: An Economic Commentary on the Historical Books* (Dallas, Georgia: Point Five Press, 2012), ch. 14.



This extraction of wealth and the subsequent dispersal of wealth are not governed by legal rules based on voluntary contracts. The state's resources are not part of a system of equality or even a system of fixed proportional claims. The state administers justice. This is impersonal, meaning impartial. In the name of justice, it establishes a legal claim on scarce economic resources. To keep the state from misusing the threat of negative sanctions against some groups, and the promise of positive sanctions for other groups, the state must be bounded.

My discussion on resource allocation in Section B of Part II, Chapter 2, goes over the basics of subjective value and objective pricing of scarce resources. The free market is governed by the principle of *high bid wins*. This is usually a monetary bid. It is impersonal on well-organized markets. Buyers and sellers do not know each other. This does not apply to the state. The state can establish the terms of exchange. To restrain the state in its confiscation of resources, the law must provide that the state may not expropriate property except for fair market value, meaning a market price before the state took possession of the wealth.

## E. Economic Growth

With the arrival of compound economic growth in 1800, the thinking of the Western world began to change. What had been understood in theory as early as 1650 in Holland became a reality in 1800. This was a kind of economic postmillennialism, but without a Christian confession. Specific families can grow larger, but at some point, families in general cannot, unless some families cease to grow or there is sufficient economic growth to accommodate new arrivals. This restraint hampered population growth until 1800. Then it was loosened. World population grew from a billion people to seven billion in two centuries. The birth rate increased because of younger marriages, infant mortality decreased, and life expectancy increased. Per capita wealth worldwide increased by at least a factor of 10.<sup>5</sup> It may have increased by a factor of 45 in Norway, and by 40 in the United States.<sup>6</sup> South Korea is the most astounding case. Its per capita wealth in-

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5. Dierdre McCloskey, *Bourgeois Dignity: Why Economics Can't Explain the Modern World* (Chicago: University of Chicago Press, 2010), p. 2.

6. *Idem*.

creased by a factor of 18 in the four decades after 1953.<sup>7</sup> McCloskey capitalizes this as the Great Fact of the modern world. It deserves to be capitalized. We have seen the preliminary conquest of scarcity in the last two centuries. If this growth continues for another five decades, there will be few destitute people in the world,<sup>8</sup> and there will be nine billion people. Two questions arise: (1) Why did this begin in 1800? (2) Why did it begin in Great Britain and the United States? There is nothing like a definitive answer as of 2014, although I regard this as the most important historical question there is. The world changed after 1800 as never before in recorded history. It got rich. We do not know why.

## Conclusion

The state is bounded. It is bounded by confession, by the number of citizens, by the size of its capital, by geography, by tradition, and by time.

At the heart of every civil government is a confession of faith, either explicit or implicit. This is the fundamental boundary. There can be confessional continuity over generations. There can also be sustained economic blessings based on covenantal faithfulness. The secularization of culture has accompanied economic growth. The period of the most rapid economic growth in the United States, 1865 to 1914, was marked by the harnessing of energy: coal, oil, and electricity. It was also marked by huge immigration.<sup>9</sup> This immigration diluted the Christian confessions of faith and outlook that had prevailed in the United States before the invention of the steamship made profitable the transportation of immigrants from central Europe and eastern Europe. The confession of faith politically had been abandoned with the ratification of the Constitution in 1788.<sup>10</sup>

This raises crucial questions. First, can this expansion of economic blessings be sustained, irrespective of national confessions? Second, is the foundation of economic growth technological innovation connected to Christian confession? Third, can the prevailing confessions of faith—

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7. *Ibid.*, p. 50.

8. *Ibid.*, p. 3.

9. Robert Higgs, *The Transformation of the American Economy, 1865–1914: An Essay in Interpretation* (Auburn, Alabama: Mises Institute, [1971] 2011).

10. Gary North, *Conspiracy in Philadelphia: Origins of the United States Constitution* (2013). (<http://bit.ly/gnconspire>)

private property, the rule of law, free trade—be sustained irrespective of the Christian covenantal confessions regarding of God, man, law, sanctions, and time? If so, then the covenantal sanctions in Deuteronomy 8:17–18 and Deuteronomy 28 were annulled under the New Testament. If this is the case, then there is no possibility of an explicitly Bible-based social theory. Whatever theories are presented in the name of Christianity must have their roots in natural law theory or some other system of law.

## 4

# IMPUTATION

### Introduction

Here, in the institutional covenant of civil government, the Calvinist doctrine of judicial imputation connects closely with the Austrian School's theory of economic imputation. There is a reason for this. Imputation is an aspect of point four of the biblical covenant. It has to do with *rendering judgment*. In judicial terms, it is a court's decision regarding a person's guilt. The decision is either "guilty" or "not guilty." In economic terms, imputation is the ranking of priorities on a scale of economic value: first, second, third, etc. In the area of civil government, magistrates use the authority of the state to render judgment with respect to what is legal and illegal in economic policy. It is the fusion of judicial authority and the political setting of economic priorities that constitutes the essence of the modern regulatory state.

My introductory remarks in the chapter on "Imputer" in Part II cover the connection between the Calvinist doctrine of judicial imputation and the Austrian School's doctrine of economic imputation. Calvin began with the presupposition of God's judicial imputation to each individual regarding his status as either saved or lost. Carl Menger in 1871 began with the autonomous individual who imputes economic value to specific goods and services. Calvin's doctrine of imputation was judicial and theocentric. Menger's doctrine of imputation was economic and anthropocentric. Calvin believed in the sovereignty of God. Menger believed in the sovereignty of the individual.

Calvin's doctrine then moved from God to man: casuistry. Casuistry is the individual's application of God's law to specific cases. The individual can make such imputations only because of the fact that he is made in God's

image. He can think God's thoughts after Him, as a creature. In contrast, Menger had no comparable epistemology: an epistemology of *judicial representation*. He began with the fact of economic imputation. He did not make an epistemological case for the possibility of imputation. He did not ask the crucial question: "What can a man know, and how can he know it?" His follower Ludwig von Mises adopted Kant's epistemology. Kant's dualism<sup>1</sup>—phenomenal (ideal of science) vs. noumenal (ideal of personality)—is inherent in Mises' epistemology. The same was true of Mises' disciple, F. A. Hayek.<sup>2</sup>

The central question for all epistemologies that are based on a theory of individual imputation of meaning, causation, and value is this: *How can the imputations of theoretically autonomous individuals explain decision-making by groups?* This is an application of the recurring philosophical problem of the one and the many. If we begin with the autonomy of the individual, we soon must face the fact that he is not autonomous. There are other imputing individuals in this world. He interacts with lots of them. To make sense of our world, we must have a way to assess the relevance of competing imputations. We must assign "weight" to individual imputations, and then "add up" the value of all of them. But no such value scale exists, according to the methodological individualist.<sup>3</sup> If this is true, then this makes all representative decision-making on behalf of a group scientifically impossible. It also raises the question of who possesses the lawful authority to make such representative decisions. On what basis? *Every epistemology of autonomous man soon crashes into the rocks of competing men.* No individualist epistemology is known to have survived this crash.

Once a procedure becomes scientifically impossible on its own terms, the humanistic economist is reduced to sociology. This is the fate of all economic theories of individual imputation. The alternative to sociology is either physics or silence. Either the methodological individualist must dismiss the scientific relevance of representative imputations and therefore also representative decision-making, thereby remaining mute with respect

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1. Richard Kroner, *Kant's Weltanschauung* (Chicago: University of Chicago Press, [1914] 1956).

2. Gary North, *Sovereignty and Dominion: An Economic Commentary on Genesis* (Dallas, Georgia: Point Five Press, 2012), Appendix B.

3. Lionel Robbins, *An Essay on the Nature and Significance of Economic Science* (London: Macmillan, 1932), ch. VI.

to collectives, or else he must lay down the economist's toolkit and pick up the sociologist's knapsack. This is a humiliating experience, but epistemologically necessary.

## **A. Valuation Is Inescapable**

I have covered this in the section on "Imputer." There, I compared imputation in relation to the week of creation. Then I extended it to judicial imputation and economic imputation. Again, let us review. I will then get to the point at hand: state imputation.

### ***1. God the Imputer***

God evaluated the effect of His daily creative work on all days except day two (Gen. 1). This was an individual's evaluation of His individual work. But Christianity teaches that God is three persons as well as one God. So, this imputation was also corporate. So was the creation. Only Christianity announces such a doctrine.

There was unity of purpose in the creation. But God said "Let us make man in our image" (Gen. 1:26a). The image of God is both singular and plural. Therefore, so is mankind, who as a species is made in God's image. The ability of men to make corporate judgments is inherent in the being of God and the being of man, both individual man and corporate man. This is why Christian economics can deal successfully with the epistemological issue of the one and the many. In the field of economics, the problem of the one and the many begins with epistemology, as it does in all other academic disciplines. The question of epistemology is this: "What can man know, and how can he know it?" It applies to individuals and collectives in every area of thought.

### ***2. Value Theory***

In every area of philosophy there is axiology: value theory. The same questions arise. What is value? How can men discover it? Is it independent of men? Is it imputed by men? Are we speaking of individuals or collectives? But in no social science is the question of axiology more important than economic theory. The central issue that the economist deals with is this: "What

is the relationship between value and price?" This question has its individualistic side, but more important is its corporate side. If value is imputed individually, how do we know that the outcome of competitive bidding in a free market corresponds to the aggregate valuation of the participants? The socialist denies that it does. He denies that the process of competitive bidding leads to socially beneficial outcomes. He calls for state coercion to establish socially beneficial collective value. To establish socially beneficial outcomes, a representative state agency must allocate scarce resources. This is heart, mind, and especially soul of socialism.

The problem of socialist valuation is the problem of state valuation. The outcome of allocation by the magistrate is the central epistemological issue. How can the magistrate maximize the value of the scarce resources at his command? He must consider the individual evaluations of citizens. Then he must evaluate the accuracy of these judgments in terms of a standard. What standard? His own value scale? Or a composite value scale of all citizens? Or a weighted value scale, weighted in terms of the capacities and responsibilities of each citizen? Methodological individualism denies the existence of any such scale. But if this is true, then are the estimates of the magistrate epistemologically irrelevant, an exercise in self-delusion? If there is no Trinitarian God, the answer is yes. There is no judicially authoritative corporate many in any act of economic imputation. There can therefore be no economically authoritative corporate many in the act of imputation. So, the magistrate cannot represent such a God. He is on his autonomous own. Nevertheless, he must make decisions. He allocates resources. By what standard?

At this point, I apply what I have written here to state decision-making.

### **3. *Justice***

In the biblical framework, the state is uniquely an agency of justice. This is the assessment of the state's function in most social philosophies. The main exceptions to this rule are these: the anarchist (zero-state) view and the Marxist view, but only after Communism is established. Marx's state supposedly must wither away under Communism. But Communist states never arrived at that day of deliverance. Communist states were powerful and highly centralized.

There are four kinds of civil justice in today's political theory: procedural, restorative, retributive, and distributive. Each has its defenders. Procedural justice refers to the process of justice. For example, does the defendant have access to a lawyer? Is there cross-examination? Is the system fair? Restorative justice is also called restitution. Is the victim of crime compensated by the convicted perpetrator? Retributive justice has to do with the reduction of future crimes. Does the penalty send fear into the hearts of would-be criminals? Finally, there is distributive justice. This has to do with wealth redistribution by state power. It has to do with the fair share, not a fair trial (procedural justice).

Biblical law offers no defense of distributive justice. Biblical law is hostile to such a concept of justice. It promotes impartiality by judges with respect to the wealth of an individual or organization. "Ye shall do no unrighteousness in judgment: thou shalt not respect the person of the poor, nor honor the person of the mighty: but in righteousness shalt thou judge thy neighbour" (Lev. 19:15).<sup>4</sup> There must be equality before the law. This negates the possibility of a judicial goal of equality of economic outcomes. No one has put it better than F. A. Hayek. "From the fact that people are very different it follows that, if we treat them equally, the result must be inequality in their actual position, and that the only way to place them in an equal position would be to treat them differently. Equality before the law and material equality are therefore not only different but are in conflict with each other; and we can achieve either the one or the other, but not both at the same time. The equality before the law which freedom requires leads to material inequality."<sup>5</sup>

Biblical law does not speak of procedural justice. It sets no courtroom procedures. But it does make perjury unlikely. If a false witness is discovered, whatever penalty would have been imposed on the victim is imposed on the perjurer (Deut. 19:15–21).<sup>6</sup>

With regard to retributive justice, Deuteronomy 19:20 is clear: "The rest will hear and be afraid, and will never again do such an evil thing among

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4. Gary North, *Boundaries and Dominion: An Economic Commentary on Leviticus* (Dallas, Georgia: Point Five Press, [1994] 2012), ch. 14.

5. F. A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, [1960] 2011), p. 150.

6. Gary North, *Inheritance and Dominion: An Economic Commentary on Deuteronomy*, 2nd ed. (Dallas, Georgia: Point Five Press, [1999] 2012), ch. 45.



you.” This leaves restorative justice. This concept of justice rests on restitution. The fundamental judicial principle of biblical law is victim’s rights.<sup>7</sup> The victim of a crime is to be restored to his position before the crime. He is also entitled to a penalty payment (Ex. 22: 1, 4). This is not wealth redistribution in the sense of distributive justice. It is the restoration of the *status quo ante*.

## B. Responsible Evaluation

My comments here are extensions of what I wrote in Section B of Chapter 4 in Part II. They have to do with thinking God’s thoughts after Him. This exercise begins with the presupposition of the authority of God’s law. This law applies to individuals, who are held responsible in history and eternity. But it also applies to corporate entities. The decision-makers must begin with any laws of God that apply to the corporate entity, either through biblical revelation or through the extension of biblical revelation. This is Christian casuistry: the application of biblical principles to historical circumstances.

They act as representative agents. They are responsible agents. Responsibility is four-way: upward to God, outward toward society—as manifested both in market demand and charitable need—downward toward church members, and inner: ethical conscience and personal needs. The magistrates are required by God to consider this complex array of competing demands on the state’s resources. The allocation is economic, but the responsibility is judicial.

The magistrates make economic valuations on behalf of the citizens. They must take into consideration what God requires from each citizen and resident. They must also consider God’s expectations regarding the state as a covenantal unit. This makes the magistrates position highly complex. It is impossible for them to assess the value scales of each citizen, as well as the potential net output of each citizen. Yet they must consider net output, both short-run and long-run. Laws involve sanctions. There will be unintended consequences. “You can’t change just one thing.” When they pass tax laws or regulatory laws, they act on behalf of the citizens, yet there is almost no way for them to know for sure what is best. The citizens rarely are unified

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7. Gary North, *Victim’s Rights: The Biblical View of Civil Justice* (Tyler, Texas: Institute for Christian Economics, 1990). (<http://bit.ly/gnvictim>)

on this. So, magistrates guess. Then they wait and see. So do voters. If the outcome are sufficiently negative, the voters replace those who voted for the particular law. They pressure the new magistrates to change the law or reverse it. This change in political representation is the primary negative sanction possessed by the electorate. The profit-and-loss system in politics has to do with votes. The “currency of the realm” of politics is the vote.

To depart geographically from the jurisdiction of any state is expensive. The larger the state is, the more expensive it is to depart. There is competition for political allegiance in the modern world. But the number of people who emigrate from a peaceful nation is always very low. Thus, every nation-state has an operational monopoly of justice. There are few effective methods of appeal beyond a nation’s highest civil court: revolution, political change, etc. This takes time. It is highly unlikely that anyone who has suffered a defeat in a court will see this reversed. So, the state has a near monopoly. This is the opposite of a free market, where substitution is possible at some price. Without substitution, there is no array of prices. This is why the economic theory of the market, what Mises called catallactics, barely applies to the state.

Magistrates are loosely restrained by the state’s budget, but they are rarely sure which institutional arrangements should be left alone, which should be restructured, and at what cost. This calls for *intuitive judgment*, i.e., judgments where economic cause and effect are not strictly numerical. But economic judgments are never strictly numerical.

### C. Criteria: Individual and Corporate

In Chapter 4 of Part II, I explained why economic value is derived from ethical value, an epistemological position that is contrary to the prevailing notions of humanistic economic theory. I stated that the criterion of economic value is this: *the extension of the kingdom of God in history*. Economic theory is not value-free. It is value-derived.

Magistrates are required by God to use the kingdom of God as their standard of economic value in assessing the profitability of any course of action. They are supposed to allocate state capital based on this criterion. They act as a stewards of God, both judicially (authority) and economically (wealth). They act on behalf of God: extending the kingdom of God. They acts as stewards of the citizens. The steward has the middleman aspect of

it. It is both judicial and economic. He is judicially responsible before God. The rewards and penalties of stewardship are both judicial and economic. By means of successful stewardship, his responsibilities increase (Luke 12:47–48).<sup>8</sup>

The biblical criteria of state success are varied. Above all, there is justice (Lev. 19:15). There is the defense of the realm (Judges 4, 5). There is peace.

In economic theory, beginning with Adam Smith, defenders of the free market have argued that individual self-interest, when pursued in a free market, increases the wealth of individuals and nations. This is why Smith's book was titled *The Wealth of Nations* (1776). Socialists have always denied this. Economic interventionists have denied it as a universal principle. They have called for politicians to pass laws that alter the consumption patterns of consumers and also alter the production plans of producers. They see the state as the final reconciler of plans. The Bible is generally on the side of Smith. But there are exceptions. The Bible is opposed to greed. Smith's theory has long been used to defend the social productivity of greed, when greed is pursued in the context of a private property social order.

Here is the single most important difference between Smith's view of economic causation and the Bible's teaching. *There is nothing in the Bible that indicates a cause-and-effect relationship between the pursuit of personal gain and the reduction of poverty in society.* Yet this is the most important insight of Smith and all schools of free market economics. The Bible mandates private property, the rule of law, low taxes (I Sam. 8:14, 17),<sup>9</sup> and a judicial system based on victim's rights (restitution). But it nowhere makes the connection between the pursuit of profit and the reduction of collective poverty. It nowhere praises greed. Yet free market economists, including me, make the case that greed, when channeled institutionally by means of free market competition, can and does benefit customers, meaning consumers. No one should declare that greed is good. But greed can and does have positive consequences in a free market social order. So does discontent with one's present situation. Yet we are told to be content (Phil 4).<sup>10</sup>

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8. Gary North, *Treasure and Dominion: An Economic Commentary on Luke*, 2nd ed. (Dallas, Georgia: Point Five Press, [2000] 2012), ch. 28.

9. Gary North, *Disobedience and Defeat: An Economic Commentary on the Historical Books* (Dallas, Georgia: Point Five Press, 2012), ch. 14.

10. Gary North, *Ethics and Dominion: An Economic Commentary on the Epistles* (Dallas, Georgia: Point Five Press, 2012), ch. 23.

## D. Value and Price

*Imputation economically reflects imputation judicially.* The meek shall inherit the earth. But this imputation is based on faith. It is not clear in history that covenant-keepers have an advantage economically over covenant-breakers. Indeed, history seems to testify to the opposite. But history is not over. This same anomaly initially bothered the author of Psalm 73. He changed his mind later.<sup>11</sup>

This issue is at the heart of the debate over social cost. Social cost has been a hot topic ever since the socialist economist A. C. Pigou wrote *The Economics of Welfare* (1912). Pigou argued as follows. Each additional unit of income is less value to the recipient than the previous unit. This is an implication of the law of diminishing returns. This is taught by the subjective value theory of economics: marginal value and marginal pricing. He drew a conclusion: the state can increase total economic welfare by taxing the rich and transferring the money to the poor. The rich man will hardly miss that last bit of income, while the poor man will be able to purchase necessities. It established the strongest case for the graduated (“progressive”) income tax.

It was answered by Lionel Robbins two decades later. Robbins argued that it is impossible to make interpersonal comparisons of subjective utility. There is no common scale of economic value.<sup>12</sup> This argument has proven to be irrefutable. But hardly any economists accept it. Even Robbins abandoned it in 1938. Why? Because the argument, while true in theory, leads to an unacceptable but inevitable conclusion: it is impossible for economists, as scientists, to recommend policies of any kind to civil government. To offer such recommendations, economists would have to be able to make scientific estimates of total social utility, estimates based on subjective valuation by all participants. Then economics ceases to be useful. When Roy Harrod, pointed this out in a debate with Robbins in *The Economic Journal*, Robbins capitulated. But he never said how his capitulation was logically consistent with his original critique.<sup>13</sup> So, the entire economics profession has lived in intellectual schizophrenia since 1938.

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11. Gary North, *Confidence and Dominion: An Economic Commentary on Psalms* (Dallas, Georgia: Point Five Press, 2012), ch. 17.

12. Lionel Robbins, *An Essay on the Nature and Significance of Economic Science* (London: Macmillan, 1932), ch. VI. (<http://bit.ly/RobbinsEcon>)

13. I discuss this in Chapter 5 of *Sovereignty and Dominion: An Economic Com-*

The argument was taken up again by R. H. Coase in 1960 in what has become the most frequently cited article in any economics professional journal: "The Problem of Social Cost." He won the Nobel Prize in 1991 based on this article and three others. I challenged it in an appendix in *Tools of Dominion* in 1990.<sup>14</sup> I revised this slightly to produce *The Coase Theorem: An Essay in Economic Epistemology* in 1991. A short version appeared in a 2002 article in *The Journal of Libertarian Studies*.<sup>15</sup>

Coase argued that judges should decide who owes whom damages by deciding what the highest social value is for society. Using an example supplied by Pigou, if a train emits sparks that can set a field on fire, the judges may decide that the field's owners should pay for any fires started by the train, if this will produce the greatest net social value. Or perhaps the farmers should be required to pay the railroad firm to install spark-retardation devices. I argued that the judges cannot make any such determination on a scientific basis. They cannot make interpersonal comparisons of subjective utility. Furthermore, such arbitrary power on the part of judges would undermine private property rights. I cited Exodus 22:5–6. "If a man causes a field or vineyard to be grazed, and lets loose his animal, and it feeds in another man's field, he shall make restitution from the best of his own field and the best of his own vineyard. If fire breaks out and catches in thorns, so that stacked grain, standing grain, or the field is consumed, he who kindled the fire shall surely make restitution."<sup>16</sup> Coase never replied, although he lived to the age of 102. I sent him a copy. He was still writing at age of 101. He died in 2013.

Hayek wrote an entire book on what he called the mirage of social justice.<sup>17</sup> He denied that there can be such a thing. The state cannot achieve that which is impossible, he argued. But his position was based on a denial of transcendent law.<sup>18</sup> He was a social and legal evolutionist. He did not

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*mentary on Genesis* (Dallas, Georgia: Point Five Press, [1982] 2012).

14. Gary North, *Authority and Dominion: An Economic Commentary on Exodus* (Dallas, Georgia: Point Five Press, 2101), Appendix H.

15. Gary North, "Undermining Property Rights: Coase and Becker," *Journal of Libertarian Studies*, XVI (Fall 2002).

16. North, *Authority and Dominion*, ch. 45.

17. F. A. Hayek, *Law, Legislation, and Liberty*, Vol. 2, *The Mirage of Social Justice* (Chicago: University of Chicago Press, 1976).

18. *Ibid.*, p. 60.

believe in permanent economic or moral laws of any kind. This is not acceptable, epistemologically speaking, as I argued in 1982.<sup>19</sup>

### E. Value-Added Living

Individuals impute economic value. Individuals are responsible for the accuracy of these imputations, case by case. This ability is grounded in God's economic imputation.<sup>20</sup>

There is no possibility of a cardinal scale of value: numerical designations. There is only an ordinal value scale: first, second, third. This is because man is analogical being. He is not digital. He is made in God's image. God is personal, not digital.

The act of imputation is always representational. Man imputes value on behalf of God: the cosmic Owner. He also imputes it on behalf of any subordinate owners of the assets involved. This act of economic imputation is always governed by the judicial category of ownership. *Economic ownership is always an extension of judicial ownership.* It is not autonomous. Nothing in the creation is autonomous.

The magistrates make estimates of the value of future potential streams of income in the broadest sense. They then allocate resources under his control to buy or lease control over these income streams. In other words, they estimate in terms of the economic value of future legal ownership. Imputed value drives legal ownership, but legal ownership secures future economic value. If there were no possibility of securing ownership, the division of labor would contract. The range of cooperative ventures would shrink. The ability to make estimates influence the array of assets owned, but this ability is valuable only because of the possibility of securing ownership.

The art of estimating future value presupposes cause and effect: sanctions. It also assumes linear history. There is causation over time. If there were not, the ability to estimate future value could not exist. It would be overwhelmed by randomness. The individual could not plan for an objective outcome. This outcome is in part legal and in part economic. Legal: "Will I own it?" Economic: "What will it be worth?"

The magistrates act on behalf of others. This is the trustee function. They also act in terms of expected future value. This is the allocation or auc-

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19. Gary North, *Sovereignty and Dominion: An Economic Commentary on Genesis* (Dallas, Georgia: Point Five Press, [1982] 2012), Appendix B.

20. Part II, ch.. 3:E.

tioneer function. They may have no present legal relationship with future members, but at some point, there will be a legal exchange of ownership. They act as stewards for future citizens, who will join to secure the benefits.

## Conclusion

The biblical explanation of economic imputation rests on the biblical system of private ownership. An owner is a legal trustee (vertical-judicial), an economic steward (vertical-economic), and an auctioneer who acts on behalf of high bidders (horizontal-economic). The magistrate is the biblical model of this arrangement. He acts legally on behalf of God, himself, and citizens. He acts economically on behalf of all these, plus future customers: the resource-bidding public.

Subjective economic imputation undergirds the system of competitive bidding, which is objective. People with resources make estimates of future economic value. Then they enter the market and make bids for legal control over scarce resources. This produces prices on capital markets. These markets assume the existence of a system for transferring ownership. It is governed by this economic principle: *high bid wins*. The state is not.

The skill of casuistry is to be taught to citizens. This is an aspect of the public teaching of God's law (Deut. 31:9–13).<sup>21</sup> God's law encompasses the realm of economic theory resource allocation. So does covenantal instruction.

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21. North, *Inheritance and Dominion*, ch. 75.

## **5 LEGACY**

### **Introduction**

The Introduction to this chapter is Chapter 5 of Part II. Everything I wrote there serves as an introduction to this chapter.

This is the shortest chapter in this book. There is a reason for this. In the biblical worldview, civil government is not an agency of positive sanctions. So, its legacy is positive only in the sense that magistrates and judges maintain the civil government as an agency exclusively of negative sanctions. It is not quite a night-watchman state, but it is very close. Its goal is not to make people better morally. Its function is to place judicial boundaries around convicted evil-doers. The legacy it is supposed to build is liberty. It is not to become an agency of distributive justice, which inevitably means redistributive justice: “Thou shalt not steal, except by majority vote.” That is injustice, biblically speaking.

### **A. Multiplication**

The call to multiplication comes in the dominion covenant. “And God blessed them, and God said unto them, Be fruitful, and multiply, and replenish the earth, and subdue it: and have dominion over the fish of the sea, and over the fowl of the air, and over every living thing that moveth upon the earth” (Gen. 1:28). It was repeated with Noah: “And God blessed Noah and his sons, and said unto them, Be fruitful, and multiply, and replenish the earth” (Gen. 9:1). There is no question that this is an ethical mandate given to all mankind.



The state has no comparable command. Its assignment from God is to get out of the way.

## B. Future-Orientation

In Section B of Chapter 2 of Part II, I discuss future-orientation and population growth. Future-orientation is what Edward Banfield called the upper-class mentality.<sup>1</sup>

For those who affirm postmillennialism, this willingness to accept lower net income in the present for the sake of the future refers also to history. The postmillennialist does not believe, as the premillennialist does, that Christian capital in the aggregate will suffer a discontinuity prior to the time when Jesus comes to set up a thousand-year earthly kingdom.<sup>2</sup> He sees continuity. He does not believe, as the amillennialist does, that Satan inherits in history through his earthly disciples. He does not believe, as the amillennialist does—but refuses to say in public—that the wealth of the just is laid up for the sinner. He believes in compound economic growth of the kingdom of God in history. The wealth of the sinner is laid up for the just (Prov. 13:22b).<sup>3</sup>

Conclusion: when the state enforces biblical laws regarding property, the rule of law, low taxation, and restitution, it has done all that it needs to do, economically speaking, to serve the future.

## C. Imitation

Success should have imitators. This imitation process is always limited by *ceteris paribus*: “other things remaining equal.” When covenant-breakers grow weary of copying successes that are based on adherence to biblical law and its implications, they eventually rebel. They refuse to continue to

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1. Edward Banfield, *The Unheavenly City Revisited* (Boston: Little, Brown, 1974), pp. 57–59.

2. The historic premillennialist believes in a future “great tribulation,” which will immediately precede Christ’s bodily return. The non-posttribulational dispensational premillennialist believes that the church will be raptured out of history before the great tribulation, but Christian capital will be destroyed during this tribulation period.

3. Gary North, *Wisdom and Dominion: An Economic Commentary on Proverbs* (Dallas, Georgia: Point Five Press, [2007] 2012), ch. 41.

imitate covenant-keepers. They cannot tolerate their increasing conformity to the terms of biblical law. This resentment is the basis of the final rebellion of Satan at the end of history.<sup>4</sup> He rebels against the success of God's kingdom, not its failure.

What gets imitated? What if the social benefits associated with one set of ethical rules are no longer recognized as the result of these rules? What if there is widespread abandonment of these rules? What if the negative consequences of this abandonment are not blamed by most people on the abandonment of the previously dominant rules? What if the negative consequences are accepted as part of the historical process? What if experts and representatives of the policy-making groups in society identify as the sources of the negative consequences what were in fact the sources of the positive consequences and barriers against the negative consequences? What if this is a case of throwing gasoline on the fire? Then what? This is the scenario described by Fred Reed. As he says, it all makes sense.<sup>5</sup>

To the extent that the foundations of capitalism are based on biblical norms, it can prosper. If private property is upheld by custom and civil law, then capitalism can and will flourish. If future-orientation becomes widespread, an outlook that is the result of optimism concerning history, then the rate of investment will increase. If a rejection of envy is widely adopted, then cooperation across economic classes will increase. If taxes remain lower than Samuel's warning figure of 10% (I Sam. 8:14, 17),<sup>6</sup> economic growth will be maintained. If wealth gained through entrepreneurship is upheld by the people who influence public opinion, there will be economic growth. Societies can adopt the fruits of a biblical worldview, but without adopting Christianity. Conversely, Christian societies have adopted non-Christian attitudes toward time and wealth. Fertility rates have then declined.

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4. Gary North, *Dominion and Common Grace: The Biblical Basis of Progress* (Tyler, Texas: Institute for Christian Economics, 1987), ch. 9. (<http://bit.ly/gndcg>)

5. Fred Reed, "Making Sense: A Guide to Our Times" (July 8, 2013). (<http://bit.ly/ReedSense>).

6. Gary North, *Disobedience and Defeat: An Economic Commentary on the Historical Books* (Dallas, Georgia: Point Five Press, 1012), ch. 14.

## D. Entrepreneurship

The magistrates must look to the future. There is such a thing as state entrepreneurship. Long-term entrepreneurship is different from short-term entrepreneurship. Magistrates may imagine capital value several generations in the future, but this is rare. The unknown is too great a barrier. They have no control over the confession of faith of each succeeding generation. They know that this ability to establish institutional means of preserving wealth is limited.

Because conditions change, and because people's responses to these changing conditions change, it is close to impossible to specify in advance how state capital should be used. The general principles will become subject to debate among heirs.

When magistrates substitute their view of the future for the profit-seeking entrepreneur's view, there is no threat to liberty. But when the magistrates allocate scarce resources to implement their view of the future, they undermine liberty. They will not lose any of their own money to finance their view. The negative sanction of losses will not come out of their net worth. The entrepreneur puts his money where his mouth is. The magistrate puts our money where his mouth is. This makes all the difference.

The Bible says that in a multitude of counselors, there is safety (Prov. 11:14). *In a multitude of entrepreneurs, there is safety.* One entrepreneur does not have sufficient capital to create a system-wide mistake. One magistrate, or one agency, may have such power.

## E. Compounding

The increase in state capital in the narrow sense—tools of production—is the same as it is for individuals' capital. The difference is this. An individual can benefit from any expansion of personal capital by means of personal consumption. If he times his exit from life well, he will run out of capital about five seconds before he runs out of time. He leaves no inheritance. If he has no heirs, he departs in peace.

The state's time perspective should be long-term. The representative of a state is supposed to act on behalf of future generations. While he can know little of what future generations will require, he can make some guesses. Personal capital is easier to manage, for its value need be increased

in only one lifetime. An individual specializes in dealing with the trials and tribulations of his time period and geography. This specialization enables him to make better allocation decisions. But inter-generational forecasting of future capital value is an exercise in futility. If men cannot intelligently impute value to future capital, due to their lack of specialized knowledge about future economic conditions, then the accumulation of capital for wealth transfer mandates the use of trustees.

States are not effective instruments for the creation of inter-generational wealth. They are at best effective instruments for the preservation of inter-generational wealth. They are effective destroyers of inter-generational wealth when politicians pass laws that tax inheritances. Yet few taxes are more beloved of welfare state advocates than estate taxes. These raise little money, but they are symbols of the supreme ethical principle of the welfare state: "Thou shalt not steal, except by majority vote."

## **Conclusion**

Civil government is supposed to preserve justice, defend the boundaries from invasion, and provide peace. It is not to tax at excessive levels: as much as 10% (I Sam. 8:14, 17). It is to defend private property: "Thou shalt not steal" (Ex. 20:15). It is to create the conditions for creativity to flourish. Its own creativity is limited to discovering and then enforcing biblical principles of civil law in specific circumstances. This will produce a free market social order. This in turn will lead to economic growth (Lev. 26, Deut. 28).

When dealing with the state, small is beautiful. Less is more.

## CONCLUSION TO PART V

We return, as always, to the five institutional questions.

1. Who's in charge here?
2. To whom do I report?
3. What are the rules?
4. What do I get if I obey (disobey)?
5. Does this outfit have a future?

The state is established by an oath. To this oath are attached sanctions: negative only.

The state as an institution has no future beyond the end of time. It does not extend into eternity. The individual does. The church does.

A magistrate is a judicial agent: a trustee. He acts on behalf of God to citizens, and on behalf of citizens to God. This is hierarchical-judicial. There is also economic stewardship: taxation. This hierarchical.

The state is a judicial unit. Responsibility in the state is to a corporate entity. Thus, methodological individualism does not apply well to the state. The state is more than the participants. God holds it responsible. Wealth and poverty apply to the state. All economic approaches that rely on methodological individualism as the sole tool of explanation founder on family, church, and state.

The time horizon of a state is long. The state extends judicially in time.

Because the magistrates must make decisions on behalf of citizens, they must make interpersonal comparisons of subjective utility. They must "balance" or "weigh" the goals and aspirations of multiple citizens. They must also make estimates regarding God's assessment of these aspirations. So, in order to make accurate assessments of multiple subjective valuations, they must rely on their ability to assess God's assessments. They act

as God's fiduciary agents in his allocation of state capital. But they also act as the state's fiduciary agent with God and with the world outside. There are multiple acts of economic imputation.

This must be done without reference to money prices. The state is an agency that implements the division of labor. But this is not marked by a money economy internally. This division of labor is far more personal than impersonal. Money is geared to voluntary exchange, so most services performed in a state cannot be out-sourced.

In a covenantal unit, pricing is not based on substitution. So, the logic of exchange that applies to a free market does not apply in a covenantal unit. There is no substitution allowed by law. This is why that which Mises called catallactics is highly limited. This is why he never attempted to apply the science of human action outside the market.

A state is not supposed to add value. It is an agency of justice: negative sanctions.

## **CONCLUSION**





## Conclusion

There are numerous themes in this book. Here are a few of the more prominent themes. The most prominent theme is this: “What do economists know, and how can they know it?” This is the issue of epistemology. It raises the following issues.

Autonomy vs. theonomy

Creator/creature distinction

The one (unity) and the many (plurality)

Permanent law and historical flux

The subjective imputation of economic value

Subjective value (nominalism) vs. objective value (realism)

The ordinal ranking of economic value vs. cardinal ranking

The objective manifestation of prices

The interpersonal comparison of subjective utilities

Representative imputation of economic value

Delegated sovereignty vs. original sovereignty

Methodology: individual, holistic, and covenantal

Deductive theory vs. inductive theory

Value-free economic theory vs. value-derived economic theory

Product substitution as the foundation of market pricing

High bid wins. Should it?

Praxeology (universal social science) and catallactics (market theory)

Future-orientation vs. present-orientation

Man as the image of God

Man as God’s agent in history

Trusteeship, sharecropping, and auctioneering

Four-way responsibility

Scarcity as the starting point of economic analysis  
 Ownership as the starting point of economic analysis  
 Economic growth and the limits of time  
 Plan reconciliation in institutional covenants  
 Equality vs. liberty  
 Ethics and economic growth  
 Production vs. consumption as the supreme goal  
 Personal self-interest and economic growth  
 Kingdom competition as zero-sum

I have offered a rival way of approaching economics specifically and social science generally: in terms of the five-point structure of the biblical covenant. I assert, though do not prove, that humanistic economic science also has its version of this model, but with different content, especially on the key point, sovereignty.

Sovereignty: man (either individual or collective)  
 Authority: reason  
 Law: evolutionary  
 Sanctions: profit/loss or bureaucratic  
 Inheritance: economic growth

I argue that the supposed autonomy of economic science is a myth. It does not stand on its own two feet. It is derived. It imports its values from outside the discipline. It imports objective value theory through the back door of statistical aggregates. Economists pretend to apply science to their advice, but it is all a sham. It is scientifically impossible to compare interpersonal subjective value, given the premise of modern economics: subjective (imputed) value theory. Therefore, there is no such thing as scientific economic policy advice. Yet economists refuse to discuss this issue, which was recognized as early as 1938. They also continue to provide policy advice.

I have proposed a theology-based solution to this epistemological dilemma, and also numerous other epistemological dilemmas. I do not expect the economics profession to embrace these solutions, or even acknowledge their existence. Since members of this profession rarely discuss epistemology, I have no good reason to assume that they will pay any attention to this book.

There is an organization known as the Association of Christian Economists. It will be interesting to see what the response is, if any, from members of this organization. My guess is that this book will be too far on the fringe to be received well, “fringe” being defined as “explicitly biblical.”

A good example of the dualism of modern economic thought are the two standards of truth that economists apply to discussions of the way the world works economically. These two standards are completely opposed to each other. One is the theory of equilibrium. The real world is compared with a hypothetical realm in which there are neither profits nor losses, because all participants possess omniscience regarding the future. In other words, all people possess one of the incommunicable attributes of God. The other is pure randomness, which does not exist either in theory or practice. A theory of how the world works is tested for coherence by means of a tool based on incoherence. Yet both omniscience (equilibrium) and randomness are invoked at different times as a test of a theory’s correspondence with the real world. This fundamental dualism (antinomy) is not mentioned in economics textbooks, or even in monographs on methodology.

To the two questions treated as one, “What can economists know, and how can they know it?” the economics profession has long had two answers treated as one: “We don’t know, and we don’t care.” They should know. If they do not know, at least they should care.

I knew about some of these problems in 1976, when I wrote this essay: “Economics: From Reason to Intuition.” I had already begun my economic commentary on the Bible. In the next year, I increased my pace: 10 hours a week, 50 weeks a year, until February 11, 2012. I finished with a couple of weeks to spare. Then I supervised the typesetting of the 31 volumes.

My plan is to produce a multi-volume treatise on Christian economics. It will cover the five points of the covenant and the five covenants. I have not decided on the structure, but the section on the free market will probably be an extension of my 1987 book, *Inherit the Earth*.<sup>1</sup> I wrote that book in two weeks. It will take a lot longer to write my treatise.

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1. Gary North, *Inherit the Earth: Biblical Principles for Economics* (Ft. Worth, Texas: Dominion Press, 1987). (<http://bit.ly/gninherit>)

## Appendix

### ECONOMICS: FROM REASON TO INTUITION

“This, then, is a further sense in which Economics can be truly said to assume rationality in human society. It makes no pretence, as has been alleged so often, that action is necessarily rational in the sense that ends pursued are not mutually inconsistent. There is nothing in its generalisations which necessarily implies reflective deliberation in ultimate valuation. It rests upon no assumption that individuals will always act rationally. But it does depend for its practical *raison d’être* upon the assumption that it is desirable that they should do so. It does assume that, within the bounds of necessity, it is desirable to choose ends which can be achieved harmoniously.” – Lionel Robbins<sup>1</sup>

### A. Epistemology

Epistemology asks this: “What can man know, and how can he know it?” Modern economics as a discipline suffers from the same crucial limitations found in all other post-Kantian fields of scholarship. Ultimately resting on a foundation of pure contingency and chaos, the economics profession affirms rationality as its *raison d’être*. Yet economists cannot escape the fundamental rational antinomies of Kantian thought: unity vs. plurality, structure vs. change, law vs. freedom, science vs. personality, de-

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1. Lionel Robbins, *An Essay on the Nature and Significance of Economic Science* (London: Macmillan, 1932), p. 157.

duction vs. induction, theory vs. brute factuality, definition vs. application. When pushed to the limits of exposition, every economist finally rests his case on “intuition” or “experience” to bridge the unbridgeable Kantian gap between mind and matter. Reason collapses into mystery at the heart of the economist’s task. What is the economist’s task? This is a little hard for the economists to say exactly. James Buchanan in 1964 cited two classic definitions from a pair of University of Chicago economists. Jacob Viner: “Economics is what economists do.” Frank Knight: “And economists are those who do economics.”<sup>2</sup>

The problem, to use Cornelius Van Til’s phrase, is that for the most part, economists are not epistemologically self-conscious. In 1952, Fritz Machlup, while acting as chairman of an American Economic Association’s workshop in methodology, remarked: “Usually only a small minority of American economists have professed interest in methodology. The large majority used to disclaim any interest in such issues.”<sup>3</sup> Things have only become worse since then. The total triumph of mathematical economics has created a new, highly specialized economic technician who is buried in an esoteric universe of his own. Walter Adams remarked: “A methodological addict, he shows singular unconcern with the world as it exists. His standard of success—his pay-off matrix—is to impress the tastemakers of an ever-narrowing professional specialty. He is more and more cut off from specialists in other fields, and finds it increasingly difficult to communicate to the lay world. The result is a sort of apartheid: economists are no longer able to see the real world, and the world no longer can understand what economists are saying.”<sup>4</sup> The quality of scholarship is increasingly Alexandrian: endless unreadable articles which have a half-life of six years or less, falling into oblivion with rare exception almost immediately.”<sup>5</sup> Yet the basis

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2. James Buchanan, “What Should Economists Do?” *Southern Economic Journal*, XXX (Jan. 1964), p. 213.

3. Fritz Machlup, “Introductory Remarks,” *American Economic Review, Papers and Proceedings*, XLII (May 1952), p. 34.

4. Walter Adams, “Economic Science, Public Policy, and Public Understanding,” *Diogenes* (Fal, 1969), p. 24.

5. A. W. Coats, “The Role of Scholarly Journals in the History of Economics: An Essay,” *Journal of Economic Literature*, IX (1971), p. 42.

of personal and departmental advancement is in the publication of such articles in a handful of specialized journals.<sup>6</sup>

New Left economists, whether Marxian, extreme Galbraithian, or whatever, temporarily challenged the establishment economists to re-examine their calling in the late 1960s, but nothing came of this. Still, there has been far more interest—critical interest—in epistemology since 1965 than could have been reasonably predicted in 1963. As Bronfenbrenner commented, in 1964 he could not find any indication of radical economics in America. “Only five years later, in late 1969, the end of ideology had itself ended.”<sup>7</sup> Walter Weisskopf could fight the good Galbraithian battle against methodological neutrality and sterility with his lively and unread *Alienation and Economics* (1971). But criticisms against irrelevance are, for the profession, annual rituals that have zero effect. The fact of the matter is, as Bronfenbrenner stated it: “The general economist may be travelling the way of the Dodo or Passenger Pigeon Highway to extinction. He survives—as I am a survivor—as dilettante, journalist, or elementary [principles] teacher, or as an exotic variety of multiple-specialist whose several specialisms fall in more than one of our ordinary classification boxes.”<sup>8</sup> And it does not help the situation to read Joseph Schumpeter’s remark that “Economists in particular, much to the detriment of their field, have attached unreasonable importance to being understood by the general public. . . .”<sup>9</sup> Yet he was eminently readable and a generalist; two decades later he would have found less reason to bother with writing that sentence. But the evil had already been accomplished; he got his wish!

One thing seems certain, however. Since 1965, we have not heard speeches like the one John Kennedy delivered at Yale University in 1962. It was one of those typical “end of ideology” performances by the consummate pragmatist of the era.

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6. John J. Siegfried, “The Publishing of Economic Papers and Its Impact on Graduate Faculty Ratings,” *ibid.*, X (1972), pp. 31–49.

7. Martin Bronfenbrenner, “Radical Economics in America: A 1970 Survey,” *Journal of Economic Literature*, VIII (1970), p. 747. Cf. *Wall Street Journal* (Feb. 11, 1972); *Business Week* (March 18, 1972).

8. Bronfenbrenner, “Trends, Cycles, and Fads in Economic Writing,” *American Economic Review, Papers & Proceedings*, LVI (May 1966), p. 539.

9. Joseph A. Schumpeter, *A History of Economic Analysis* (New York: Oxford University Press, 1954), p. 10

Today these old sweeping issues have largely disappeared. The central domestic problems of our time are more subtle and less simple. They relate not to basic clashes of philosophy or ideology, but to ways and means of reaching common goals—to research for sophisticated solutions to complex and obstinate ideas. . . . What is at stake in our economic decisions today is not some grand warfare of rival ideologies which will sweep the country with passion, but the practical management of modern economy. What we need are not labels and clichés but more basic discussion of the sophisticated and technical questions involved in keeping a great economic machinery moving ahead. I am suggesting that the problems of fiscal and monetary policy in the Sixties as opposed to the kinds of problems we faced in the Thirties demand subtle challenges for which technical answers—not political answers—must be provided.<sup>10</sup>

As it turned out, “can do” Liberalism couldn’t, and the United States government bogged down in a fruitless war in Vietnam. We saw the nation blow apart. Anyone wishing to read a post-mortem on JFK’s faith in technocratic solutions can go through David Halberstam’s *The Best and the Brightest*. The naïveté of this kind of worldview is officially dead, if not yet operationally defunct (due to tenure and other forms of guild control) in the economics profession. The established men may believe in technocratic wisdom, but they are at least more humble today.

## B. What Is Economics?

There have been a number of influential economists over the years who have outspokenly denied the validity of the question. Vilfredo Pareto, the late-nineteenth-century social scientist, Gunnar Myrdal, and T. W. Hutchison were among these.<sup>11</sup> Schumpeter, whose *History of Economic Analysis* is a classic, was another.<sup>12</sup> Others, most notably Lionel Robbins,

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10. John F. Kennedy, quoted by Theodore Roszak, *The Making of a Counter Culture* (Garden City, New York: Doubleday Anchor, 1969), p. 11

11. Israel Kirzner, *The Economic Point of View* (Princeton: Van Nostrand, 1960), p. 7.

12. Schumpeter, *History*, p. 10.

vigorously denied this form of skepticism. When open disagreement can exist on so fundamental a point as the definition of what constitutes a science, the extent of the intellectual confusion is indicated. Drawing hermetically sealed definitional boundaries is not possible, given the nature of human thought and the inescapable fact of unity and diversity in all created structures, but men need operational definitions for their work. Buchanan's warning in 1964 is significant: "Economics, as a well-defined subject of scholarship, seems to be disintegrating . . . and realistic appraisal suggests that this inexorable process will not be stopped."<sup>13</sup>

Israel Kirzner's very fine study of *The Economic Point of View* (1960) surveys several definitions of economics that have been employed by members of the profession since the seventeenth century: the study of trade, of wealth and welfare, of greed, of getting the most from the least, of money and measurement, of economic choice in a scarce world, of human action. But there is one common feature that stands out over three centuries, and William Letwin called attention to it forcefully: "Nevertheless there can be no doubt that economic theory owes its present development to the fact that some men, in thinking of economic phenomena, forcefully suspended all judgments of theology, morality, and justice, were willing to consider the economy as nothing more than an intricate mechanism, refraining for the while from asking whether the mechanism worked for good or evil. That separation was made during the seventeenth century."<sup>14</sup> The autonomy of academic economics from "metaphysics," namely any revelation from God, is the hallmark of all contemporary economic practice. Perhaps the strongest statement on behalf of the total autonomy of economics came from Ludwig von Mises, who equated liberalism and free market economics.

Liberalism is based upon a purely rational and scientific theory of social cooperation. The policies it recommends are the application of a system of knowledge which does not refer in any way to sentiments, intuitive creeds for which no logically sufficient proof can be provided, mystical experiences, and the personal awareness of superhuman phenomena. . . . They [the policies] are radically opposed

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13. Buchanan, *op. cit.*, p. 222.

14. William Letwin, *The Origins of Scientific Economics* (Garden City, New York: Doubleday Anchor, [1963] 1965), pp. 158–59.



to all systems of theocracy. But they are entirely neutral with regard to religious beliefs which do not pretend to interfere with the conduct of social, political, and economic affairs.”<sup>15</sup>

The most widely respected work in the area of modern economic epistemology is Lionel Robbins’ *An Essay on the Nature and Significance of Economic Science* (1932). “The economist studies the disposal of scarce means,” he wrote. “Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.”<sup>16</sup> Economics is a science of human choice among scarce alternative resources, according to Robbins. Biblically, we would say that he accepts the existence of the effects of Genesis 3:17–19, which separates him from the utopians, Marx, and many of the New Left economists.

So far, so good, but it does not stop here. Everyone who claims to be a modern scientist wants his colleagues to regard him as utterly neutral and objective. Of course, he admits in theory that this is ultimately impossible, citing Heisenberg, Kuhn, and so forth to show he is epistemologically literate, but at least all good scientists are neutral and objective with respect to revelational religion. Robbins was no less a part of this tradition of neutrality. “The economist is not concerned with ends as such. He is concerned with the way in which the attainment of ends is limited. The ends may be noble or they may be base. They may be ‘material’ or Immaterial’—if ends can so be described. But if the attainment of one set of ends involves the sacrifice of others, then it has an economic aspect.”<sup>17</sup> *Ultimate ends are scientifically irrelevant.* The economist is primarily—perhaps entirely—a technician. Robbins believed that, in sealing off economics from questions of ultimate ends, he had accomplished a necessary task, but in fact he opened up an overwhelming problem for epistemology, one which almost no economist has had the courage to face publicly. Frank Knight was an exception.

The “scientific” view assumes that changes in man can be completely accounted for in terms of external and prior natural conditions. A theory which recognizes ends and

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15. Ludwig von Mises, *Human Action* (New Haven, Connecticut: Yale University Press, 1949), p. 155.

16. Robbins, *Nature*, p. 16.

17. *Ibid.*, p. 25. Cf. Mises, *Human Action*, pp. 95–96.

allows man real initiative in changing himself or his environment is in contradiction with a scientific conception of human nature and transfers the discussion to a different realm of discourse. In the writer's opinion the contradiction is insurmountable in the present stage of intellectual development. Philosophy and experience have not taught us concepts which enable us to think comfortably in the terms of what experience and common sense force us to recognize as real and valid.<sup>18</sup>

This may be the reason that Armen Alchian, a leading economist and formerly chairman of the department at U.C.L.A., refused to use the word "choice" in front of a colloquium of graduate students and scholars in 1969. I was one of them. He hedged by using "demonstrated preference" or similar terms. The concept of choice implies an unscientific, methodologically unverifiable concept of human freedom, or so he believed.

There is nothing in Robbins' work to indicate that he understood the issue he was raising. He simply went on: "Economics is neutral as between ends. Economics cannot pronounce on the validity of ultimate judgments of value."<sup>19</sup> And on: "Applied economics consists of propositions of the form, 'If you want to do this, then you must do that.'"<sup>20</sup> The economist may only advise men in terms of their stated ends. I suppose the economist in Nazi Germany or the Soviet Union in the 1930s would not have questioned the national ends of liquidation or mass imprisonment; he only would have examined the technical questions concerning the least expensive means of accomplishing these ends. Economics is pure technique, and therefore value-free, you see. Economists promise not to tell moralists what to think in the realm of ends, and by this treaty they gain autonomy for their own technical activities. Moralists are supposed to agree not to influence the form or content of economics. As Friedman put it: "Positive economics is in principle independent of any particular ethical position or normative judgment."<sup>21</sup> Economics is therefore rational, as contrasted to moralistic or value-laden.

18. Frank H. Knight, *On the History and Method of Economics* (Chicago: University of Chicago Press, 1956), p. 194n.

19. Robbins, *Nature*, p. 147.

20. *Ibid.*, p. 149.

21. Milton Friedman, *Essays in Positive Economics* (Chicago: University of Chicago Press, 1953), p. 4.

Why this religious quest for neutrality, for a value-free science? George Stigler, Friedman's colleague, who also won the Nobel Prize in economics, offered one straightforward explanation: "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."<sup>22</sup> F. A. Hayek announced a similar faith in human reason. Speaking of those who favor socialistic solutions, he wrote: "Yet if we have not convinced them, the reason must be that our arguments are not yet quite good enough, that we have not yet made explicit some of the foundations on which our conclusions rest."<sup>23</sup> It is more than a little ironic that Hayek and Stigler, the proponents of faith in reason, both supporters of free market ideas, both colleagues at the University of Chicago, although not in the same department, could agree on the whole question of reason in the social sciences. Stigler was an inductionist, while Hayek's *Counter-Revolution of Science* is one of the most eloquent pleas for a deductivist approach. When groups of Chicago School economists and Austrian School economists used to get together in the late 1960s and early 1970s, they had to avoid the whole issue of epistemology if the conference was not to break down entirely. So much for the efficacy of (supposedly) screening out value judgments for the sake of sweet reason and ultimate intellectual accord.

### C. Reason: Inductive

The vast bulk of economists regard themselves as essentially empirically oriented inductivists. They are men who rely, ultimately, on "the facts." They are not empiricists in the old German Historical School mold, however. That late-nineteenth-century group of Prussian academic socialists, led primarily by Gustav Schmoller, was initially committed to the premise that economic theory is always relative to time and place, and that

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22. George Stigler, *The Theory of Competitive Price* (New York: Macmillan, 1942), pp. 15–16.

23. F. A. Hayek, "The Defense of Our Civilization Against Intellectual Error," in *What's Past Is Prologue* (Irvington-on-Hudson, New York: Foundation for Economic Education, 1968), p. 41.

only by exhaustive monographic studies of cultural history could scholars come to judgments about economic theory.<sup>24</sup> The approach of this school was holistic and organic: all of human life had to be studied, not simply an “isolated segment” known as economic life. This approach was so utterly fruitless in the production of economic theorems that it was generally abandoned by 1900. There were just too many data to handle coherently. The unsophisticated positivism of the German Historical School could not sustain itself against the demands of intellectual specialization. In order to examine human history, the investigator has to have an idea of what he is looking for, which in the area of economic history means that he needs some basic economic theory. “Facts” do not speak for themselves, and “laws” do not leap off of the pages of historical data.

Today’s empirical economist is committed to the idea of economic theory. His model is generally that of the natural sciences. Friedman’s description of positive economics is standard: “Its task is to provide a system of generalizations that can be used to make correct predictions about the consequences of any change in circumstances. Its performance is to be judged by the precision, scope, and conformity with experience of the predictions it yields.”<sup>25</sup> He went on to state that the decisive test “is whether the hypothesis works for the phenomena it purports to explain.”<sup>26</sup> The test is therefore factual: “Only factual evidence can show whether it [theory] is ‘right’ or ‘wrong’ or, better, tentatively ‘accepted’ as valid or ‘rejected.’”<sup>27</sup> Economics is empirical, inductive, *a posteriori*, fact-oriented. Facts cannot prove a theory, but they may fail to disprove some theories.<sup>28</sup> The process is: . . . facts . . . theory . . . facts . . . theory—endlessly, always in a refining process.<sup>29</sup> If you can find a better theory (at no extra cost), choose it.

Friedman then confronted a basic post-Kantian antinomy, the problem of defining “theory,” “fact,” and explaining the interrelationship of each to each and both to the human mind.

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24. Schumpeter, *History of Economic Analysis*, pp. 807 ff.

25. Friedman, *Essays*, p. 4.

26. *Ibid.*, p. 30.

27. *Ibid.*, p. 8.

28. *Ibid.*, p. 9.

29. *Ibid.*, p. 139.

More generally, a hypothesis or theory consists of an assertion that certain forces are, and by implication others are not, important for a particular class of phenomena and a specification of the manner of action of the forces it asserts to be important. We can regard the hypothesis as consisting of two parts: first, a conceptual world or abstract model simpler than the “real world” and containing only the forces that the hypothesis asserts to be important [Weber’s “ideal type”—G.N.]; second, a set of rules defining the class of phenomena for which the “model” can be taken to be an adequate representation of the “real world” and specifying the correspondence between the variables or entities in the model and observable phenomena.

These two parts are very different in character. The model is abstract and complete; it is an “algebra” or “logic.” Mathematics and formal logic come into their own in checking its consistency and completeness and exploring its implications. There is no place in the model for, and no function to be served by, vagueness, maybe’s, or approximations. The air pressure is zero, not “small,” for a vacuum; the demand curve for the product of a competitive producer is horizontal (has a slope of zero), not “almost horizontal.”

The rules for using the model, on the other hand, cannot possibly be abstract and complete. They must be concrete and in consequence incomplete—completeness is possible only in a conceptual world, not in the “real world,” however it may be interpreted. . . . In seeking to make a science as “objective” as possible, our aim should be to formulate the rules explicitly in so far as possible and continually to widen the range of phenomena for which it is possible to do so. But, no matter how successful we may be in this attempt, there inevitably will remain room for judgment in applying the rules. Each occurrence has some features peculiarly its own, not covered by the explicit rules. The capacity to judge that these are or are not to be disregarded, that they should or should not affect what observable phenomena are to be identified with what entities in the model,

is something that cannot be taught; it can be learned but only by experience and exposure to the “right” scientific atmosphere, not by rote. It is at this point that the “amateur” is separated from the “professional” in all sciences and that the thin line is drawn which distinguishes the “crackpot” from the scientist.<sup>30</sup>

First, just how coherent is the model? Friedman asserted that it can be consistent and complete. I suspect that he was here giving more credit to a rival discipline—mathematics—than the discipline’s best minds ever claim for it. Kurt Gödel’s hypothesis denies that a mathematical proposition can be simultaneously consistent and complete, which is precisely what Friedman naïvely asserts as an ideal for the logic of the economic model.

Second, how do the rules for using the model actually connect it with the data? Why is such a contact possible? Eugene Wigner, the Nobel Prize winner in physics, has called attention to this very anomaly: it is an unreasonably effective correspondence which secular scientists simply cannot explain.<sup>31</sup> If the rules are incomplete, how can they be fitted with the “complete” model?

Third, the “real world,” which Friedman was careful to put in quotation marks, is really the product of our senses, as interpreted by our minds. In Kantian language, concepts without percepts are empty, while percepts without concepts are blind. So, the data are never raw; there is no operational brute factuality. The data are already interpreted as we receive them. How do we know, for example, when a perceived trade cycle is nothing more than the product of our own ingenuity? The great mathematical economist Ragnar Frisch once demonstrated the existence of a particular economic cycle before a group of professional colleagues—a regularity where none had been perceived before by any of them. Harlan McCracken describes the finale: “When the group was thrilled and almost dumfounded by the results, they were mildly informed that the omega operations had been performed on a relief map of Europe.”<sup>32</sup>

30. *Ibid.*, pp. 24–25.

31. Eugene P. Wigner, “The Unreasonable Effectiveness of Mathematics in the Natural Sciences,” *Communications on Pure and Applied Mathematics*, XIII (1960), pp. 1–14. (<http://bit.ly/WignerMath>)

32. McCracken, “Comments,” *American Economic Review, Papers & Proceedings*, XLIII (May 1953), p. 277. Cf. Gunther Stent, *The Coming of the Golden Age: A*

Finally, what of Friedman's appeal to "the capacity to judge" and "experience"? Here we have an appeal, ultimately, to some form of intuition as the means of bridging the gap between the model and the perceived historical data (which may or may not be in conformity to the economic world "out there"). There is no strict one-to-one application of the abstract mental model and perceived reality, for then the model would be as complex as reality itself, swallowed up in the immensity of brute factuality. Yet it is believed to be in conformity to the basic outline of the already perceived facts. But how do we know? How can we have such faith in the coherence of our minds, the orderliness of nature, and the intuitive ability of our minds (or whatever it is) to bridge the gap? We must exercise faith—a remarkable quantity of faith. Without it, there could be no economics. So our neutral, rationalistic practitioners simply put this statement of faith in the back of their minds and forget it. Epistemology, at the truly crucial points, is not a popular topic among secularists.

Ultimately, Friedman asserted, "The construction of hypotheses is a creative act of inspiration, intuition, and invention; its essence is the vision of something new in familiar material."<sup>33</sup> He was quite correct, of course, but this does not answer the question. How is man so endowed, for what purpose does he have the gift? How, in fact, are we sure on rational grounds that he does have it? We need a theory to explain the phenomenon, and intuition, being nonrational at bottom, cannot be made to fit any rationalistic theory. We think we perceive men in the activity of linking theories and facts, but can they do this accurately, really, and if so, how? In effect, the secularist replies, "he just can, that's all!" Faith, faith, wonderful faith!

Is there some accepted, fairly stable body of acceptable theory? Probably not, says Friedman. "Observed facts are necessarily finite in number; possible hypotheses, infinite" [I do not understand this—G.N.]<sup>34</sup> Furthermore, "Any theory is necessarily provisional and subject to change with the advance of knowledge."<sup>35</sup> In short, all we can say, somehow, in faith, is that "some parts of economic theory clearly deserve more confidence than

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*View of the End of Progress* (Garden City, New York: Natural History Press, 1969), pp. 115 ff.; Benoit Mandelbrot, "New Methods in Statistical Economics," *Journal of Political Economy*, LXXI (1963), pp. 421 ff.

33. Friedman, *Essays*, p. 13.

34. *Ibid.*, p. 9.

35. *Ibid.*, p. 41.

others.”<sup>36</sup> (Try and find one that all economists agree on!) You can check these statements by comparing them with “facts.” But which facts? Facts selected by which theorist? Not all facts, since our knowledge can never be exhaustive.<sup>37</sup> Remember, “we cannot perceive ‘facts’ without a theory.”<sup>38</sup> Yet within the shifting sands of knowledge, there is somehow structure enough to establish an academic discipline. Or at least maybe there is.

Van Til put this problem in a starkly penetrating analysis.

If man is made the final reference point in predication, knowledge cannot get under way, and if it could get under way it could not move forward. That is to say, in all non-Christian forms of epistemology there is first the idea that to be understood a fact must be understood exhaustively. It must be reducible to a part of a system of timeless logic. But man himself and the facts of his experience are subject to change. How is he ever to find within himself an a priori resting point? He himself is on the move. . . . If we do not with Calvin presuppose the self-contained God back of the self-conscious act of the knowing mind of man, we are doomed to be lost in an endless and bottomless flux.<sup>39</sup>

Is there a coherent world out there, out beyond the powers of our perception? Does it, or some part of it, conform to the logical structure of our minds? Is there some means by which we can discover such order? How do we find the rules that might allow us to make deductions from our theories and predictions about the facts? The facts are like beads for the secularist, said Van Til, and the theories are like string. But on the premises of the secularist, the beads have no holes in them, and the string is infinitely long. Furthermore, there may be more than one string! The only way to string them is unknown, and this the secularist calls “intuition.” Friedman was no different from epistemologists in other academic disciplines. Either theory is swallowed up in the facts, or else the facts are swallowed up by the theory,

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36. *Idem.*

37. *Ibid.*, p. 32.

38. *Ibid.*, p. 34.

39. Cornelius Van Til, *An Introduction to Systematic Theology* (Phillipsburg, New Jersey: Presbyterian and Reformed, [1961] 1978), p. 167, vol. V of *In Defense of the Faith*.



or else theory remains wholly removed from all facts. Van Til's words are inescapable:

The point we are now concerned to stress is the atomistic character of the non-Christian methodology. The idea of system is for it merely a limiting notion. It is merely ideal. What is more, it must forever remain but an ideal. To become reality this ideal would have to destroy science itself. It would have to demolish the individuality of each fact as it came to know it. But if it did this, it would no longer be knowledge of a fact that is different from any other fact. The method of non-Christian science then requires that to be known facts must be known as part of a system. And since the Christian idea of a system as due to the counsel of God is by definition excluded, it is man himself that must know this system. But to know the system he must know it intuitively. He cannot know it discursively because discursive thought, if it is to be in contact with reality at all, must partake of the piecemeal character of non-rational being. Each individual concept that pretends to be a concept with respect to things that have their existence in the world of time must partake of the *de facto* character of these facts themselves.<sup>40</sup>

Intuitive knowledge is all that is left for man, and intuitive knowledge, not being discursive, participates in the chaos of random factuality, i.e., is not rational knowledge. Friedman, ending as he did with intuition, destroyed the logical character of hypothetically rational inductive economic science. *At the heart of "rational" inductive thought is a bedrock of irrationalism.* Without a doctrine of divine creation, the inductive rationalist builds his foundation on the sand of pure chance, and whirl does not give up his kingdom.

I have not singled out Friedman as a stick man. He was an eloquent defender of modern economic science, and his chapter on methodology has become standard in the profession. Other expositions echo his. Gregor Sebba, a mathematical economist, has raised similar issues. He wrote that

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40. Cornelis Van Til, *Apologetics* (Syllabus, Westminster Theological Seminary, 1959), pp. 76–77.

"Classical economics made the tremendous discovery that the quantifiable features of a modern economy can be represented by a general mechanistic model capable of mathematization and presumably prediction."<sup>41</sup> Positive economics, officially neutral with respect to values, can predict the future. But with prediction comes control, Sebba argued. New forms of macroeconomic planning are possible through the use of input-output techniques developed by both Soviet and Western economists. "Here the distinction between 'technical' and 'economic' problems obviously no longer applies."<sup>42</sup> But then a problem appears which had been held back by the hypothetical value neutrality of positive economic theory. "Unlike classical theory, it is not confined to the question what the terminal state of the economic system will be, given its initial state and its laws of operation; normative economics can simultaneously consider the initial and the terminal state and select the minimum path from one to another. The theory of allocations has the markings of a rigorous, predictive, general theory of planning."<sup>43</sup> Hayek demonstrated eloquently in his *Road to Serfdom* (1944) that central planning can never be neutral; it is based on the value preferences of the central planners.

Positive economics, because it involves knowledge, necessarily involves power. And power is never neutrally applied. Sebba saw this clearly, and he drove home his point.

Control then consists of prediction offered as purely technical, neutral, powerless advice. The sons of Adam Smith fear control of man over man. And rightly so, for such control implies the dehumanization of the human realm. The ethos of classical economics revolts against this consequence. But its epistemology works towards it. So long as the theory is unpredictable, the conflict can remain unresolved and even undetected. But should the theory become predictive, it may yet turn against its origins and become instrumental in subverting economic freedom.<sup>44</sup>

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41. Gregor Sebba, "The Development of the Concepts of Mechanism and Model in Physical Science and Economic Thought," *American Economic Review, Papers & Proceedings*, XLIII (May 1953), p. 261.

42. *Ibid.*, p. 263.

43. *Ibid.*, p. 264.

44. *Ibid.*, p. 266.

The *nature-freedom antinomy* of all modern thought reasserts itself once again. On the one hand, knowledge of the world is seen as giving men power and therefore freedom from an impersonal, capricious universe. Yet with the advent of power, man falls under the sway of his own creation, like Dr. Frankenstein and his monster. Man, defined as being no more than a natural creature, becomes as subject to his own laws as nature is. *Secular law eats away at the foundations of secular freedom.*<sup>45</sup> Classical economics destroys itself in an orgy of planning. The attempt at being epistemologically neutral to God and all values becomes dust in the mouth; values, never truly banished from science's closed universe, reappear in power.

## D. Reason: Deductive

For almost a century, deductive reasoning in the social sciences has been out of favor. Its defenders are limited almost exclusively in economics to the followers of Ludwig von Mises. Inductive reason, supposedly the characteristic of the natural sciences, has been adopted by most modern economists. Now, however, the perception on the part of some social scientists of the implications of Thomas Kuhn's *The Structure of Scientific Revolutions* (1962) has begun to shake their faith in the paradigm of purely inductive research. It has become more and more obvious to the readers of Kuhn's book that there is no scholarship apart from intellectual presuppositions. Academic guilds form around an accepted body of these premises, and they in turn become the foundation of "normal science"—the drudge-like repetitive science of the vast majority of men in any given era or discipline. Thus, research is guild-oriented and essentially *a priori*: the questions asked, the ways in which the questions are to be answered, the form of presentation of the answer are all determined by the prevailing definition of the particular discipline as set forth by the academic guild. Thus, Kuhn's analysis argues, science is never purely inductive, objective, or neutral. It is governed by presuppositions that are thought to be "rational" and "inescapable." From time

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45. It seems to me to be quite likely that input-output analysis will prove to be premature, and that Mises' argument that without a free market and private ownership, no rational planning is possible, will reassert itself. But to the extent that modern economists believe that they have predictive power due to any economic tool, there is a tendency for that tool to become a means of economic planning and external control.

to time younger members of the guild do escape them, overturning the accepted paradigm; this constitutes a scientific revolution.

The writings of Ludwig von Mises constitute the strongest case for pure deductive rationalism. He took seriously the second half of Kant's slogan, "percepts without concepts are blind." There is no scientific investigation by the social scientist that is not in terms of fixed intellectual categories. His was the consistent Kantian world of humanism. Man is the starting point. "*Panta rei*, everything is in ceaseless flux, says Heraclitus; there is no permanent being; all is change and becoming. . . . For epistemology, the theory of human knowledge, there is certainly something that it cannot help considering as permanent, viz., the logical and praxeological [science of human action] structure of the human mind, on the one hand, and the power of the human senses, on the other hand."<sup>46</sup> Mises brought back the old debate between Parmenides and Heraclitus. Parmenides held, in Van Til's words, "that only that can exist which is fully subject to the laws of human logic. In other words Parmenides assumes that the reach of human logic is the limit of possible existence."<sup>47</sup> But Heraclitus countered that the essence of the world is flux, beyond the static categories of universal human reason. Along with all post-Kantians, Mises held to both positions: logic is static and can understand some things "out there," but there is some aspect of flux and chaos in the universe, and it is here that man finds his freedom from totalitarian humanistic law. In other words, as far as human nature is concerned, "epistemology must look upon it as unchanging."

Man needs an unchanging point of reference, Mises believed, if he is to be able to say anything accurate about anything. *The unchanging point of reference is the human mind.*

Kant, awakened by Hume from his "dogmatic slumbers," put the rationalistic doctrine upon a new basis. Experience, he taught, provides only the raw material out of which the mind forms what is called knowledge. All knowledge is conditioned by the categories that precede any data of experience both in time and in logic. The categories are

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46. Ludwig von Mises, *The Ultimate Foundation of Economic Science: An Essay on Method* (Princeton: Van Nostrand, 1962), p. 1.

47. Cornelius Van Til, *A Christian Theory of Knowledge* (Nutley, New Jersey: Presbyterian and Reformed Publishing Co., 1969), p. 171.

a priori; they are the mental equipment of the individual that enables him to think and—we may add—to act. As all reasoning presupposes the a priori categories, it is vain to embark upon attempts to prove or disprove them.<sup>48</sup>

What are these categories? They are independent of biological evolution. Evolution is continuous, while the categories appeared in man discontinuously.<sup>49</sup> They are not innate ideas. “They are the necessary mental tool to arrange sense data in a systematic way, and transform them into facts of experience. . . .”<sup>50</sup> They are *pragmatic*: “Only those groups could survive whose numbers acted in accordance with the right categories, i.e., with those that were in conformity with reality and therefore—to use the concept of pragmatism—worked.”<sup>51</sup> Apparently, had the world been a different kind of world, those using the categories would not have survived, and the categories would have disappeared—not, somehow, evolving into something else. Where categories are concerned, life is one huge crap shoot; you either have them, or you don’t. Or, paraphrasing one scholar, “when you’re hot, you’re hot, and when you’re not, you’re not.”<sup>52</sup>

The reason that the categories function is that the universe is orderly, in part. “No thinking and no acting would be possible to man if the universe were chaotic, i.e., if there were no regularity whatever in the succession and concatenation of events. In such a world of unlimited contingency nothing could be perceived but ceaseless kaleidoscopic change. There would be no possibility for man to expect anything.”<sup>53</sup> Therefore, he concluded, “Reasoning is necessarily always deductive. . . . All human knowledge concerning the universe presupposes and rests upon the cognition of the regularity in the succession and concatenation of observable events. It would be vain to search for a rule if there were no regularity.”<sup>54</sup>

This is empiricism’s Achilles heel: it rejects the category of regularity in the microscopic sphere, looking instead for statistical laws of probability

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48. Mises, *Ultimate Foundation*, p. 12.

49. *Ibid.*, pp. 8, 14.

50. *Ibid.*, p. 16.

51. *Ibid.*, p. 15.

52. [Http://bit.ly/jrwyhyh](http://bit.ly/jrwyhyh)

53. Mises, *Ultimate Foundation*, p. 19.

54. *Ibid.*, p. 19.

in aggregate events. Empiricists fail to search for explanations in terms of individual human action.<sup>55</sup> It is a misuse of the methodology of the natural sciences, on the assumption that people are not acting beings. Empiricism postulates pure randomness of individual events.<sup>56</sup>

Mises came to the heart of the epistemological problem:

Following in the wake of Kant's analysis, philosophers raised the question: How can the human mind, by aprioristic thinking, deal with the reality of the external world? As far as praxeology [the science of human action] is concerned, the answer is obvious. Both, a priori thinking and reasoning on the one hand and human action on the other, are manifestations of the human mind. The logical structure of the human mind creates the reality of the action. Reason and action are congeneric and homogeneous, two aspects of the same phenomenon.<sup>57</sup>

Mises was far more epistemologically self-conscious than most contemporary economists. He knew the ground on which all modern secularists must stand if they are to defend the idea of modern science from total chaos, and so he affirmed, as Kant did, the creative ordering power of the human mind. This, as Van Til argued throughout his career, is the heart of modern Kantian thought. Mises acknowledged it and build upon it.

The historical sciences, however, are different from praxeology and its most developed subdivision, economics. History is concerned with the flux of human life, not regularities. "What distinguishes the descriptions of history from those of the natural sciences is that they are not interpreted in the light of the category of regularity."<sup>58</sup> Men must look to history for *meaning*; unlike natural events, men act in terms of final causes. The interpreter searches for meaning in the minds of the participants: what did it

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55. *Ibid.*, p. 23.

56. *Ibid.*, pp. 21–22.

57. *Ibid.*, p. 23.

58. *Ibid.*, pp. 27–28. Cf. the exchange on this point between Gary S. Becker, an empiricist of the Chicago School, and Israel Kirzner, a follower of Mises: Becker, "Irrational Action and Economic Theory," *Journal of Political Economy*, LXX (Feb. 1962); Kirzner, "Rational Action and Economic Theory," *JPE*, LXX (Aug. 1962); "Reply" and "Rejoinder," *JPE*, LXXI (Feb. 1963).

mean for them? “The autonomy of history or, as we may say, of the various historical disciplines consists of their dedication to the study of meaning.”<sup>59</sup> The goal is radical autonomy: “History is man-centered; it has nothing to do with any point of view of God or some quasi-God. . . .”<sup>60</sup> Man provides the meaning. God’s knowledge is not available to man.<sup>61</sup> However, the mind is bounded by the limits of understanding: the “meaning of the whole” is beyond us.<sup>62</sup> There are no general laws in history; historical events are entirely unique.<sup>63</sup> The historian must select the “relevant” facts. Yet despite this process of selection, historiography must be neutral. He wrote: “A historian must first of all aim at cognition. He must free himself from any partiality. He must in this sense be neutral with regard to any value judgments.”<sup>64</sup> The historian must select, yet be neutral. He did not explain how this is possible. (Neither has any historian.)

The rock-bottom data that resist classification in terms of the categories of the social sciences are those that are historically unique. Here, the historian must use “sympathy” or “understanding” in order to make these data intelligible. However, such understanding must not contradict the teachings of neutral social science. No matter how many historical documents testify to the existence of a devil, “no appeal to understanding could justify a historian’s attempt to maintain that the devil really existed otherwise than in the visions of an excited human brain.”<sup>65</sup> The same, of course, is true of any relationship between witches and the devil.<sup>66</sup>

How objectivity is to be guaranteed, or even thought to be possible, in the historical sciences is never explained. How does the historian know that his sympathetic understanding of the motives or hopes of past individuals has any relationship with the past? How can he be certain that his understanding links up with theirs? There can never be such assurance. Fur-

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59. *Ibid.*, p. 42.

60. *Ibid.*, p. 43.

61. *Ibid.*, pp. 37, 64.

62. Ludwig von Mises, *Epistemological Problems of Economics* (Princeton: Van Nostrand, 1960), p. 48.

63. Mises, *Theory and History: An Interpretation of Social and Economic Evolution* (Auburn, Alabama: Mises Institute, [1957] 2007), p. 212.

64. Mises, *Human Action*, p. 48.

65. *Ibid.*, p. 51.

66. Mises, *Epistemological Problems*, p. 100.

thermore, how can the bedrock data of history be related to any system of general understanding? How is it possible to make sense out of the infinite data of history? Mises assumed too much for the historical disciplines. He gave too much credit to the ability of the irrationalist powers of the Kantian noumenal “understanding” to make intelligible judgments and statements about Kant’s phenomenal realm.

How do we link the *a priori* categories of the mind with the external reality of the social sciences? On this point, Mises was forthright. We cannot explain this connection. *The scientist needs ultimate presuppositions that cannot be proven.* Life and death are mysteries.

Science, which is dependent both on discursive reasoning and on experience, does not present us with a unified picture of the world. It reduces phenomena to a number of concepts and propositions that we must accept as ultimate, without being able to establish a connection between them. It proves incapable of closing the gap that exists between the system of the science of human thought and action and the system of the sciences of physical nature. It does not know how to find a bridge between sentience and motion or between consciousness and matter. What life and death are elude its grasp.<sup>67</sup>

There is an inescapable dualism in Mises’ Kantian universe, and Mises was perfectly willing to admit its existence.

But as long as we do not know how external (physical and physiological) facts produce in a human “soul” definite thoughts and volitions resulting in concrete acts, we have to face an insurmountable dualism. In the present state of our knowledge, the fundamental statements of positivism and monism are mere metaphysical postulates devoid of any scientific foundation. Reason and experience show us two separate realms: the external world of physical and physiological events and the internal world of thought, feeling, and purposeful action. No bridge connects—as far as we can see today—these two spheres. Identical external

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67. *Ibid.*, p. 44.



events result sometimes in different human responses, and different external events produce sometimes the same human response. We do not know why.<sup>68</sup>

But if a gap of total ignorance exists between the external event and human will, then the will is totally separated from the external world. This is the most fundamental of all Kantian dualisms. Action, argues Mises, “is the outcome of a man’s will. Of course, we do not know what will is. We simply call *will* man’s faculty to choose between different states of affairs. . . .”<sup>69</sup> This seems to be the equivalent of Friedman’s *intuition*. It is the mysterious bridge between thought and action, between stimulus and response. Secularists can never be sure whether this relationship is active—thought leading to action—or passive—response to a stimulus.

How do we know if our *a priori* mental concepts correspond with the facts of the external world? “The question whether or not the real conditions of the external world correspond to these assumptions is to be answered by experience.”<sup>70</sup> *Experience*: we are back to Friedman’s intuitional, experiential link. We are back to testing once again—testing, on the assumption that there is the mind-matter link. Mises acted in faith that this mystical link exists, although he denies any mysticism in such an affirmation. “Science is sobriety and clarity of conception, not intoxicated vision.”<sup>71</sup> But what is experience? How does it relate mind and external matter? Is it the same as will? Is it the same as intuition? How sure are we of the correspondence of the two realms? Not very. “But if the answer is affirmative, all the conclusions drawn by logically correct praxeological reasoning strictly describe what is going on in reality.”<sup>72</sup> If the answer is in the affirmative, our *a priori* mental concepts correspond with data—some data, i.e., the relevant data—of the external world. Here is a huge “if clause” in Mises’ epistemology. It is, in fact, a statement of faith, incapable of proof, as he admits, and yet the very intellectual foundation of his *a priori* rationalism.

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68. Ludwig von Mises, “The Treatment of ‘Irrationality’ in the Social Sciences,” *Philosophy and Phenomenological Research*, IV (June 1944), section VI.

69. *Ibid.*, section II.

70. Mises, *Ultimate Foundation*, p. 44.

71. Mises, *Epistemological Problems*, p. 46.

72. Mises, *Ultimate Foundation*, p. 45.

Our ignorance of the nature of this link between mind and matter is the source of our personal freedom. On the other hand, our faith in its existence is the source of our knowledge and power. Here is the Kantian nature-freedom antinomy in its sharpest form. We need power to escape the chaos of nature—to gain freedom as men in nature—yet this power destroys our freedom, or threatens to. Mises wrote:

We do not know how out of the encounter of a human individuality, i.e., a man as he has been formed by all he has inherited and by all he has experienced, and a new experience definite ideas result and determine the individual's conduct. We do not even have and surmise how such knowledge could be acquired. More than that, we realize that if such knowledge were attainable for men, and if, consequently, the formation of ideas and thereby the will could be manipulated in the way machines are operated by the engineer, human conditions would be essentially altered. There would yawn a wide gulf between those who manipulate other people's ideas and will and those whose ideas and will are manipulated by others.<sup>73</sup>

If autonomous man can use his mind to shape nature, why can't an elite of power-seeking men use science to shape society's masses? Here is the heart of the dilemma sketched by C. S. Lewis in his *Abolition of Man* and *That Hideous Strength*. It is an inescapable contradiction in all post-Kantian thought. Secularists must affirm the existence of the mind-matter link, yet they dare not affirm it.

Within the framework of this antinomy, man's ignorance of the nature of this link—indeterminacy—protects him from manipulation by other men. Yet it is the determinacy of the link that allows him to control nature (of which man is said to be a part). Thus, we are said to be able to rationalize only a few segments of reality. "Reason and science deal only with isolated fragments detached from the living whole and thereby killed."<sup>74</sup> Mises then retreated into Kantian mysticism in order to preserve man's freedom and living humanity.

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73. *Ibid.*, p. 58.

74. Mises, *Epistemological Problems*, p. 44.

This personal experience of wholeness, unity, and infinity is the loftiest peak of human existence. It is the awakening to a higher humanity. It alone transforms everyday living into true living. It is not vouchsafed to us daily or at all places. The occasions on which we are brought closer to the world spirit must await a propitious hour.<sup>75</sup>

To recapitulate, the foundation of economic reasoning is the existence of universal, timeless categories of human logic.<sup>76</sup> All facts require theories to interpret them; there can be no uninterpreted factuality for men to deal with intellectually. Thus, facts cannot refute accurate theories, since they have existence only in terms of theories. The theories are autonomous. "They are not subject to verification or falsification on the ground of experience and facts."<sup>77</sup> On this issue, Mises was forced to appeal to *experience* in answering the question concerning the existence of the mind-matter link.<sup>78</sup> Thus, he both affirmed and denied experience as a means of checking the validity of his theorems' applicability. Experience in some necessarily unstated way links theory to fact, yet it cannot criticize theory. But it can somehow *warn* theory: "If the facts do not confirm the theory, the cause perhaps may lie in the imperfection of the theory. The disagreement between the theory and the facts of experience consequently forces us to think through the problems of the theory again. But so long as re-examination of the theory uncovers no errors in our thinking, we are not entitled to doubt its truth."<sup>79</sup> And experience *can* criticize *bad* theory: "Precisely because the phenomena of historical experience are complex, the inadequacies of an erroneous theory are less effectively revealed when experience contradicts it than when it is assessed in the light of correct theory."<sup>80</sup> But these inadequacies are, apparently, revealed in part, though less effectively than by theory, through the contradictions of experience. It is impossible to give a precise definition of "experience" as found in Mises' writings.

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75. *Ibid.*, p. 45.

76. *Ibid.*, p. 27. See also pages 198, 204.

77. Mises, *Human Action*, p. 32.

78. Mises, *Ultimate Foundation*, p. 44.

79. Mises, *Epistemological Problems*, p. 50.

80. *Ibid.*, p. 29.

On the one hand, we are asked to believe that science is value-free, since “no standard of value of any kind is contained in the system of economic or sociological theory or in the teachings of liberalism, which constitute the practical application of this theory to action in society.”<sup>81</sup> On the other hand, we are not supposed to regard as in any way value-laden the following statement: “Every individual desires life, health, and well-being for himself and his friends and close relations.”<sup>82</sup> Conclusion:

To the man who adopts the scientific method in reflecting upon the problems of human action, liberalism must appear as the only policy that can lead to lasting well-being for himself, his friends, and his loved ones, and, indeed, for all others as well. Only one who does not want to achieve such ends as life, health, and prosperity for himself, his friends, and those he loves, only one who prefers sickness, misery, and suffering may reject the reasoning of liberalism on the ground that it is not neutral with regard to value judgments.<sup>83</sup>

In contrast, the Bible states explicitly, “But he that sinneth against me wrongeth his own soul: all they that hate me love death” (Prov. 8:36). Even if all men were to agree about the true nature of health, joy, and the good life, it does not follow that all men truly want these things.

Mises’ hypothetical neutrality is uncritically naïve. He held to a value-free science that in turn presupposes agreement among all men concerning “the good life.” What he assumed is the universal validity of the goals of Western civilization, which is in itself an overwhelming mental abstraction.<sup>84</sup>

Of course, the objections the economists advanced to the plans of the socialists and interventionists carry no weight with those who do not approve of the ends which the peoples of Western civilization take for granted. Those

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81. *Ibid.*, p. 40.

82. *Ibid.*, p. 38.

83. *Ibid.*, p. 39.

84. Robert A. Nisbet, *Social Change and History* (New York: Oxford University Press, 1969), pp. 245–46.

who prefer penury and slavery to material well-being and all that can only develop where there is material well-being may deem all these objections irrelevant. But the economists have repeatedly emphasized that they deal with socialism and interventionism from the point of view of the generally accepted values of Western civilization.<sup>85</sup>

While Western civilization may well have been the product of a world-view based on the idea of the sovereignty of the God of the Bible, a possibility that Mises did not mention, today our universe is closed to God, he insisted. "It is not to be denied that the loftiest theme that human thought can set for itself is reflection on absolute questions. Whether such reflection can accomplish anything is doubtful."<sup>86</sup>

Our own thinking is utterly powerless to discover anything whatever about what such a superhuman or divine being would think. But within the cosmos in which our action is effective and in which our thinking paves the way for action, the findings of our scientific reasoning are so securely established as to render meaningless the statement that, in a broader setting or in a deeper sense, they would have to lose their validity and yield to some other cognition.<sup>87</sup>

God and His revelation are therefore irrelevant for the content of economic science, since "whatever firmly withstands the logical scrutiny of our reason can in no way be refuted by the assertions of metaphysics."<sup>88</sup> In short, "We may leave aside the genuine dogmas such as Creation, Incarnation, the Trinity, as they have no direct bearing on the problems of inter-human relations."<sup>89</sup> We can say nothing about God at all. However, God *is*

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85. Mises, *Theory and History*, p. 33.

86. Mises, *Epistemological Problems*, p. 49.

87. *Ibid.*, p. 50.

88. *Idem.*

89. Mises, *Theory and History*, p. 46.

“wholly other from man.”<sup>90</sup> He is incapable of action (being perfect).<sup>91</sup> He is socially irrelevant.<sup>92</sup> The only universals for man are the universal categories of his own mind.<sup>93</sup> Without these, men could not think or act, so these *have* to exist.<sup>94</sup>

Man’s dignity stems from his freedom. Yet he lives in a determinate universe in which universal laws rule. Still, “The main fact about human action is that in regard to it there is no such regularity in the conjunction of phenomena. It is not a shortcoming of the sciences of human action that they have not succeeded in discovering determinate stimulus-response patterns. What does not exist cannot be discovered.”<sup>95</sup> Yet that such patterns may exist.

. . . in the present state of human science it is impossible to reduce the emergence and the transformation of ideas to physical, chemical, or biological factors. It is this impossibility that constitutes the autonomy of the sciences of human action. Perhaps natural science will one day be in a position to describe the physical, chemical, and biological events in which the body of the man Newton necessarily and inevitably produced the theory of gravitation. . . . The sciences of human action by no means reject determinism. The objective of history is to bring out in full relief the factors that were operative in producing a definite event. History is entirely guided by the category of cause and event. In retrospect, there is no question of contingency. The notion of contingency as employed in dealing with human action always refers to man’s uncertainty about the future and the limitations of the specific historical understanding of future events.<sup>96</sup>

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90. Mises, *Ultimate Foundation*, p. 37. This is the language of the neo-orthodox Swiss theologian Karl Barth. Barth was a faithful disciple of Kant, as was Mises.

91. *Ibid.*, p. 3.

92. Mises, *Epistemological Problems*, pp. 24, 57, 150.

93. *Ibid.*, pp. 91, 204.

94. *Ibid.*, p. 98.

95. Mises, *Theory and History*, p. 9.

96. *Ibid.*, p. 93.

In principle, there is no contingency. All is determined, and natural science may fuse with human science to produce the society of total planning. It is only a question of gaining adequate knowledge.

There is a Kantian dualism between determinism and indeterminism. Man needs to preserve both his power and his freedom. "Free will means that man can aim at definite ends because he is familiar with some of the laws determining the flux of world affairs. There is a sphere within which each man *can* choose alternatives. He is not, like other animals, inevitably and irremediably subject to the operation of blind fate. He can, within definite limits, divert events from the course they would take if left alone."<sup>97</sup> *Man is therefore morally responsible.* The question is: To Whom? "Comparing himself with all other beings, man sees his own dignity and superiority in his will."<sup>98</sup> But Mises had already admitted that we do not know what the will is. It fills the gap between external causality and the rational categories of human thought. And man loses his freedom once that bridge is erected; men can control the responses of others once we know how the link is to be made. So, free will therefore means simultaneously that we cannot bridge that gap, that we cannot be controlled. Our so-called free will requires a determinate universe to hold off nature's blind fate, and it needs an indeterminate universe to hold off the controllers. Mises, as all post-Kantians, was impaled on the horns of the nature-freedom dilemma, also known as the personality-science dilemma. In short, it was Kant's dilemma.

Mises had no consistent theory of law, no link between mind and reality, other than "experience" and "will," both left undefined. Yet in his humanistic confidence he says of the natural sciences: "They provide the only mental tool that can be used in the ceaseless struggle for life. They have proved their practical worth. And no other way of knowledge is open to man, no alternative is left to him."<sup>99</sup> No alternatives, by *a priori* dictum—and this cannot be refuted by theology or facts. This is the closed universe of nineteenth-century neo-Kantian rationalism. It is overconfident even in its all-encompassing contradictions.

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97. *Ibid.*, p. 179.

98. *Idem.*

99. *Ibid.*, p. 305.

## E. Living With Dualism

Unlike Mises, Prof. Frank H. Knight (d. 1972) had a sense of the intellectual dualisms of secular thought. He was also a neo-Kantian. He separated the natural sciences from the human sciences in terms of epistemology, something that Paul Samuelson refused to do.<sup>100</sup> Social science must “strive to tell the whole truth, to recognize all the facts” in its quest for exhaustive knowledge.<sup>101</sup> Yet we are involved in an intellectual antinomy: the science ideal vs. the ideal of free human personality. “As far as science is concerned, free will, which is the only real dynamism, is either an illusion or simply a methodological limitation.”<sup>102</sup> Free will is of very limited scope in life, he affirmed, in spite of the fact that it is “infinitely important.” Here is the basic dilemma of all attempts at explaining social causation:

There is equal insistence that causality is an *active* principle, and, on the other hand, upon concrete methods of problem-solving which are “scientific” in the sense of natural science as purely empirical, phenomenistic, and positivistic. The main criticism of the book [R. M. Macclver’s *Social Causation*] is that the author sees both horns of this intellectual dilemma but fails to recognize it and to see that it has no real solution.<sup>103</sup>

How do we link mind and external reality? Again, Knight admitted, there is no secular, rational solution.

With regard to the relation between deduction and observation, or intelligence and the senses, in our knowledge of nature, there is not much that should need to be said. Surely anyone who has made any progress at all in the study

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100. Knight, *History and Method*, p. 121. Cf. Paul Samuelson, “Economic Theory and Mathematics—An Appraisal,” *American Economic Review, Papers & Proceedings*, XLII (May 1952): “There are no separate methodological problems that face the social scientist different in kind from those that face any other scientist” (p. 61). This is the modern, post-Heisenberg viewpoint; Mises and Knight are clinging to Newtonian concepts of natural science.

101. Knight, p. 131.

102. *Ibid.*, pp. 140–41.

103. *Ibid.*, p. 137.



of philosophy, or even in private reflection about its problems, can be assumed to know that any simple antithesis between observation and inference is utterly untenable, if not downright foolish. The question as to the primary or immediate data of consciousness is perhaps the main perennial, unsolved and probably unsolvable problem of the theory of knowledge as a whole.<sup>104</sup>

Thus, since it cannot be solved, it is “downright foolish” to bring it up any longer, at least if the proposed antithesis is “simple.” We must live with our inescapable intellectual contradictions.

Then how do we know the “facts” of economic scarcity or the idea of a “best” apportionment of scarce resources? We know “by living in the world ‘with’ other intelligent beings; we neither know them *a priori* nor by one-sided deduction from data and sense observation.”<sup>105</sup> We know by “living.” What kind of knowledge is economic knowledge? “Methodologically considered, economics is a highly abstract ‘concrete deductive’ science, similar to geometry or to mathematical mechanics; but in addition its data are intuitive in a far higher or purer sense than is true of mathematics itself.”<sup>106</sup> We are back, once again, to *intuition*. Economists always get back to intuition.

Then how relevant are Friedman’s categories of prediction? Not very, answered Knight. “A more fundamental weakness of inductive prediction in economics is that empirical (i.e., statistical) data never present anything like an exhaustive analysis of phenomenal sequences down to really elementary components, and the correlation of and extrapolation from composite magnitudes or series never can be very reliable.”<sup>107</sup>

Theory or fact: where do we start? How do we string together the infinite number of hole-less beads with our infinitely long string of theory? Schumpeter simply concluded that we have to push very, very hard on the string: “It stands to reason that these two activities are not independent of one another but there must be an incessant give and take between them.”<sup>108</sup> In short, “there is not and there cannot be any fundamental op-

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104. *Ibid.*, p. 159.

105. *Ibid.*, p. 164.

106. *Ibid.*, p. 168.

107. *Ibid.*, p. 176n.

108. Schumpeter, *History of Economic Analysis*, p. 45.

position between 'theory' and 'fact finding,' let alone between deduction and induction."<sup>109</sup> Then why the endless battles between inductivists and deductivists? And how can you solve the problem of fitting facts with the proper theories if you deny that the problem even exists?

Alfred Marshall, the influential nineteenth-century Cambridge economist, wrote that an economist "needs the three great intellectual faculties, perception, imagination and reason: and most of all he needs imagination."<sup>110</sup> He is echoed by Kenneth Boulding: "Decision making by instinct, gossip, visceral feeling, and political savvy may stand pretty low on the scale of total rationality, but it may have the virtue of being able to take in very large systems in a crude and vague way, whereas the rationalized processes can only take subsystems in their more exact fashion, and being rational about subsystems may be worse than being not very rational about the system as a whole."<sup>111</sup> Finally, we have the testimony of Michael Arbib.

Any science that supposedly captures reality in two or three equations is inadequate to describe the systems formed by both brain and society—systems with billions of variables. Thus it would seem that, given the incomplete state of our formal theories, we must complement them with our everyday knowledge as members of society. **In** short, our rational analysis of society must strike a balance between precise description of certain subsystems and, quite frankly, intuition and feeling about other problems.<sup>112</sup>

Modern man has no epistemology. He wants to stand on balanced ground, but where is balance to be found? What are the criteria of true balance? How does one apply these criteria to the data of the external world? How does one go about proving the existence of such criteria of balance?

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109. *Idem.*

110. Alfred Marshall, quoted by Vincent W. Bladen, "John Stuart Mill's *Principles*: A Centenary Estimate," *American Economic Review, Papers & Proceedings*, XXXIX (May 1949), pp. 4–5

111. Kenneth Boulding, "The Economics of Knowledge and the Knowledge of Economics," *ibid.*, *Papers & Proceedings*, LVI (May 1966), p. 11.

112. Michael Arbib, "Complex Systems: The Case for a Marriage of Science and Intuition," *The American Scholar*, XLII (Winter 1972–73), p. 53. Arbib was a professor of computer science at the Massachusetts Institute of Technology.

The whole epistemology of modern man collapses into intuition, feeling, and endless measurement of increasingly useless minute data.

Knight argued that one thing that scientists need is *a sense of corporate honor*. “Without a sense of honor (as well as special competence) among scientists—if, say, they were all charlatans—there could be no science.”<sup>113</sup> To support the superstructure of rational science we have to have honesty—indeed, honor, an essentially feudal, military concept. Science rests on ethics. Can ethics be neutral? If not, value-free science rests on value-laden assumptions about man, honesty, and fairness. Economic science is not and cannot be autonomous. It therefore cannot be rational. It is intuitional and ethics-oriented. Its secular neutrality is a sham.

Epistemologically, there is simply no legitimate way open for post-Kantian economists to defend their affirmation of neutrality. Neutrality implies a fixed, straightforward, universally recognized link between the external world and the logic of the human mind. But it is this link that is both affirmed and denied by modern philosophers of the social sciences. By appealing to intuition again and again in order to fill the gap between mind and matter, the modern social scientist must abandon his confidence in neutrality. The noumenal realm of will, feeling, intuition, or experience is nonrational, by definition. Kantians can say nothing about its operations.

What goes on in the noumenal realm is closed to pure reason, that is, the logical and mathematical reasoning of phenomenal science. All is mystery in Kant’s noumenal realm, as Richard Kroner has shown so well in his book, *Kant’s Weltanschauung* (1914). Logical neutrality implies a fixity of reference, and the noumenal realm is a zone of pure contingency—total chaos, as far as logic can determine. It is the realm of Kant’s God, Kant’s ethics, and Kant’s “things in themselves.” Once washed in the chaos of intuition, neutrality emerges as a myth. The determinacy of logic erodes in the acid sea of chance.

There is absolutely no likelihood that the *a priori* approach of Prof. Mises and the *a posteriori* approach of Prof. Friedman will ever be reconciled, in spite of the fact that each approach ultimately appeals to the irrational and the intuitive in the crucial task of uniting the laws of thought and the world beyond. From Parmenides and Heraclitus to Mises and Friedman, the basic opposition has in no meaningful way been bridged, despite the stupendous effort of intellectuals to overcome it. Nevertheless, on the most

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113. Knight, p. 157.

fundamental of all issues, Parmenides and Heraclitus could join hands, just as Mises and Friedman did: the issue of human autonomy. Van Til put it quite well:

It is not the differences between them but that fact that all of them, whatever their differences, have in common the assumption of human autonomy that is basic to an understanding even of their internal differences. I do not speak of the *autonomy of theoretical thought* but of the *pretended* autonomy of apostate *man*. It is this and, as it appears to me, basically *only* this which all schools of apostate thought have in common. Assuming this autonomy apostate man gives a rebellious covenant-breaking response to the revelational challenge that he meets at every turn. The face of the triune God of Scripture confronts him everywhere and all the time. He spends the entire energy of his whole personality in order to escape seeing this face of God.<sup>114</sup>

## Conclusion

The Bible tells us what mankind is apart from grace: blind, rebellious in need of salvation, perverse. Every man requires limits on his thought processes—*balance*, to use Arbib's concept—and this means authoritative revelation. He is unable to find such a balance on his own. He needs biblical law to help him construct social and economic institutions, each with its proper legitimate sphere of authority. Men are not autonomous, and by claiming full autonomy, they hurl themselves into the intellectual void of intuition. The faith of the secular economist in the full autonomy of the discipline is a shaky faith indeed.

This should not give comfort to the pietist or the Barthian who is antinomian to the core anyway. There are far too many of both groups who are unwilling to discover the common grace (or restraining grace)<sup>115</sup> of secular

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114. Cornelius Van Til, "Response" to Herman Dooyeweerd, in E. R. Geehan (ed.), *Jerusalem and Athens* (Nutley, New Jersey: Presbyterian & Reformed, 1971), pp. 96–97.

115. Gary North, *Dominion and Common Grace* (Tyler, Texas: Institute for Christian Economics, 1987). (<http://bit.ly/gndcgr>)

economists like Mises, Friedman, or Knight. Brushing off their scholarship with a brief comment like the following gets us nowhere: “They’re just secularists, so they have nothing to teach us, so we can adopt guild socialism that is neither intelligent nor revealed in the Bible, but we like it because it sounds radically Christian!”

There is no social hope in an antinomian retreat into the vague socialism of the German Historical School or other anti-theoretical economics systems. Where Mises and Friedman say things that are in conformity to the Bible, we should take their careful expositions seriously. We have the responsibility of recognizing what is and what is not in conformity to the Bible’s concrete revelation whenever we read the works of secular economists. Abandoning reason in the name of vague “Christian feelings of charity” is no substitute for prayerful scholarship into the implications of our acts. Christian reconstruction will not be the result of pietistic singing about the joy, joy, joy, joy down in the heart, nor will it be the result of endless affirmations of empty Dooyeweerdian spheres. It will be the result of the concrete application of biblical law in the external spheres of life and the application of sovereign grace in the hearts of men. Antinomianism, whatever its form, leads to cultural impotence. Because the secular economist has no epistemological cloak does not, in and of itself, clothe the Christian in robes of purple. The Christian has to make his own clothing.

In order to make myself perfectly clear, as President Nixon used to say, let me spell out precisely what I mean. The slogan of too many Christians has been “no creed but the Bible, no law but love.” Another is the familiar “we’re under grace, not law.” This is pure antinomianism. It makes Christianity utterly impotent to challenge the scholarship of the secularists. It makes it impossible to construct intellectual or institutional alternatives to the various secular systems. We are not under the curse of law, but we are under its limitations for our external conduct, including social conduct. The *progressive sanctification* of the Christian—fighting the good fight, pressing on to the mark for the prize of God’s high calling (Phil. 3:14)—is in terms of law. If a Christian is an economist, then his own progressive sanctification must be in terms of the Bible’s revelation concerning both the theory and facts of economic thought. The “mind-matter” link is there, because he is made in the image of God, and God comprehends His own creation. The rebellion of Adam made God’s verbal revelation necessary in order to restrain man’s apostate thought, including economic thought. Without the

Bible and its concrete economic instruction, the “mind-matter” link will inevitably be warped; the theories of economics, as well as the facts selected in terms of these theories, will be in error, sooner or later.

[This is a slightly revised version of my 1976 essay with the same name, which was published in Gary North (ed.), *Foundations of Christian Scholarship: Essays in the Van Til Perspective* (Vallecito, California: Ross House).]