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THE CHURCHES AS 'SOCIAL OVERHEAD CAPITAL'

by Gary North

Over the past few years, legislation has been quietly passed in several states that permits local governments to tax the property of churches. This legislation has created no outbursts of protest. Now, just in time for 1984, municipalities are beginning to exercise this power.

In California in June of 1983, some sixty churches were facing the auctioning off of their property for their refusal to submit to the civil government's tax authorities. Only because of the direct intervention of the governor of the state in late June did these churches escape temporarily from the threat of confiscation. But a political decision can always be reversed.

In October of 1983, the Westminster Presbyterian Church of Tyler, Texas received its first notification of property taxes owed to the county. Never before had the church been informed of its supposed tax liabilities to the civil government.

As **always**, California and Texas are test states. What "flies" there will be "flown" in other states soon. The first stages have begun to bring the churches of the United States officially under the jurisdiction (sovereignty) of the civil government.

It will not initially be a visibly "all or nothing" proposition. It will be a process of escalation, until the legal precedents are set. When most churches have capitulated formally to some aspect of the taxing authority, the states will escalate again. Other kinds of controls will be imposed.

The humanists are fighting for their survival. They see what another generation of graduates of the Christian schools will do to the social control they exercise through their one established church, the public school system. They are desperate. The whole myth of neutrality—the philosophical and legal con job on which the humanists have based their campaign against Christianity—is losing favor. Thus, their legal protection which allowed them to create the public school's humanist church is now being used to protect the development of a comprehensive Christian educational alternative. Humanists are now in control of most positions of political power, so they are ready to abandon the Constitutional principles that gave them the legal protection they needed to solidify their control over the public school system. They see that the common-law principle of the immunity of the church from the State is about to backfire on them, and they are taking steps to prevent it.

The "Subsidy" to Churches

One of the justifications of their taxation of local churches is this one: "Churches receive police and fire protection, but they don't pay for it. This constitutes a subsidy to the churches by other taxpayers, who must bear a higher tax burden."

They cannot use this argument with property owned by the Federal government, which declared its immunity from taxation in the famous Supreme Court case, *M'Culloch v. Maryland* (1819), in which Supreme Court Chief Justice John Marshall wrote those famous words, "The power to tax is the power to destroy." He announced that the sovereignty of the Federal government makes it immune from taxation by any other civil government.

Christians must respond in precisely the same way. The church of Jesus Christ is a sovereign agency of government—not civil government, but God's agency of government nonetheless. The power to tax is the power to destroy. No agency of civil government should possess this destructive power over God's church. Sovereignty is the issue. Taxes are the symbol.

But what of the **economic** argument? Does the immunity of the church from taxation constitute a net one-way subsidy from the other taxpayers? Absolutely not. It is a falsehood which could only be made by people who are either religious statists or else totally **misguided** about economics. The presence of the church of Jesus Christ is what **gives** a society the ability to grow and prosper. It provides the moral and even much of the institutional "social overhead capital" which makes economic growth possible.

Social Overhead Capital

One of the more familiar themes in the field of economic growth theory is the concept of "social overhead capital." Economists speak of the necessity of certain kinds of investments as crucial for economic development: public works, such as roads, **communications**, railroads, electricity and natural gas, sewers, water treatment facilities; public safety, meaning law enforcement facilities such as courts, police, and fire departments; and **economic welfare** agencies, meaning schools, public health facilities, and other kinds of "economic safety nets."

Without these investments, the theorists argue, societies will not experience rapid economic development. There is almost universal agreement that such investments must be made by the civil government, or at least regulated by civil government. In order to take advantage of "economies of scale," meaning the per unit cost reductions associated with mass production, the State supposedly must tax **citizens** to amass sufficient capital to make these large-scale investments.

Walt Rostow's best-selling book of 1960, *The Stages of Economic Growth*, is representative. He speaks of the "crucial role" of social overhead capital in the early stages of economic growth (p. 24). The phenomenon which he calls the "**take-off**" into sustained economic growth is deeply **political**: "In the more general case, the take-off awaited not

only the build-up of social overhead capital and a surge of technological development in Industry and commerce, but also the emergence to political power of a group prepared to regard the modernization of the economy as serious, high-order political business" (p. 8).

The private property profit system is not enough: "profits from social overhead capital often return to the community as a whole—through indirect chains of causation—rather than directly to the Initiating entrepreneurs." Therefore, "governments must generally play an extremely important role in the process of building social overhead capital . . ." (p. 25). In short:

There is no need for the government to own the means of production; on the contrary. But the government must be capable of organizing the nation so that unified commercial markets develop; it must create and maintain a tax and fiscal system which diverts resources into modern uses, if necessary at the expense of the old rent-collectors; and it must lead the way through the whole spectrum of national policy—from tariffs to education and public health—toward the modernization of the economy and the society of which it is a part. For, as emphasized earlier, it is the inescapable responsibility of the state to make sure the stock of social overhead capital required for take-off is built; and it is likely as well that only vigorous leadership from the central government can bring about those radical changes in the productivity of agriculture and the use of other natural resources whose quick achievement may also constitute a precondition for take-off (pp. 30-31).

The Protestant Ethic

Rostow's book was subject to a withering series of criticisms at a symposium of international economic historians. The results of this conference were published in a book edited by Rostow, *The Economics of Take-Off* (St. Martins, 1963). But the critics did not offer a detailed criticism of Rostow's thesis concerning the necessity of the State as the creator and director of social overhead capital.

What have been the results of the application of this theory of economic growth to underdeveloped countries? Statism, the massive expansion of bureaucracy, economic stagnation, high taxes, and the creation of socialist commonwealths all over the world. Western "foreign aid"—State-to-State aid—has helped to finance these bureaucratic developments.

The most eloquent scholarly critic of such policies is Prof. Peter T. Bauer of the London School of Economics. For years, he has pointed to the real underlying foundations of economic development. The real social overhead capital is **moral** and attitudinal. He writes that "natural resources have been of only secondary importance, both in the development of the now advanced countries and in the development of many underdeveloped countries since the end of the nineteenth century. . . Capital resources, which are often thought to be crucial, are usually less important. Moreover their supply and productivity depend on personal faculties, motivations, and social and political arrange-

ments." (*Dissent on Development* [Harvard University Press, 1972], p. 75)

What are these attitudes? Bauer does not say so specifically, but what he lists as the important ones are precisely those fostered by what Max Weber called the Protestant ethic. They are the opposite of the following.

Examples of significant attitudes, beliefs and modes of conduct unfavorable to material progress include lack of interest in material advance, combined with resignation in the face of poverty; lack of initiative, self-reliance and of a sense of personal responsibility for the economic fortune of oneself and one's family; high leisure preference, together with a lassitude often found in tropical climates; relatively high prestige of passive or contemplate life compared to active life; the prestige of mysticism and of renunciation of the world compared to acquisition and achievement; acceptance of the idea of a preordained, unchanging and unchangeable universe; emphasis on performance of duties and acceptance of obligations, rather than on achievement of results, or assertion or even a recognition of personal rights; lack of sustained curiosity, experimentation and interest in change; belief in the efficacy of supernatural and occult forces and of their influence over one's destiny; insistence on the unity of the organic universe, and on the need to live with nature rather than conquer it or harness it to man's needs, an attitude of which reluctance to take animal life is a corollary; belief in perpetual reincarnation, which reduces the significance of effort in the course of the present life; recognised status of beggary, together with a lack of stigma in the acceptance of charity; opposition to women's work outside the household (pp. 78-79).

The church preaches doctrines that make economic development possible. It serves as a welfare agency. It educates people in the laws of God. Church schools provide general education. Churches, if faithful to the Bible (1 Cor. 6), reduce the number of lawsuits in the civil courts. In short, the church is a government. It provides tremendous net benefits to the community—benefits that are not paid for by the community.

Conclusion

The church is not to be taxed, because of its sovereignty. Before God, it is tax-immune. Its members are not to feel guilty because of the erroneous economics of statist who believe that the only meaningful social overhead capital is tax-financed capital, and who believe that the church is some sort of economic parasite because God has made it immune from State taxation. If a church wishes to donate money voluntarily to local police or fire departments, in order to thwart the State's false charge of "economic parasitism," fine; but the church is not morally required to pay, and its money is not to be earmarked for the operation of godless public schools. Let the State loot the bank accounts of churches before any officer signs a check to pay any tax supposedly owed by the church. The issue is sovereignty, not net economic benefits.