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COMPOUND ECONOMIC GROWTH

by Gary North

Economic development is one of the most popular topics among economists today. Since the end of World War II, economists have become convinced that linear economic growth is both possible and desirable. They have almost universally concluded that one of the primary functions of the State is to promote economic development, not only in the United States, but all over the world. They have argued that the "positive" State, meaning a civil government which actively intervenes in the marketplace in order to further economic growth, is basic to a program of liberal politics. The civil government supposedly does not go far enough when it establishes legal conditions for private individuals to foster economic expansion through voluntary exchange and privately owned capital investments. The State is not supposed to be passive, because private individuals are supposedly incapable of guaranteeing compound economic growth.

Prior to the Second World War, economists worried continually about the advent of the static economy. They were convinced that an era of stagnation had arrived. A decade earlier, they were speculating, as now, about long-term prosperity and how to maintain it. Topics of interest within the economics profession are quite faddish. Economists are not very good academic entrepreneurs; they never seem to know which topic will be the "hot" one five years down the road.

The concept of linear development is uniquely Western. It is a product of Hebrew-Christian philosophy. Time is understood as a process with a beginning and an end. Events in time are unique; they cannot be precisely repeated. Time is therefore irreversible. Christianity, with its doctrine of the final judgment, also holds that human actions on earth and in time have eternal consequences. History is not cyclical. There is no reincarnation. "And as it is appointed unto men once to die, but after this the judgment: So Christ was once offered to bear the sins of many; and unto them that look for him shall he appear the second time without sin unto salvation" (Hebrews 9:27-28).

Linear time, however, does not necessarily imply compound economic growth. St. Augustine believed in linear time. It was he who was most influential in restructuring

medieval Christian philosophy's concept of the importance of time. But he argued that earthly kingdoms rise and fall, come and go. It is only God's kingdom, and His earthly institutional church, that develop. Development is therefore spiritual, not external. Rome, with all its wealth, might fall, but this does not mean that Christians caused the fall of Rome, he argued. All earthly cities rise and fall.

The idea of earthly linear growth came with the Puritans and Continental Calvinists. They held to a vision of the future which included external cultural and economic progress. They argued that spiritual progress would be rewarded by God with external social progress, on and on, until Christ finally returns in glory. The preaching of the gospel will be successful eventually in turning the hearts of millions, and this, in turn, will create the conditions necessary for extended economic development and the spread of wealth. They saw in Deuteronomy 8 the model of compound external development, something the modern economist might call "positive feedback" between spiritual maturity and economic blessings.

Deuteronomy 8:18 reads: "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." That is inescapably clear language. God gives His people the power to get wealth "that he may establish his covenant." The visible manifestation of men's wealth-producing abilities is a testimony to the validity of God's covenant. Wealth in a community that is faithful to God's law is a sign of the reliability of God's promises. There is a positive relationship between wealth and faith. Of course, Deuteronomy 8 and 28 warn men not to regard blessings from God as products of their autonomous power (Deut. 8:10-17). If they do this, the blessings will become snares leading to destruction (Deut. 8:19-20). But there is no mincing of words here: long-term economic growth is basic to the holy commonwealth. This includes population growth (Exodus 23:25-26; Genesis 16:10).

A Finite World

This is a world of limited resources. The ground has been cursed (Gen. 3:17-19). Therefore, we must conclude that

nothing can multiply forever. The process of compound growth cannot continue indefinitely. Any multiplying species eventually runs up against environmental limits, beyond which multiplication slows and eventually stops or reverses.

Let me offer an example. Assume that Judas had invested his 30 pieces of silver at 3% interest, compounded annually. Assume also that the coins were the size of a dime. He invested, therefore, \$3 (pre-1965 purchasing power, of course). If he did so in A.D. 30, at the beginning of the calendar year, and kept the money invested until the end of 1979 (1949 full years), his heirs could now withdraw a grand total of \$31,400,000,000,000,000,000,000, or 31 septillion, 400 sextillion dollars. That ain't hay. If we assume that there are 4 billion people on earth today, then Judas' investment would leave every person on earth with an inheritance (before taxes, of course) of \$7,850,000,000,000,000, or 7 quadrillion, 850 trillion dollars. Quite frankly, I could retire on that without any difficulty, as long as I didn't live extravagantly.

Doesn't this invalidate the concept of compound growth? Yes, but only if you assume that time is infinite. The modern evolutionist assumes that the earth has several billion years ahead of it, and he hopes that by the time the sun burns itself out that man will have discovered a way to get to another star system. So the consistent secularist knows that compound growth, on earth, must eventually end. Growth cannot go on forever, for even interstellar matter is finite. Some economists have begun to argue for zero economic growth, which probably would require State action to retard private economic development. The British economist, E. J. Mishan, is the leading spokesman for this position, one which has gathered momentum since the mid-1960's. It is still a minority position within the academic guild, and few politicians are willing to commit themselves to it. But it is a consistent position. It recognizes the reality that someday, the growth must stop. Why not now, Mishan asks, before pollution ruins the environment?

What is the biblical answer? Simple: **time is finite**. We do not have forever. The curse-restrained growth process will cease at the day of judgment. In fact, compound, linear economic growth points to an end, either of growth or of time. The modern humanist is committed to an evolutionary perspective. He sees time as virtually unbounded. Yes, time may be "curved," the same way that space is supposedly "curved," but in the day-to-day world, time is essentially unbounded. So growth cannot be linear. Given the example of Judas' silver, it is obvious that compound economic growth cannot possibly continue even during the tiny fraction of time men call a million years. In only a thousand years, Judas' silver at 3% would have become 2 quadrillion dollars — an unlikely sum, especially if everybody else's \$3 were also being invested at 3%.

It is inconceivable that even a wholly regenerate and law-abiding world could attain rates of compound growth above 1% per annum for a thousand years. Above zero, yes, but

not above 1%. For example, consider the expansion of population. Today there are an estimated four billion people on earth. At 1% per annum, the earth's human population would be 83.8 trillion people a thousand years from now. The compounding effect is staggering in its multiplication powers. Growth can achieve high rates for a time — and 5% per annum, which modern economists expect from a 20th-century economy, is astronomically high and absolutely unsustainable for more than historically brief periods — but then stagnation sets in, and more likely economic or population decline. The society-shaking rates of change that we have experienced over the past century are temporary. The numbers tell us that much. Either growth will slow down, or judgment day will come, before the next thousand years are over. Take your pick.

Buddhist Economics

The increasing appeal of the "Z" movements — zero economic growth, zero population growth, zero pollution — is based upon a misunderstanding of the Bible or else a rejection of it. The Buddhist economics of popular authors like E. F. Schumacher is offered in terms of a philosophy of time that is essentially Eastern. It is a cyclical view of life, a denial of linear growth. It is the idea that earthly affairs will never be judged at a final moment in history (or immediately beyond history). It is the idea that there is no covenant between God and men. It is the idea that there is no positive feedback relationship between the conformity by a society to God's laws and the external growth of that society.

Biblical economics is growth economics. It is an economic outlook which maintains that men are individually responsible before God and other men for their actions. This being the case, it is imperative that the State establish biblical norms of right and wrong, and then enforce the law code in a predictable manner. The State is to provide a systematic, predictable, universal law-code which is administered without respect to persons. It is not to assume any responsibilities for individuals that are not explicitly set forth in Scripture — and very few positive State actions are established in Scripture. The State is an enforcer of righteousness, not an agency of wealth redistribution. The State is not the directing agency for projects of economic growth, economic retardation, or economic stagnation.

The vision of the Bible is that of **conquest**. The whole earth is to be subdued to the glory of God (Gen. 1:28; 9:1-7). Expansion is basic to biblical economics. The philosophy of economic stagnation is as foreign to the Bible as the concept of historical cycles. Long-term economic growth points to a final consummation of growth, a day in which the earth has been subdued and man's cursed-earth tasks are over. Linear history points to final judgment. Economic growth therefore points to final judgment. But it is the activity of responsible men, not the compulsory State, which is to produce this judgment-pointing economic expansion.

GUILT, RESPONSIBILITY AND WESTERN PROSPERITY

by Charles Dykes

One of the great differences between paganism and early Christianity was in their varying concepts of responsibility. Responsibility has generally been defined as "the human sense of answerableness for all acts of thought and conduct." The pagan however, located responsibility primarily in his environment — e.g., fate, the stars, the gods, and the like, whereas Christian faith insisted on individual moral responsibility. Orthodox Christianity was not then nor is it now "concerned with the pointless questions about heredity, environment, the stars, or any other like search for a cause." Rather the Christians perceived that "the pagan search for causes is a denial of the person and also of responsibility."

Ours is a time when the pagan and Christian concepts of responsibility are often curiously mixed in the same minds, resulting in a strange new doctrine wherein some men are considered to be the helpless victims of environmental determinism, while others are declared to have a free will, albeit an evil one.

In his analysis of egalitarianism, P. T. Bauer provides an example of this kind of thinking: "The poor are often envisaged as a distinct class at the mercy of the environment, with no will of their own, while at the same time they are denied the primary human characteristic of responsibility. The rich are regarded as having a will of their own, but as being villainous. Poverty is seen as a *condition* caused by external forces, while prosperity, is viewed as the result of *conduct*, although reprehensible conduct. The poor are considered passive but virtuous, the rich as active but wicked."

Thus in contemporary egalitarian demonology, the "rich" and their machinations have become the "stars," "fate," or other "causes" which afflict the "poor."

Search for Scapegoats

This abiding human passion to transfer responsibility for one's own sin and failure to someone or something else can be illustrated by innumerable examples. Some years ago, G. K. Chesterton wrote of his encounter with anti-Christian books in days prior to his conversion. He noted that Christianity "was attacked on all sides and for all contradictory reasons. . . ." He continues, "I was much moved by the eloquent attack on Christianity as a thing of inhuman gloom. . . . They did prove to me in Chapter I. (to my complete satisfaction) that Christianity was too pessimistic; and then, in Chapter II., they began to prove to me that it was a great deal too optimistic."

He was impressed by the argument that Christianity was weak, timid and cowardly with regard to fighting, then turned the page and "found that I was to hate Christianity not for fighting too little, but for fighting too much. Christianity, it seemed, was the mother of wars" and "had deluged the world with blood. . . . The Quakers (we were told) were the only characteristic Christians; and yet the massacres of Cromwell and Alva were characteristic Christian crimes."

A few years later Ludwig von Mises was moved to say

that "Nothing is more unpopular today than the free market economy, i.e., capitalism. Everything that is considered unsatisfactory in present day conditions is charged to capitalism. The atheists make capitalism responsible for the survival of Christianity. But the papal encyclicals blame capitalism for the spread of irreligion and the sins of our contemporaries, and the Protestant churches and sects are no less vigorous in their indictment of capitalist greed. Friends of peace consider our wars as an offshoot of capitalist imperialism. But the adamant nationalist warmongers of Germany and Italy indicted capitalism for its 'bourgeois' pacifism. . . . Sermonizers accuse capitalism of disrupting the family and fostering licentiousness. But the 'progressives' blame capitalism for the preservation of allegedly outdated rules of sexual restraint."

Thus Christianity and capitalism have often been the "scapegoats" on which the sins and shortcomings of many have been laid. More recently, the wealth of Western nations — a product of Christian capitalism — has been attributed to "neocolonialism," the indictment put forward by socialists of all stripes that the nations of the Western world (the "haves") derive a large and essential part of their affluence from exploitative investments in the underdeveloped nations (the "have-nots").

President Julius Nyerere of Tanzania put it this way: "I am saying it is not right that the vast majority of the world's people should be forced into the position of beggars. . . . In one world, as in one state, when I am rich because you are poor, and I am poor because you are rich, the transfer of wealth from the rich to the poor is a matter of right; it is not an appropriate matter for charity. . . ." Here we have not only the accusation that the rich nations are responsible for the poverty of the poor nations, but also the claim that the rich have a moral responsibility to redistribute their ill-gotten gain to the masses of undifferentiated poor.

Accusations of the West

Like the critics of Christianity and capitalism, the Third-World apologists really get carried away. According to Dr. Lewis H. Gann, "the hated American plotters, like the Elders of Zion in the Nazi polemics of old, can do no right. If they invest overseas, they exploit foreigners. If they do not invest abroad, they are guilty of boycotting other countries. . . . If capitalists earn profits, they impoverish the masses. If they do not earn profits, they prove that capitalism must be decadent. If American entrepreneurs try to preserve indigenous customs in the Third World, they promote 'dysfunctional' forms of tribalism. If they disrupt indigenous customs, they are guilty of cultural genocide. The list can be extended indefinitely." Dr. Gann concludes: "The real or assumed machinations of foreign capitalists supply a universal excuse for the political and economic failures of the Third World."

Accusations that the West in general, and capitalism in particular, has caused the poverty, hunger and backward-

ness of the Third World, are totally without foundation. There are able studies which set forth the truth, but the urge to masochism remains strong, especially among Western intellectuals and churchmen.

P. T. Bauer and B. S. Yamey cite a leaflet put out by a student organization in Cambridge, England: "Almost all of us in this country belong to the small minority of those who made it to prosperity. But we climbed on the shoulders of the rest — the ones we left behind — abandoned to disease, poverty, and unemployment. We took the rubber from Malaya, the tea from India, raw materials from all over the world, and gave almost nothing in return." The truth, according to Bauer and Yamey, is that "Western governments and enterprise brought rubber to Malaya and tea to India which were not indigenous to these countries."

Why the Difference?

Given the obvious economic supremacy of the West vis-a-vis the rest of the world, and given the equally valid, if not so obvious, fact that this supremacy has not been achieved at the expense of the rest of the world, why is the West — and especially America — prosperous, while the remaining two-thirds of mankind are part of the world's hungry billions? We cannot give a detailed explanation here, but can indicate several conditions that were essential in preparing the way for the affluence we now enjoy.

First, one need not be a believer to notice that the poor nations are those where Christianity has had little influence or has not taken strong root. On the other hand, the rich nations, those where agricultural surpluses are a chronic problem, are those where the dominant formative values have been Christian — and in particular, Protestant Christian. Cattle and monkeys thrive in India because they are considered sacred; no Hindu would kill a cow because he is afraid of offending his god, nor are cattle and monkeys usually driven away from crops, even when they are consuming food desperately needed by the starving. Here we see false religion leading directly to bad farming.

Second, the Reformation gave to Europe a new understanding of using and enjoying the material world. The

older asceticism was essentially rejected and new work-ethic emerged which provided the dynamic for the economic explosion that was to follow over the next four centuries. Third, the Puritans assisted mightily in the development of modern science and encouraged men to master their material environment. (It is not well known, but of 68 men on the original list of the Royal Society for whom information on their religious orientation is available, 42 were Puritans.) They were instrumental in bringing the Scientific Revolution, which provided the theoretical and technical foundation for the Industrial Revolution. We should, moreover, not forget the influence of Puritanism on education. Universal education is an inheritance directly traceable back to the Reformers, and their heirs, the Puritans.

And finally, as Irving Kristol has reminded us, "the Founding Fathers *intended* this nation to be capitalist and regarded it as the *only* set of economic arrangements consistent with the liberal democracy they had established."

The above represents, of course, only some of the more important historical antecedents making for Western prosperity. In relating this back to present conditions in the Third World, are we not justified in believing that if they are ever to appreciably raise their material standard of living, they must first raise their spiritual, moral, and educational standards? Only by achieving a society committed to individual responsibility and moral accountability for both persons and institutions will they approach the material well-being of the West.

Is it any surprise that the developed nations not only have the most productive economies but that their citizens enjoy the greatest degree of freedom? As Friedrich von Hayek has stated: "What strikes one above all is the general achievement . . . of practically all developing countries which have embarked on the road of consistent market economy to pull themselves out of the mire of poverty. What also strikes one is the hopelessness of those who have tried the road of socialist methods."

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