

# BIBLICAL ECONOMICS TODAY

Vol. XI, No. 4

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June/July, 1988

## THERE'S NO (AUTONOMOUS) ACCOUNTING FOR TASTE

For which of you intending to build a tower, sitteth not down first, and **counteth** the cost, whether he have sufficient to build 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)?

The New Testament deals in much greater detail with the final judgment than the Old Testament does. Only one clear-cut reference to the resurrection of the dead appears in the Old Testament, Daniel 12: 1-4. This passage speaks of a book that is sealed for now but will be opened at the end (v. 4). The New Testament speaks of judgment in terms that can be compared with an account book. We are told that everything we think, say, or do will be reviewed at the final judgment (**Matt.** 12: 35-37). There is a relation between performance and reward. The parable of the talents speaks of this relationship in terms of earthly business contracts (**Matt.** 25: 15-30), but the parable points to final judgment. This same performance and reward relationship is spoken of by Paul (1 Cor. 3: 12-15).

By placing His discussion of earthly actions and God's judgment within the framework of business dealings, Jesus drove home His points in terms of concepts familiar to his listeners. His parables were often either pocketbook parables or agricultural parables. Jesus made His point through analogies that would be familiar to people.

This raises a significant issue: **judgments in history**. Why are men told to "count the cost" of their planned actions? Because of the threat of economic waste (especially time), and also because of the embarrassment suffered by those who fail publicly (Luke 14: 29). **The Christian walk is a public walk**. Skeptics are watching the performance of Christians. They will praise or mock Christians in terms of visible performance. Life in the spirit is therefore life lived in history. We are told in Deuteronomy 4 that the eyes of the world were on Israel. We are told in Matthew 5 that the eyes of the world are on the church, so we are not to hide our lights under a basket. There is a relation between the inner life and outward performance.

### Judgments and Accounting

The standard textbooks in European economic history say that the development of double entry bookkeeping was a turning point in the history of capitalism, and therefore in Western civilization. The technique of recording each financial transaction as both a debit and credit allows the accountant to maintain tight control over all records, and also enables the businessman to identify fiscal hemorrhaging in his business operations. Double entry bookkeeping is an aspect of man the judge of history.

Scholars debate endlessly about the dating of this remarkable invention. Standard accounts place it in the year

1340 in Genoa. Scraps of evidence – literally – have turned up indicating that it could have been half a century earlier.<sup>1</sup> The techniques were popularized in 1494 by Luca **Pacioli** of Venice, as a section of a book on mathematics. Double entry bookkeeping spread throughout Europe, changing every society it touched.

**Pacioli** also added words of wisdom concerning proper business attitudes and techniques.

Where there is no order there is confusion.

Every action is determined by the end in view.

Work should not seem to you strange, for Mars never granted a victory to those who spent their time resting.

A sage said to the lazy man to take the ant as an example.

If you are in business and do not know all about it, your money will go like flies, that is, you will lose it.

The authors regard this as evidence of a new spirit of capitalism and rational management in the West.<sup>2</sup> Ludwig von Mises is even more laudatory: "Our civilization is inseparably linked with our methods of economic calculation. It would perish if we were to abandon this most precious intellectual tool of acting. Goethe was right in calling bookkeeping by double entry 'one of the finest inventions of the human mind.'<sup>3</sup>

### The Dualism of Humanist Thought

Cornelius Van Til emphasized throughout his long career that modern thought is **plagued** by an **epistemological** dualism that can be traced back to **Immanuel Kant**. Kant divided human life into two radically separate realms, the phenomenal and the **noumenal**. The phenomenal realm is the realm of scientific calculation, of measurable cause and effect. Effects have specific causes. In this sense, effects are **determined** by their causes. It is this determinism of the phenomenal realm that is the basis of all scientific investigations (except in the subatomic world of quantum mechanics, where there are crucially important effects which have no known or knowable causes – in fact, which are believed by scientists to have no physical **causes**).<sup>5</sup>

1. Raymond de Roover, "The Development of Accounting prior to Luca Pacioli according to the Account Books of Medieval Merchants," in de Roover,

edited by Julius Kirshner (Chicago: University of Chicago Press, 1974)

2 Cited in Shepard Bancroft Clough and Charles Woolsey Cole, *Economic History* (3rd ed., Boston: D C Heath & Co., 1952), p 81

3 Ludwig von Mises, *Human Action* (New Haven: Yale University Press, 1949), p 231

4 "What can man know, and how can he know it?"

5 Nick Herbert, *Reality* (New York: Anchor Press/Doubleday, 1985)

(Garden City,

Problem: in a world of predictable and therefore inescapable physical cause and effect, human freedom disappears. So does the reality of ethical behavior, given the worldview of humanism, for such behavior is based on the independent (autonomous) existence of freely determined human choice. Responsible men are regarded as more than mere biological counting machines. Calculating machines are neither moral nor immoral. They do not choose; they simply respond to inputs according to their humanly designed programs. Kant attempted to salvage both freedom and ethics by positing the existence of an independent (autonomous) noumenal realm of the human personality, or human spirit, which he argued is also the realm of ethical choice. This realm is not under the strict physical determinism that governs the phenomenal realm. The noumenal realm is marked by human freedom and responsibility.<sup>6</sup>

The crucial intellectual problem for the humanist is this: neither Kant nor any philosopher, neither the psychologist nor the social theorist, has been able to describe or explain the link between these two realms. To the extent that the noumenal can be classified, defined, and described rationally in terms of phenomenal realm's logic, it loses its character as a realm of indeterminism. Yet it is this very indeterminism which Kant says must be present in order for it to be a realm of human choice, of human action as distinguished from determined human response. For all post-Kantian thought, man without the noumenal becomes an automaton.

Problem: without the ability to think coherently about cause and effect, including ethical cause and effect, man is left adrift in a sea of irrationalism. How can personal responsibility exist in a world of irrationalism? Madmen who break the law or ignore conventions are generally treated as outside the law, and are incarcerated. Thus, the total freedom of the noumenal leads directly to the literal straightjacket of phenomenal judgment and the loss of freedom. The key unanswered problem is this: **How is the life of man's spirit related to his visible walk?** Humanist thought has no solution.

This problem is not merely a speculative exercise of philosophers. It has inescapable consequences in every area of life, including the science of economics. A crisis in general epistemology produces crises in specific epistemologies. Ultimately, of course, it is a crisis in ethics, for ethics in the Kantian worldview is governed (yet somehow not determined) by the noumenal.

### The Epistemological Crisis of Modern Economics

Mises and all other economists point to rational accounting techniques as the central event in the development of modern capitalism. Without rational economic calculation, the modern division of labor would become impossible. Civilization would collapse. Mises made himself famous with his 1920 essay on the impossibility of rational economic calculation under socialist ownership. Without a competitive free market in goods, especially producer goods, socialist planners cannot make rational decisions about what to produce or what production actually costs.<sup>7</sup> Recent studies indicate that no one has yet refuted Mises on this point.<sup>8</sup>

Thus, Mises and all economists are aware of the crucial importance of scientific accounting as a means of planning, management, and evaluation of performance. But modern economists cannot escape the inherent dualism of all post-Kantian thought. They cannot solve this crucial problem: how to relate the inner life of man's self-awareness to the historical realm of cause and effect. The economists have no way to explain how a page full of numbers (phenomenal) is related economically and motivationally to people's internal decision-making processes (noumenal).

### Index Numbers (Continuity)

Take for example the problem of accounting under inflation. Considerable study has been devoted to this topic, especially by free market economists.<sup>9</sup> It is well understood that unexpected inflation leads to capital consumption because businessmen misinterpret their account books and conclude that capital consumption is in fact profit. Only when it comes time to replace worn-out equipment do they discover that they have made a mistake.

Pierre Goodrich, the multi-millionaire whose money was bequeathed to the Liberty Fund in Indianapolis, made a fortune for his Independent Telephone Company of Indiana by being on the right side of many long-term contracts prior to the inflation of the late 1960's and 1970's. He had been advised by accounting theorist and free market economist William Patton to set up two sets of books, one of which was tied to the government's GNP price deflator. Patton told him to make his decisions on the basis of this "shadow" set of book. % not the conventional accounts recommended by his CPA firm (and required by the Federal government). Goodrich for years actually published both sets of books in his company's annual report, the first U.S. corporation to do so. In the early 1970's, companies from across the U.S. ordered a copy of the report to see how it was done.

But there is a major theoretical problem with accounting which is more readily understood when we discuss inflation accounting: Who is to say what the "right" commodities are for inclusion into the government's price index? There is more than one available index: wholesale prices, consumer prices, GNP price deflator. The statisticians must assign weighted numerical values to each commodity and service in an attempt to reflect its overall importance to the economy. Question: **Whose** economy? Yours or mine? How can every participant in the economy agree on the proper weights assigned to the selected commodities and services? (Personal evaluations by economists of the economic importance of certain goods and services to "the economy at large" are called "weights," which gives you some idea of the problem: a physical term for a psychological phenomenon, meaning a phenomenal term for a noumenal "noumenon.") How can the statisticians be sure which commodities should be in the selected list? How important are they, relatively speaking, in the minds of most participants? How do we find out how important an economic good is in the minds of most economic actors?

In constructing their statistical index numbers, the statisticians have to "feel" their way along. They must intuit the proper weights. But when we use the words "feel" and "intuit," we have returned to Kant's noumenal realm, where numbers are meaningless, and reason is silent.

How does a decision-maker know for sure that what the account books seem to be telling him is exactly what he wants to know? He cannot be sure, and there is no economic theory that can tell him. If he is a consistent defender of subjective value theory, he must conclude that

6. Richard Kroner, *Weltanschauung* (Chicago: University of Chicago Press, [1914] 1956)

7. Mises, "Economic Calculation in the Socialist Commonwealth" (1920), reprinted in F. A. Hayek (ed.), *Collectivist Economic Planning* (London: Routledge & Kegan Paul, [1935] 1963), ch. 3

8. Don Lavoie, *National Economic Planning. Is Left?* (Cambridge, Massachusetts: Ballinger, 1985).

9. Cf. *Economic Calculation*

*Inflation* (Indianapolis, Indiana: Liberty Press, 1976).

all price indexes are corrupt and theoretically unjustifiable. He must conclude that any change in the purchasing power of the monetary unit cannot in fact be measured in a meaningful subjective manner, for to discuss "purchasing power" you must discuss index numbers of compiled prices, and all index numbers, being aggregates of individual preferences ("weighted averages") are theoretically invalid. Why? Because ever since the classic book by Lionel Robbins,

economists have known that it is illegitimate to make interpersonal comparisons of subjective utilities. This rules out all index numbers. It also rules out all applied economics, and all economic advice to decision-makers. If taken seriously, this crucial application of subjectivism destroys economics.

Yet these same defenders of subjective economics want to be able to discuss certain relationships. For example, a defender of the "Austrian" monetary theory argues that rising prices are not inflation, but in fact are a result of inflation. Inflation is an increase in the money supply. But what does he mean, "rising prices"? Which prices? Gerald P. O'Driscoll, who is presently employed by the Federal Reserve Bank of Dallas, and Sudha R. Shenoy, both of whom are ardent defenders of subjectivist economics, felt compelled to discuss such statistical relationships. They wrote in 1976: "However, after 1945, the problem turned around completely and became that of gently (and later, more rapidly) rising prices. In eleven major developed countries, prices declined hardly at all, and when they did, it was only for a couple of years during the early fifties."<sup>10</sup> How do they know what prices did? Because they have the statistical evidence. And how did such statistical data come into their possession? Because other economists constructed national index numbers of prices in terms of various implicitly objectivist theories of economics. Kant's dualism remains.

### Changing Tastes (Discontinuity)

We also have another problem: **consumer tastes that change over time**. What an economic actor thought was a great idea when he began planning may have changed. He may be like the man who stripped naked and leaped onto a cactus plant. When asked later on why he did it, he replied: "It seemed like a good idea at the time." The economic actor originally wanted to achieve one set of goals, but now he has changed his mind. His tastes have changed, and there is no accounting for changing tastes. I mean literally **no accounting**. In fact, most modern economists, but especially [University of] "Chicago School" economists, deny the relevance of changing tastes precisely because changing tastes cannot be accounted for in their models of economic behavior. Occasionally, some intellectually honest economist will even admit that this is the intellectual game they all play. "Tastes are assumed to be constant because we have absolutely no theory of changes in tastes."

Thus, the "positive figures" in my account books may no longer tell me whether I have been successful or my firm has been successful. It is impossible scientifically to make the connection between the **objective numbers** – entered way back then, when my plans were different, my tastes were different, and the purchasing power of money was different – and **my present subjective circumstances**. I may "feel" that everything is all right, but

how do I know? And how does an outside observer know? Millions of people thought their account books were telling them one thing in mid-1929 who changed their opinions drastically in early 1930.

### The Destruction of Economic Science

Two economists who have dealt with this problem in considerable detail are G. L. S. Shackle and Ludwig Lachmann. The problem is, when Shackle is finished with his revision of modern economic theory in terms of the logic of pure subjectivism, it is difficult to see what remains of economic science. Lachmann summarizes Shackle's position, and then attempts to put the broken pieces together.

Shackle comes to this extraordinary conclusion: **each subjective moment is self-contained and autonomous**. He calls this the "moment-in-being." The entrepreneur looks forward when he makes his plans, and he looks backward when he evaluates the success or failure of his plans, but neither of these actions is scientifically relevant to the "moments-in-being." These moments-in-being cannot be compared. "Expectations and memory do not provide a means of comparing the actuality of the moment-in-being at one of its stations with that of another, they do not enable the two moments, distinct in location on the calendar-axis, to be in being together, for the nature of 'the present,' the essence of the moment-in-being, is an impregnable self-contained isolation."<sup>12</sup>

Lachmann goes on to raise the key question: Can economics survive Shackle's radical discontinuity?

In other words, in describing the phenomena of human action [no, Shackle was actually describing the **noumena** of human action – G.N.], time cannot be used as a co-ordinate because we lack an identifiable object which "passes through time." Man with his "feelings," preferences, and the content of his consciousness changes in unpredictable fashion. Our author holds that this implies the impossibility of any intertemporal or interpersonal dynamics. His dynamics "seeks to show the internal structure of a single moment," it is "private and subjective." It is valid for an individual at a point in time.

Lachmann then asks: "IS he right in thus confining the scope of dynamic theory?" On the next page, he attempts to salvage economics from what little remains of it in Shackle's system of radical temporal discontinuity. He does see where all this is leading:

But if we were to take Professor Shackle's thesis literally, there could be no tasting of the success of plans, no plan revision, no comparison between ex and ex. In fact planned action would make no sense whatever. Nor could there be a market in which the "private and subjective dynamics" of the individuals trading become socially objectified in the form of market prices and quantities of goods exchanged. Common experience tells us that these phenomena do exist. What, then, has gone wrong with our author's thesis?<sup>13</sup>

Better put, **what has gone wrong with humanist epistemology?** Shackle is being faithful to the dualism of all post-Kantian thought. He is admitting that the **noumena** of "private and subjective dynamics" of acting individuals cannot logically or theoretically become "socially objectified," as Lachmann puts it, that is, they cannot become **phenomena**. Shackle is honest: modern epistemology cannot relate the discontinuous noumena of each subjective

<sup>10</sup> Gerald P. O'Driscoll, Jr. and Sudha R. Shenoy, "Inflation, Recession, and Stagflation," in Edwin G. Dolan (ed.), *The* (Kansas City, Kansas: Sheed & Ward, 1976), p. 186

<sup>11</sup> Paul H. Rubin, "The Economics of Crime," in Ralph Andreano and John J. Siegfried (eds.), *The Economics* (New York: Wiley, 1980), p. 15

<sup>12</sup> Shackle, *Time in Economics* (Amsterdam: North Holland Pub. Co., 1958), p. 16; cited by Lachmann, *Capital, Expectations, the Market* (Kansas City, Kansas: Sheed Andrews and McMeel, 1977), p. 83.

<sup>13</sup> Lachmann, *ibid.*, p. 84.

decision to a continuous phenomenal (cause and effect) system of expectation and memory.

Lachmann tells us that “common experience” tells us that Shackle is incorrect. Indeed it does, but what is “common experience,” and how does it relate to scientific economic theory? Lachmann then seeks to find continuity in the system in the human mind. He says that Shackle “comes perilously close” to denying “the continuity of mind.” But, I hasten to add, so did Kant, who had to assert the existence of universal categories of human thought in order to present coherence for mankind. To escape from Shackle’s discontinuity, Lachmann asserts (but does not prove) that man’s unchanging mind (continuity) transcends man’s changing preferences (discontinuity). “The creative acts of the mind need not be reflected in changing preferences, but they cannot but be reflected in acts grasping experience and constituting objects of knowledge and plans of action. All such acts bear the stamp of individuality of the actor.” Got that? Neither do I. But then he draws from this the conclusion that he requires in order to save economics from radical discontinuity: “Intertemporal comparisons are thus possible except in cases where fundamental changes take place in an individual’s system of preferences.” This is like saying that intertemporal comparisons are possible except when they aren’t. Who knows for sure whether his own tastes, concepts, or ideas have changed “fundamentally”? Maybe they have changed near-fundamentally. Or maybe he has forgotten what he really believed before. The point is, there is no resting place (continuity) for the autonomous mind if it is to retain its freedom to change (discontinuity) without being determined by outside forces. If human freedom is based on indeterminism – and in all post-Kantian thought, it is – then freedom destroys continuity, for continuity is seen as an element of determinism. When one changes his mind, does he also forget? And if he forgets, how does he evaluate the success or failure of the objective results of his actions, i.e., his ledger book?

“I’m a new man!” says the entrepreneur. Replies his accountant: “Then are the ledgers still any good to you?”

The Kantian realms of the phenomenal (account books) and the noumenal (their meaning to me) are forever separated, yet they must be together if men are to make rational economic calculations.

### A Christian Answer

We need to defend discontinuity and continuity, subjectivism and objectivism. We need to do this, not out of intellectual necessity, but in order to affirm the moral and judicial responsibility of every man and every collective group before God. As a by-product of a biblical defense of each man’s responsibility, we provide the basis of a reconstruction in economic theory. Instead of implicitly sneaking a form of both objectivism and continuity into economic theory through the back door of statistics and index numbers, we must lay as the very foundation of economic science both biblical objectivism and biblical subjectivism. Economics must be constructed in terms of biblical epistemology. To develop a consistent economic science, we must avoid the dualisms of both pre-modern and modern epistemology.<sup>14</sup>

We must begin with a **covenantal** view of God and man. The covenant has five parts: the sovereignty of God, the hierarchy of God’s authority, the permanence of God’s ethical standards, the reality of judgment (temporally and eternally), and continuity through time of this covenant.

First, we know that God is all-knowing. He can make interpersonal comparisons of all our individual subjective utilities, for we are made in His image. Second, we know that we are responsible to God through time. He exercises authority over us. Third, His law is our permanent standard of ethical performance. Fourth, we know that He is the subjective evaluator of all the minds and spirits of every creature in history. We know that he properly “weighs” the importance of every act, service, and commodity. He has objective knowledge of all subjective realities. Fifth, we know that He has a perfect plan for the ages that will be perfectly fulfilled.

Applying all this to economic theory, we conclude that Shackle’s “moments-in-being” are linked through time in terms of God’s being, authority, law, judgment, and plan. Man is made in God’s image, and so he can make sense of his world. He is personally, **covenantally** responsible before God, who judges our lifetime performance objectively, moment by moment. There is continuity over time and across interpersonal barriers because man is made in God’s image, and God is objectively real.

The God of the Bible is the basis of a theoretical resolution of the subjective-objective dualism of all humanist thought. He is therefore the fundamental presupposition of all valid economics. Without God’s comprehensive planning and God’s comprehensive judgments (evaluations) through history and in eternity, there is no way theoretically for the economist to “bridge the gap” between subjective value theory and the objective reality of the objective numbers in the capitalist’s account books. God is the subjective Author of objective accounting, including index numbers, and man, who is made in God’s image, can use accounting techniques to the glory of God and the benefit of society.

### Conclusion

The owner-entrepreneur is an economic representative of the consumer. It is his task to make clear to his accountant what information he requires in order to evaluate the data accurately. He must **evaluate subjectively** in terms of what the data **represent objectively** in the competitive economy and also **represent subjectively** – for example, in the minds of corporate shareholders. He had better be clear in his own mind, through prayerful good judging, that, to cite Luca Pacioli, “every action is determined by the end in view.” If the businessman who hires the accountant does not clearly know what his end is, both personally and as a representative of consumers, he will surely misinterpret the available means of evaluation: all those nicely arranged numbers. It is his goal and his taste that must govern, for he is the legally and economically responsible agent. The accountant had better work long and hard to make certain that the numbers requested are the numbers that lead to the entrepreneur’s subjective goal.

<sup>14</sup> Cornelius Van Til, Christian of (Nutley, New Jersey) Presbyterian & Reformed, 1969)