

BIBLICAL ECONOMICS TODAY

Vol. XI, No. 6,

©Gary North, 1989

Ott./Nov. 1989

WHAT DO I GET IF I OBEY (DISOBEY)?

Gary North

LORD
sware unto thy fathers to give *cattle,* *LORD*
(Deut. 28:11).
saith LORD of

(Haggai 1:5-6).

The fourth point of the biblical covenant model is sanctions: blessing and cursing. The Suzerain of the biblical covenant imposes His will on His vassals in two ways: by declaring the stipulations of His covenant and by imposing sanctions in terms of the vassals' objective performance. This covenant is both individual and corporate. To make certain that each vassal understands the importance of any given law, the Suzerain specifies an appropriate sanction.

This same principle of imposing sanctions governs all economic systems. We can distinguish various economic systems in terms of how they apply the organizational principles of the biblical covenant model. There is no escape from this model. The question is: How is it imposed? The question is: Who enforces it, consumers or bureaucrats?

Middlemen

The employer's role is analogous to a civil magistrate's role. Both are under authorities and over subordinates. The magistrate is under the rule of voters; he operates legally in their name. The employer, if he is a hired manager, is under the legal authority of shareholders, who in turn are under the economic authority of consumers. If he is the firm's owner, he is still under the rule of consumers; he operates in terms of their demonstrated preferences. Both the magistrate and the employer possess lawful authority, and both are under lawful authority. The authority structure is hierarchical (point two of the biblical covenant model).

The employer is a purchaser of labor services; the employee is primarily a purchaser of money. The employee is also a purchaser of experience, i.e., specialized information. He is the purchaser of an opportunity to learn and increase his productivity, which in turn benefits the employer, who will then be pressured by market forces to pay the employee more.

The employer buys labor services in his capacity as the economic agent of those future consumers who are expected by the employer to be willing and able to buy the output of labor and raw materials over time. The consumer is the therefore ultimate employer of labor services, with the entrepreneur serving as his economic agent. Free market capitalism is a system of consumers' sovereignty – not legal sovereignty, but economic sovereignty.

Biblically speaking, God is the ultimate employer of labor services, with consumers serving as His economic agents. The consumer acts on his own behalf, but he also acts on God's behalf. He is a steward. He owns nothing of his own autonomously. "The earth is the LORDS, and the fulness thereof; the world, and they that dwell therein" (Ps. 24:1). Thus, God holds all men responsible before Him for the administration of His assets over time. Responsibility always implies sanctions, both positive and negative.

And the Lord said, Who then is that faithful and wise steward, whom his lord shall make ruler over his household, to give them their portion of meat in due season? Blessed is that servant, whom his lord when he cometh shall find so doing. Of a truth I say unto you, that he will make him ruler over all that he bath. But and if that servant say in his heart, My lord delayeth his coming; and shall begin to beat the menservants and maidens, and to eat and drink, and to be drunken. The lord of that servant will come in a day when he looketh not for him, and at an hour when he is not aware, and will cut him in sunder, and will appoint him his portion with the unbelievers. 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 shall be much required: and to whom men have committed much, of him they will ask the more (Luke 12:42-48).

—God upholds the principle that the reward should match the servant's objectively demonstrated performance, and also that the punishment should fit the crime. This is the judicial basis of all human judgments in history, including economic judgments.

The Sovereign Employer

The employer must bid for the services of an employee. To be effective, this bid must be the best offer available to the employee at the time that it is made to him. Nevertheless, long-term employment involves more than a single bid. It involves a predictable pattern of promises and rewards made over time.

There is a kingdom parable about a rich man who offered jobs to unemployed people, but who then paid the same wage to those who had joined his work force much later in the day. This parable deals with the situation of a one-time job offer. (Please adjust the wage rate details for inflation.)

For the kingdom of heaven is like unto a man that is an householder, which went out early in the morning to hire labourers into his vineyard. And when he had agreed with the labourers for a penny a day, he sent them into his vineyard. And he went out about the third

hour, and saw others standing idle in the marketplace, And said unto them; Go ye also into the vineyard, and whatsoever is right I will give you. And they went their way. Again he went out about the sixth and ninth hour, and did likewise. And about the eleventh hour he went out, and found others standing idle, and said unto them, Why stand ye here all the day idle? They say unto him, Because no man hath hired us. He said unto them, Go ye also into the vineyard; and whatsoever is right, that shall ye receive. So when even was come, the lord of the vineyard said unto his steward, Call the labourers, and give them their hire, beginning from the last unto the first. And when they came that were hired about the eleventh hour, they received every man a penny. But when the first came, they supposed that they should have received more; and they likewise received every man a penny. And when they had received it, they murmured against the goodman of the house, saying, These last have wrought but one hour, and thou hast made them equal unto us, which have borne the burden and heat of the day. But he answered one of them, and said, Friend, I do thee no wrong: didst not thou agree with me for a penny? Take that thine is, and go thy way: I will give unto this last, even as unto thee. Is it not lawful for me to do what I will with mine own? Is thine eye evil, because I am good? So the last shall be first, and the first last: for many be called, but few chosen (Matt. 20:1-16).

The early morning employees then complain. Didn't they work all day? Why should late-comers be rewarded equally? The answer is that they had agreed to work for the specified wages. Any arrangement that the employer had made with other workers was none of their business at the end of the work day. The only thing that was to concern each laborer was the wages paid to him. Did these wages match the employer's promise? They did, so they had no legitimate complaint.

He responds to those who complained: "IS it not lawful for me to do what I will with mine own?" Here is a clear-cut affirmation of the **theocentric** foundation of the right of private property: God is the owner who distributes rewards out of his own possessions. Analogously, so is each earthly owner of property.

This parable is about gaining eternal life. It presents an important truth: the person who is converted by God's grace in old age gains equal access to eternal life. Those who had become God's covenant vassals in their youth should not complain about those who did so late in life. Everyone is being rewarded in terms of God's offer of salvation. God does not want to see people standing about idle. He wants them in His eternal kingdom.

What the parable is really about is Old Covenant Israel. This parable's message parallels the message of the parable of the prodigal son. It is the murmuring of the older brother that reveals his lack of good intentions. "And he said unto him, Thy brother is come; and thy father hath killed the fatted calf, because he hath received him safe and sound. And he was angry, and would not go in: therefore came his father out, and intreated him. And he answering said to his father, Lo, these many years do I serve thee, neither transgressed I at any time thy commandment: and yet thou never gavest me a kid, that I might make merry with my friends: But as soon as this thy son was come, which hath devoured thy living with harlots, thou hast killed for him the fatted calf" (Luke 15:27-31). Israel resented God's gift of salvation to the gentiles, the "Johnny come latelies."

Notice that the employer did not promise a specific wage to those who came late. He only promised them a fair wage. They were unemployed at the time; it seemed better to trust the employer than to stand idly by. Their

trust was rewarded: they were paid a full day's wage. They did not complain.

The Rational Employer

Nevertheless, if the employer of the parable had gone shopping for laborers the next day, he probably would have found it more difficult to recruit early morning employees. The story of the previous day's pay schedule would have been spread far and wide. There would have been potential employees who would have thought to themselves: "Maybe we can wait until late afternoon and still get hired for the same wage." Of course, there are risks to such a strategy: there is no guarantee that there will still be work available in the afternoon. One never knows for certain in advance. Still, past performance is indicative: the potential employees could detect a pattern of employment policies on the part of the employer. Human nature being what it is, the employer could not expect to be able to buy a predictable stream of early morning labor services by paying every worker the same. This is why the Bible tells us that gaining eternal life is only part of God's reward structure. There are added rewards for those who have served Him long and well:

Now if any man build upon this foundation gold, silver, precious stones, wood, hay, stubble; Every man's work shall be made manifest: for the day shall declare it, because it shall be revealed by fire; and the fire shall try every man's work of what sort it is. If any man's work abide which he hath built thereupon, he shall receive a reward. If any man's work shall be burned, he shall suffer loss: but he himself shall be saved; yet so as by fire (1 Cor.3:12-15).

So, the ineffective worker chosen by God does get into heaven. His work is burned up in God's fiery evaluation, but he himself is saved. The rewards for those who pass into heaven vary in terms of earthly performance, but getting into heaven is not affected by the date on which they became God's vassals.

The Sovereign Employee

The employer of the parable comes early in the morning to hire workers. A worker looks at his opportunities. Is anyone else hiring? If not, will someone be hiring later in the day at wages sufficient to justify turning down this opportunity?

When it comes to the offer of salvation, it is not a good idea to turn God down on the assumption that He will make the same offer later in the day, after an extra morning of sin has been indulged in. Yet millions of potential "employees" make this decision. They do not respond to the offer of the gospel. "And another of his disciples said unto him, Lord, suffer me first to go and bury my father. But Jesus said unto him, Follow me; and let the dead bury their dead" (Matt. 8:21-22).

Nevertheless, the potential employee in the parable has the legal option of standing idle. Thus, the employer needs to offer him something of value to get him to work (carrot). He is not legally authorized to compel him to work (stick). In the parable, the employer does offer something of value; it is only after the rewards are handed out that some employees complain.

In a business, employees must be treated in such a way that they do not think they are subsidizing others with their labor: other employees, managers, or owners (shareholders). They expect "an honest day's pay for an honest day's labor." Any employer who refuses to give this to them, or who fails to persuade them that he is paying them fairly, will eventually lose his better employees. He will face a shortage of employees at the **perceived** below-market price. (Shortages are always shortages at some price.)

This is why the legally sovereign employee must be dealt with by the legally sovereign employer. They must work out a deal that satisfies them both. This is the "art of the deal." The bargaining process enables both buyers – the buyer of money and the buyer of labor services – to achieve their mutual goals. This process is described well in Proverbs 20:14: "It is naught, it is naught, saith the buyer: but when he is gone his way, then he boasteth." Each one seeks the best deal.

The Rational Employee

The employee knows that he has something valuable to sell. He does not know exactly how much his services will benefit the employer. The employer hires the employee in order to gain the output of his labor. The employer at best can only guess the value of this output. Furthermore, the net productivity of any worker also is never known precisely. It is always a "guesstimate." What the employer does know is the objective range of existing money wages that he will have to pay to hire someone.

The employer has initial knowledge of what he is able to pay. He also knows what he will have to pay to recruit and train a new worker. The potential employee probably is not equally knowledgeable. What he does know is approximately what other workers of similar abilities are being paid. An open-entry, voluntary, non-coercive labor market is an excellent transmitter of information regarding wages and working conditions.

The potential employee does not need to know much about the employer's motivation or the costs of training each new worker; what he needs to know is what the prevailing market wages are for the kind of services that he is offering to sell. The price of labor is mostly an objective price. The larger the particular labor market, the more objective the price. The millions of subjective evaluations – buying and selling, hiring and firing – that have produced this price are not perceived by anyone except God, but they do not need to be. What men need in order to make rational economic decisions is an objective price. This is what the free market provides. Thus, it reduces the zones of ignorance regarding labor conditions.

The employee wants the highest wage he can get; the employer wants to pay the minimum wage necessary to recruit him. The competing demands – bids – by sellers of labor and buyers of labor are sorted out by the auction process of the free market. Employers compete against employers; laborers compete against laborers. An objective array of prices emerges that guides all the participants.

The Sovereign Consumer

What is not fully understood is this: these bids are ultimately attributable to the competing demand of consumers. Rival bids by consumers who are competing for many products determine the price of labor in a free market, just as these bids determine the price of raw materials ("land"). Consumers compete against consumers, and sellers compete against sellers. Sellers are economically the agents of consumers. They work for them by bringing goods and services to market. Therefore, consumers set prices. Their buying and selling decisions tell the producers what to produce. How? By rewarding present producers.

The consumer's influence over the decisions of the employers of labor is based on his economic ability to buy and his legal right to refuse to buy. He grants money to one producer and not to another. He imposes sanctions. The producer's quest for profit is what delivers him into the hands of the consumers. The profit motive is the consumer's carrot; it is also his stick. Profit is the positive sanction of the marketplace. Loss is the negative sanction. It is this system of dual economic sanctions that keeps entrepreneurs

– the future-predictors and production organizers – working to meet the expected demands of consumers.

The employee is therefore working for the consumer by means of the employee's hierarchical relationship to his immediate employer (point two of the covenant model). Very few employees really understand this. They do not understand the cause-and-effect relationship between the wages paid by their immediate employer and the consumer's decision to buy. They probably do understand this relationship in general – no sales, no jobs – but they do not understand crucial operation of the profit motive in dealing with the uncertainty of the future. They do not understand the free market's response to this inevitable uncertainty: profit and loss. They do not understand that profits are an economic residual. Profits are the money or assets remaining after all business expenses have been paid, including the opportunity cost of employing the owner – the money that he could have earned elsewhere. They arise only from successful attempts to overcome the uncertainty of the future.

The Rational Consumer

The rational consumer asks producers, "What have you done for me lately?" He also asks, "What will you do for me after I have signed the contract?" He uses information regarding the past performance of specific producers to evaluate the potential performance of these producers in the future.

The consumer seeks information about a company's past performance. The least expensive way for him to do this is through a product's name. He compares brand and price. This shorthand method allows him to evaluate a great deal of relevant information. Then he makes a decision. "To buy or not to buy, that is the question." It is this decision, made by many consumers, which will determine the success or failure of present entrepreneurs, those middlemen who hired land (rent) and labor services (wages) in the past, and combined them over time (interest) in order to bring a product or service to market.

The consumer does not need to know how much the competing entrepreneurs had to pay for these inputs. He only needs to know what it costs to buy a particular item. This price is not determined by what it cost to bring an item to market. It is determined by: 1) how many other consumers are bidding on it, and 2) how many competing goods (substitutes) have been brought to market. It is not what went on in a factory that determines today's price. For example, it does not matter how much it cost to produce a buggy whip; its market price is determined by supply and demand: consumers vs. consumers, suppliers vs. suppliers. What matters is what is being bid for the item today, a price which factors in (i.e., discounts) whatever is expected by both consumers and suppliers to be bid tomorrow.

So, the rational consumer does not normally enquire regarding the economic needs of the suppliers, except to evaluate a supplier's comparative willingness to sell. The consumer asks only what it will cost him to gain his hoped-for benefits from making the purchase. In making this decision, he brings sanctions, either positive or negative.

Uncertainty and Humanity

When the employer offers to hire a potential employee, he needs to make estimates. What will it cost to train him? What is the risk that he will quit? What will his output bring in the future market? What will it cost to employ him during the period of production (and perhaps in his retirement)? All of this is in part objectively known and in part uncertain.

The businessman who has developed more accurate cost estimations has an advantage over the employer who

has not. By objectifying the estimating process, he transforms uncertainty into risk. Risk can be statistically calculated; uncertainty cannot be. Uncertainty is that inescapable darkness regarding the future from which both profit and loss spring. "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" (1 Cor. 13:12).

The entrepreneur seeks better ways to estimate production costs. If he succeeds in discovering these techniques, and can then find ways to cut costs, he will reap a profit: revenue minus cost. Understand clearly that the consumer does not thereby suffer a loss. The consumer will pay no more – and probably a bit less – to buy the product. The successful entrepreneur reaps a profit at the expense of his competitors. Consumers compete against consumers; suppliers compete against suppliers. His competitors are flying comparatively blind; he is not. He wins, consumers win, and his competitors lose.

Of course, his profit will alert his competitors to the fact that he is doing something new, and they will seek to discover and adopt this unique competitive edge that he possesses. This is why competitive edges are not maintained for long. When all suppliers are equally able to discern a patch of newly discovered light through the dark glass, the remaining darkness once again confronts them all equally. They all adopt the new production technique. Output per unit of resource input increases. Prices fall in order to clear the market of the more abundant goods that are now less expensive to produce. Consumers therefore benefit. The free market once again pressures entrepreneurs to serve consumers. Suppliers compete against suppliers.

Entrepreneurship converts the unknown to the known, uncertainty to risk. This is why there can be no handbook on entrepreneurship. There can be no handbook on the unknown. There can only be handbooks on known resource management techniques and known statistical risk: repeatable, cost-effective techniques that reduce the zones of uncertainty. By following such a handbook, the user may discover that he possesses the entrepreneur's vision, but the handbook does not impart this directly. The handbook, being a handbook, can only deal with known statistical probabilities. It cannot deal with uncertainty. If uncertainty could be dealt with in a handbook, it would no longer be uncertain. Profits and losses would then be reduced to this extent.

Profits and losses can never disappear in a world in which men do not possess perfect knowledge of the future. Man is a creature. Thus, there must always be profits and losses, unless God chooses to reveal the economic future perfectly to everyone. Profits and losses would still exist in a sin-free world. Profits and losses are the products of man's lack of omniscience, not man's fallen nature. It is not sin as such that produces the profit-and-loss economy; it is man's finitude. This is why there must be economic sanctions. Without sanctions, man is blind.

The Secret of Success

It is simple: buy low, sell high. Cut your losses, and let your profits run. Will Rogers said it best: "Buy something and wait for it to go up in price, and if it doesn't go up, don't buy it." This is easier said than done.

Profits are a residual. They are produced when certain forecasters assess the future state of the market more accurately than their competitors do, and then organize pro-

duction more cost-effectively than their competitors do. This takes vision (economic forecasts), the courage of one's convictions (commitment of resources), and competent management of these resources. It also takes time, which must be paid for (interest). Profits are the combined product of subjective knowledge (forecasts) and objective facts (resource management) over time. It is not mere knowledge or mere organization that produces profits; it is the cost-effective combination of both of these skills over time. Buy low, sell high. This is an economic application of a religious principle:

But be ye doers of the word, and not hearers only, deceiving your own selves. For if any be a hearer of the word, and not a doer, he is like unto a man beholding his natural face in a glass: For he beholdeth himself, and goeth his way, and straightway forgetteth what manner of man he was. But whoa! looketh into the perfect law of liberty, and continueth therein, he being not a forgetful hearer, but a doer of the work, this man shall be blessed in his deed (James 1:22-25).

A Loss of Faith

The entrepreneur must believe that this world is rational, though not known perfectly by men. He needs to know that it is coherent, neither hostile to reason and ethics nor random. He must believe that there is a cause-and-effect relationship between what is done now and what can or will result in the future. A society that loses this faith, or the moral and philosophical foundations of this faith, will suffer inevitable losses. It will not be able to compete effectively with societies that have not lost this faith..

The crisis of Western man in the twentieth century has been a religious crisis. It has led to the acceptance of economic principles that have produced massive losses. Men have sought coherence in themselves and the works of their hands rather than in God. They have adopted what I call the power religion. They have imputed to the State – man's most powerful institution – a greater ability than the free market to foresee the future and to manage resources in terms of these forecasts. The result has been the creation of the messianic State, which claims the right to impose economic sanctions. This has transferred control over resources to tenure-protected bureaucrats and away from uncertainty-bearing entrepreneurs. It has reduced the sovereignty of consumers by removing their ability to impose economic sanctions on producers. It has decapitalized socialist nations and slowed the economic growth of mixed economies.

Conclusion

There will always be economic sanctions. The questions are: Whose sanctions (point one)? Which hierarchy (point 2)? What rules (point 3)? Which sanctions (point 4)? What long-term results (point 5)?

The free market is the system of economic sanctions that inevitably results when men obey God's Bible-revealed law. This is what non-Christian economists deny. It is also what most Christian economists deny. The covenantal basis of economic sanctions is universally denied. God has brought His economic sanctions anyway. Compare Red China's per capita output with Hong Kong's. The difference is not based on raw materials.