Economics from the Perspective of a Christian World View

Introductory Lecture to the Economics Segment of
Interdisciplinary Studies 116:
Self in Society II

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The American poet James Russell Lowell got it just right when he wrote,

> . . . there's nothing we read of in torture's inventions,
> Like a well-meaning dunce, with the best of intentions.[1]

According to St. Francis de Sales, St. Bernard of Clairvaux, a man more pious than Lowell, assures us, "Hell is full of good intentions"—so full, indeed, that what R. C. Trench calls "the queen of all proverbs" has become "Hell is paved with good intentions."[2]

None of us intends to be the inventor of tortures. This is a good intention. But let us not pat ourselves on the back too quickly. Like every good intention, this, too, may become one of the paving stones of Avernus. How may we prevent its doing so? By learning to add to our good intentions that rarest of virtues, prudence.

With all due respect to William Blake, prudence is not "a rich, ugly old maid, courted by Incapacity."[3] Rather, prudence is the ability to exercise sound judgment in practical matters, particularly in avoiding calamity. As Solomon put it, "A prudent man foresees evil and hides himself, but the simple pass on and are punished" (Proverbs 22:3).

So important is prudence as a counselor to our good intentions that the author of a profound book on ethics in the mid-seventeenth century ranked it as one of the four highest virtues people should cultivate. To it he added justice, beneficence—doing good gratuitously for others (what he also called benevolence and love)—and self-command. Justice, he taught, is the principle that prohibits our doing intentional harm to others, that requires us to render to each his due. Beneficence is the principle that exhorts us to do good to others whether they deserve it or not. And self-command is the ability so to govern ourselves that we are not led astray from our intended paths of justice and love by self-indulgence, laziness, or haste. But these three virtues, he reminds us, are of little value if not accompanied by prudence, for without prudence our best intentions of justice and love may miscarry and become paving stones of hell, and our self-control may be nothing but obstinacy in

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[1] James Russell Lowell, *A Fable for Critics*, l. 250.

[2] For the various thoughts on the origin of this proverbs, see *The Home Book of Quotations Classical and Modern*, 10th ed., edited by Burton Stevenson (New York: Dodd, Mead, 1967), 891.

[3] William Blake, *Proverbs of Hell*, cited in *The Home Book of Quotations*, 1652.

error.

The Ethical Foundations of Economics

What have justice, love, self-control, and prudence to do with economics? Why begin a lecture on economics this way? Why, because the great founder of modern economics might have done so, had he been asked to introduce the subject for you tonight. For he was not an economist, but a professor of moral philosophy, and his work on economics arose directly from his moral philosophy.

The founder of modern economics, Adam Smith, was a professor of moral philosophy.

The profound book on ethics that I mentioned a moment ago was *The Theory of Moral Sentiments*, published in 1759 and today, alas, little known and even less read. Seventeen years later its author published a book that has become far more famous—although, lamentably enough, probably not much more read, even among those whose profession is shaped largely by its original and powerful insights. That more famous book is commonly known as *The Wealth of Nations*, and its author was Adam Smith (1723-1790), professor of moral philosophy at the University of Glasgow, educated for the Presbyterian ministry under Francis Hutcheson (1694-1746), his thoughts powerfully shaped by his readings not only of the classical philosophers but also of such Christian thinkers as St. Thomas Aquinas (1225-1274?), John Calvin (1509-1564), Hugo Grotius (1583-1645), Baron Samuel Pufendorf (1632-1694), and, very significantly, the late-scholastic monks of the school of Salamanca in Spain, who labored diligently in the fifteenth and sixteenth centuries to formulate from Scripture "a corpus of scientific thought applicable to all areas of life,"[4] and who focused particularly on applying Biblical law to economics. (We speak in Reformed circles today of developing a comprehensive Christian world view as if this were some novel endeavor, but the scholastics were doing it four and five centuries before us, and the work of that most important founder of modern economics, Adam Smith, was firmly rooted in that world view.)

I said that Smith's more famous book, published in the celebrated year of 1776 and quickly very influential among America's founders, strongly shaping the sort of economic order they arranged in the Constitution of the United States in 1787 and in lesser laws and policies,[5] is commonly known as *The Wealth of Nations*. That is regrettable, since it tears the tri-valve heart out of Smith's great work, at once missing Smith's own focus and substituting for it another. To refer to the book as *The Wealth of Nations* is to imply that somehow Smith was concerned chiefly about *wealth in the customary sense* and about wealth's belonging to *nations*. It is, in other words, to treat the great work as if it were a mere continuation of the mercantilist school of thought of which it actually was the repudiation.

Mercantilism, the dominant economic system for several generations before Smith, had assumed that wealth belonged not to persons but to nations, and that wealth was to be measured by the amount

[4] Alejandro A. Chafuen, *Christians for Freedom: Late-Scholastic Economics* (San Francisco: Ignatius Press, 1986), 21. Michael Novak, in a foreword to the book, sketches the manner in which the thought of the late scholastics came to Smith.

[5] Forrest McDonald, *Novus Ordo Seclorum: The Intellectual Origins of the Constitution* (Lawrence: University Press of Kansas, 1985), 123-32. Particularly: "Smith, who had already established a great reputation with his *Theory of Moral Sentiments*, created a sensation with the *Wealth of Nations*. Most public men in America acquired at least a passing acquaintance with the work, almost all praised it, and many gave it thorough study. Hamilton worked arguments derived from it into various of his public papers. Madison was said to have quoted from it almost unconsciously, without attribution, in his speeches, and some in his audiences recognized the words" (128).

of precious metal a nation had in its treasury—or, what amounted to the same thing in those days, how much gold and silver kings possessed. Economic policy, therefore, focused on enlarging the royal treasury, chiefly by encouraging exports and discouraging imports—the goal being, as it is termed today, a trade surplus, under which condition more money entered the country than left it, and more goods left it than entered it. The policy is as foolish today as it was then.[6]

Smith's work was a direct attack on such thinking, for Smith, although a man of means and education, was the friend of common people, whom he often saw living miserably at or near the level of animals. His concern was to improve their well being. Royalty and nobility, he recognized, had little trouble acquiring what they needed in life—often by the forced labor of others. His interest was in improving the conditions of the least among men, common day laborers, and that interest drove him to redefine not only wealth but also what it meant for a nation to be wealthy. For Smith, wealth was not gold and silver—it was not money. Instead, it was the ability to acquire the necessities and even the pleasantries of life. And for him, a nation's wealth was measured not by the money in its royal coffers but by the ability of its common people—who after all comprised the great majority of its population, the royalty and nobility rarely comprising more than 2 or 3 percent—to purchase what they needed and wanted.

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Finally, Smith recognized, as he observed the great disparities of living conditions among the nations of his day, that this ability among the common people to acquire their needs and comforts was not automatic. Poverty, not wealth, is the natural condition of mankind. "Naked I came from my mother's womb, and naked shall I return there," said Job (Job 1:21). Many nations rich by mercantilist measures were poor by Smith's measure; Spain was a good example. Some nations poor by mercantilist measures were rich by Smith's measure; England was a good example. For Smith, this meant that it was a matter of great curiosity *how* nations became wealthy—*how* the purchasing power of common labor was to increase.

Thus it is not mere pedantry to insist that we refer to that great book by its full title, *An Inquiry into the Nature and Causes of the Wealth of Nations*. This title reminds us that wealth is neither natural nor easily created, that its creation requires diligence of mind and body, and indeed that it is not what most people take it to be. Particularly, wealth is not money, a lesson learned the hard way by those nations that have experienced high rates of inflation—the rapid increase in money supply that destroys the value of money and so wrecks economies. You might think of the Germans who,

[6]Many people worry about trade deficits. In a trade deficit (more properly called a *merchandise* trade deficit), the market value of goods imported from one country exceeds that of goods exported to it. The United States, for instance, generally runs a large trade deficit with Japan, importing from Japan goods valued at many billions of dollars more than the goods the United States exports to Japan. It is thought that this endangers American employment. Such thinking is shortsighted, since every trade deficit is necessarily balanced by a capital investment surplus. The money that Americans spend buying Japanese goods eventually returns to the United States in the form of foreign investment in American companies. Since capital investment creates jobs and improves worker productivity, making prices fall, the effect of the investment surplus necessarily balances the effect of the merchandise trade deficit. For more explanation of the principles of merchandise trade balances, see James D. Gwartney and Richard L. Stroup, *Economics: Public and Private Choice*, 4th ed. (San Diego and New York, et al.: Harcourt Brace Jovanovich/Academic Press, 1982), 747-52.

in the hyperinflation of the late teens and early twenties of this century, often had to take a wheelbarrow full of German marks—each worth, by late 1923, 1/42 billionth of an American penny—to the store to buy a loaf of bread.[7]

The Challenge of Increasing Wealth

Smith's concern was, as I have said, to explain what wealth was and how it was to increase. Since he defined wealth as the purchasing power of common laborers, his concern was to explain how that purchasing power could be increased. It had been seen already, though many politicians and even some economists still ignored the lesson (as some perversely persist in doing today), that merely putting more money—or what was purported to be money, base metal or paper notes of legal tender—into circulation could not increase purchasing power. Over two centuries before, in 1558, Sir Thomas Gresham (1519-1579), founder of the English Royal Exchange, had explained to Queen Elizabeth what has since become known as "*Gresham's Law*," summarized in the aphorism, "Bad money drives out good."[8] If merely increasing the quantity of money in circulation could not increase the purchasing power of labor—if, indeed, merely increasing money supply served only to raise the prices of goods and services and thus to make them less affordable to common laborers, not more—what *could* increase the purchasing power of labor?

Since Smith defined wealth as the purchasing power of common laborers, his concern was to explain how that purchasing power could be increased.

Smith found the answer by weaving together insights from several phenomena recognized, some

[7]See Hans Sennholz, "Hyperinflation in Germany," *The Freeman*, October 1970, 598ff. In the five years ending in December 1923, the German Reichsbank issued 496.5 quintillion marks, each worth only one trillionth of its 1914 gold value and 1/42 billionth of an American penny. Sennholz and other economic and political historians have offered persuasive arguments that high inflation's devastating effects on economies have been among the chief reasons why populations have welcomed dictators. A classic of such argument is Andrew Dickson White's *Fiat Money Inflation in France* (Irvington, NY: Foundation for Economic Education, [1914] 1959). White—founder of Cornell University in 1867, minister to Germany from 1879 to 1881 and to Russia from 1892 to 1894, ambassador to Germany from 1897 to 1903—argued that the hyperinflationary policies of the French Revolution, with money supply rising from 400 *assignats* in April 1790 (one *assignat* was one million *livres*) to 40,000 *assignats* in February 1796, an increase of 10,000 percent in six years culminating in the complete worthlessness of *assignats* and *mandats* (the *mandat* was a new paper currency issued in February 1796 replacing *assignats* at 30:1), led directly to the establishment of the first Napoleonic dictatorship in 1799.

[8]Technically, "Gresham's Law" applied specifically to the introduction of money made of a low-value precious metal (e.g., silver) into an economy whose currency was chiefly made of a high-value precious metal (e.g., gold). Introduction of silver money, Gresham explained, prompts those who have gold to hold it out of circulation and use only the less valuable metal for trade, thus causing the prices of goods and services to rise (i.e., the price of money to fall). Nonetheless, the principle applies equally beyond metals. "Generally, where some of the nation's money has intrinsic value (e.g., gold coins) and other money does not (e.g., paper money) or is less valuable (e.g., silver coins), people tend to hoard the good money and leave the less valuable money in circulation." (John V. Terry, *Dictionary for Business and Finance*, 2d ed. [Fayetteville: University of Arkansas Press, 1990], 141.) Where the newly introduced money is of no greater intrinsic value than the money already circulating, the effect is to lower the value in exchange of both new and old currency. (Note that the use of the phrase *intrinsic value* in this context does not imply that economic goods have value intrinsic to themselves, apart from the value imputed to them by persons. Instead, it points to the fact that some money is made of substances [like gold or silver] that are valuable for uses other than as money—e.g., as jewelry, as table service, or in industrial use—while other money is made of substances [like paper and ink] that have no value other than as money, or more precisely, whose unit value other than as money is inconsequential.)

in his day, some only later, as *economic laws*, related to prices, buying and selling, and production. The most fundamental of these is the *law of demand* (sometimes imprecisely called the *law of supply and demand*): that, other things remaining equal, people will buy more of something at lower prices than at higher prices, and less at higher prices than at lower prices.[9] If the quantity and quality of food eaten by common laborers are to increase, then either the price of food must fall or the income of laborers must rise, or, what is best, both. The same is true for the quantity and quality of clothing, shelter, education, health care, and all other things that people produce and consume, buy and sell. If people are to purchase and consume more and better of these things, then either incomes must rise or prices must fall, or both. The key to the puzzle of improving the living conditions of common laborers, then, was to figure out how to cause these things to occur.

Bringing Prices Down

What might cause prices to fall? Perhaps, as was tried from time to time, a simple edict. A law could be adopted capping the price of some good, like bread. The intent of such a law no doubt was noble: to make bread affordable to common laborers. But its actual effect turned out to be quite the opposite: to make the quantities of bread brought to the market fall, resulting in common laborers' having less bread to consume than otherwise. Why was this?

A maximum price on bread reduced the quantity of bread brought to market, leaving less to go around. The poor had fewer options than others to get bread or substitute other things. Thus a policy intended to help the poor hurt them.

Because the maximum price of bread so limited the opportunity of wheat growers and traders, of bakers and grocers, to profit from those activities that some, whose costs of production were higher than those of others (perhaps because of poorer soil, or distance from the market, or inferior tools, or other factors), would turn from those activities to others, thus reducing the quantity of bread brought to market. The reduced quantity of bread brought to market meant less bread to go around among those who wanted to eat it. Some means had to arise by which to determine who would get it and who would not. Since legal money prices could not rise, reflecting the changed relationship between quantity demanded and quantity supplied, either non-legal money prices must rise, or non-money prices had to rise, or the rationing must be done by force, whether legal or illegal. Hence smuggling and black markets (non-legal price increases) would grow—which inevitably meant putting more bread into the hands of people willing to break the law and less into the hands of law keepers—or the government would simply dictate how much bread individuals could purchase. For the wealthy, the legal ration on bread was an insignificant problem; they could afford to replace bread with other, more expensive foods or to buy bread from afar and have it smuggled to them. For common people, however, the bread ration typically was smaller than they might have bought without price controls, because the total quantity of bread supplied to the market under the price control was so small. But they could not afford to substitute other, more expensive foods. As a result, despite the best intentions of those who had decreed the maximum price of bread, common laborers would eat less bread, not more. Presumably it was no consolation that Hell would be better paved.[10]

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[9] In more technical terms, the law of demand is "that the quantity demanded of a commodity varies inversely with its price, assuming that all other things which may affect demand remain the same." Terry, *Dictionary for Business and Finance*, 184.

[10] The colonial Puritans attempted wage and price controls in an effort to enforce what they considered a "just

Raising Workers' Productivity

For real prices to fall, the quantity of goods and services brought to the market to sell must rise relative to the demand for them. This requires an increase in productivity.

The only other way for prices to fall was for the quantity of goods and services brought to market to rise relative to the quantity of money available to pay for them. For this to happen, producers would have to increase their *productivity*—the quantity of goods and services produced per unit of labor, capital, and raw materials consumed in producing them. Some way must be found, in other words, to increase the amount workers could produce with the tools and materials available to them. The proportion that output could increase because of added input of *labor* was inherently limited by the number of workers and the hours they could work effectively in a day. Rather than simply increasing the *quantity* of labor, therefore, some means must be found of increasing the *output*, or the *productivity* of labor.

Increasing the productivity of labor depends on two things: *the division of labor* and *the provision of capital.*

As Smith and others looked around them, they observed two phenomena that seemed to be most associated with increasing the productivity of labor: the *division of labor* into small, repetitive tasks, and the provision of *capital*—tools—with which laborers could work. As in the Body of Christ different members, by cultivating and improving the different gifts God gives them, participate in the mutual edification of the whole Body, so also by specializing in one task, or perhaps a few closely related tasks, laborers find that both the speed and the quality of their work increases. Using better tools has the same effect. Combining both division of labor (better organization) and better tools (better equipment) multiplies this effect.

In Smith's day, tools had not yet advanced nearly so far as they have since, so their impact on laborers' productivity was not so profound as it has become since then. But the effect of the division of labor was already quite pronounced, giving rise to one of the most justly famous passages of Smith's *Inquiry into the Nature and Causes of the Wealth of Nations*, appearing at the start of Book I:

> The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgment with which it is any where directed, or applied, seem to have been the effects of the division of labour.
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> . . . .
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> To take an example . . . from a very trifling manufacture; but one in which the division of labour has been very often taken notice of, the trade of the pin-maker [the maker of nails for construction]; a workman not educated to this business (which the division of labour has rendered a distinct trade), nor acquainted with the use of the machinery employed in it (to the invention of which the same division of labour has probably given occasion), could scarce, perhaps, with his utmost industry, make one pin in a day, and certainly could not make twenty. But in the way in which this business is now carried on, not only the whole

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price" and to ensure that goods—particularly bread—would not become unaffordable to common laborers. Gary North describes the failure of their efforts, and their eventual abandonment of them, in *Puritan Economic Experiments* (Tyler, TX: Institute for Christian Economics, 1988), 22-40.

> work is a peculiar trade, but it is divided into a number of branches, of which the greater part are likewise peculiar trades. One man draws out the wire, another straights it, a third cuts it, a fourth points it, a fifth grinds it at the top for receiving the head; to make the head requires two or three distinct operations; to put it on, is a peculiar business, to whiten the pins is another; it is even a trade by itself to put them into the paper; and the important business of making a pin is, in this manner, divided into about eighteen distinct operations, which, in some manufactories, are all performed by distinct hands, though in others the same man will sometimes perform two or three of them. *I have seen a small manufactory of this kind where ten men only were employed, and where some of them consequently performed two or three distinct operations. But though they were very poor, and therefore but indifferently accommodated with the necessary machinery, they could, when they exerted themselves, make among them about twelve pounds of pins in a day. There are in a pound upwards of four thousand pins of a middling size. Those ten persons, therefore, could make among them upwards of forty-eight thousand pins in a day. Each person, therefore, making a tenth part of forty-eight thousand pins, might be considered as making four thousand eight hundred pins in a day. But if they had all wrought separately and independently, and without any of them having been educated to this peculiar business, they certainly could not each of them have made twenty, perhaps not one pin in a day; that is, certainly not the two hundred and fortieth, perhaps not the four thousand eight hundredth part of what they are at present capable of performing, in consequence of a proper division of and combination of their different operations.*
>
> In every other art and manufacture, the effects of the division of labour are similar to what they are in this very trifling one; though, in many of them, the labour can neither be so much subdivided, nor reduced to so great a simplicity of operation. The division of labour, however, so far as it can be introduced, occasions, in every art, *a proportionable increase of the productive powers of labour.*[11]

Smith's observation that the division of labor, combined with the equipage of minimal tools, had multiplied pin-makers' productivity by at least two hundred forty and probably 4,800 times could be repeated nearly indefinitely in relation to nearly every conceivable trade through the two centuries since then.

Smith also observed that it was precisely in producing the most common sorts of items—not luxuries for the rich but necessities for everyone—that the division of labor had its greatest impact. That is why he chose pin making as his illustration. Significantly, however, it is also true that the increased productivity of labor caused by division of labor in making luxuries soon brings their prices within reach of common people, so that

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[11] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, 2 volumes, edited by R. H. Campbell and A. S. Skinner, text edited by W. B. Todd (The Glasgow Edition of the Works and Correspondence of Adam Smith; Indianapolis: Liberty Fund, [1776] 1981), 1:13-15, emphases added.

today we do not count indoor plumbing or hot water at the tap as a luxury but a necessity, and most of what we find in common homes in our day is luxurious beyond the dreams of avarice[12]—indeed, unimaginable—by the standards of Smith's day.

The first important effect to note about this increased productivity of labor is that it increases the goods and services available for purchase in the market relative to the number of people wanting to buy them. As a result, prices fall. Why? Because, with more goods and services available, buyers have a larger field from which to choose what they will buy. If they don't like the price at one bakery, they can go to another. The bakers, in an effort to corral some of the sales (and profits) for themselves, will reduce their prices as far as necessary to sell their bread, thus competing with each other for the shoppers' money. The result is lower prices for the shoppers.

THE LAW OF DEMAND: As the supply of a good rises relative to the demand for it, its price falls; as supply falls relative to demand, price rises.

THE LAW OF SUPPLY: As the price of a good rises, the amount that will be supplied to the market will rise relative to demand for it; as price falls, the amount supplied will fall.

Sometimes, imprecisely, people refer to this phenomenon as the *law of supply and demand*. The label is not quite accurate. What we really are seeing is the working together of two laws: the *law of supply* and the *law of demand*. Nonetheless, the concept is true: as supply rises relative to quantity demanded, price falls; as supply falls relative to quantity demanded, price rises. Conversely, as demand rises relative to quantity supplied, price rises; as demand falls relative to quantity supplied, price falls. The upshot of it all is that as worker productivity rises, other things being equal, supply will rise relative to quantity demanded, and price therefore will fall, making goods and services more affordable. In short, increased worker productivity causes increased supply, which causes lower prices, which cause increased purchasing power of labor—what Smith defined as increased wealth.

Raising Workers' Wages

An increase in the productivity of labor will cause an increase in the wages of labor.

The second important effect to note about this increased productivity of labor is that it will lead to higher wages for laborers. Why? Because as workers are able to produce more, they will be able to command a higher wage; employers who, in a shortsighted pursuit of high profit *margins* (percentages), refuse to raise their workers' wages will find their competitors bidding the workers away from them with higher wages, thus earning for themselves higher *profits* at lower *margins*. The more someone can produce with each hour of his work, the easier it will be for him to find people willing to pay him to work for them. As a result, he will be less likely to have

[12]The phrase, *beyond the dreams of avarice*, originated in Edward Moore's *The Gamester*, Act ii, sc. 2 (1753). It became something of a proverb after James Boswell reported that Samuel Johnson, in administering the sale of Thrale's brewery for the estate, while "bustling about like an excise-man," reminded bidders, "We are not here to sell a parcel of boilers and vats, but the potentiality of growing rich beyond the dreams of avarice" (Boswell, *Life*, 1781)—affirming that tools—capital—in the hands of the diligent are a means of creating wealth. More recently, Russell Kirk, in *Beyond the Dreams of Avarice: Essays of a Social Critic* (Chicago: Regnery, 1956; rev. ed., Peru, IL: Sherwood Sugden & Company, 1993), sternly and rightly warns against confusing wealth with blessedness.

to accept a low wage and more able to command a higher wage. Thus, his purchasing power will rise.

By now it is clear that the same phenomenon—increased productivity of labor—was the key to both reducing prices and raising income for common laborers. Thus, since both lower prices and higher income increase purchasing power, increasing productivity of labor increases purchasing power in two ways. If income rises by 10 percent, purchasing power rises by 10 percent; if prices fall by 10 percent, purchasing power rises by 11 percent. And if income rises by 10 percent while prices fall by 10 percent, purchasing power rises by 22 percent.[13] Clearly, therefore, improving labor productivity increases the purchasing power, and thus the living conditions, of laborers.

The Importance of Capital Formation

We have discussed to some extent already how the division of labor increases productivity, and we have noticed along the way that increased quantities and qualities of tools—capital—also increase the productivity of labor. The formation of capital is itself boosted by the increased productivity caused by division of labor; higher productivity makes possible an excess of income over expenditures, the difference constituting savings. But what transforms the savings—which could, after all, be tucked safely inside a mattress against a rainy day—into tools? Inventing and making tools for workers to use is a costly and risky venture, and people can be induced to bear its costs and risks chiefly by rewarding them for doing so. Now apply the *law of supply*: that, other things being equal, as a good's price rises, more of it will be supplied, and as its price falls, less of it will be supplied.[14] The more we offer to pay people to invent and produce tools (to create capital), the more they will invent and produce. In other words, the more we reward people for investing capital in employees, the more capital they will invest in them. Thus, capital's

The more we pay people to invent and produce tools, the more they will invent and produce. Thus, capital's contribution to increased productivity of labor is directly related to how much capitalists—those who invest their money in productive enterprises—expect to receive in return for their investment.

[13]Let I = income, P = price, and U = purchasing power. U = I/P. If I = 1 and P = 1, then I/P = U = 1. If income rises 10 percent while price remains unchanged, then I/P = 1.1/1 = U = 1.1. If price declines 10 percent while income remains unchanged, then I/P = 1/.9 = U = 1.11. If income rises 10 percent and price declines 10 percent, then I/P = 1.1/.9 = U = 1.22.

[14]The law of supply is more precisely stated as the "principle that . . . there will be a direct relationship between the price of a good and the amount of it offered for sale." Gwartney and Stroup, *Economics: Public and Private Choice*, 57. The law of supply is actually identical to the law of demand, but the two are stated from opposite perspectives. Typically we speak of someone willing to trade money for goods and services as a buyer and of someone willing to trade goods and services for money as a seller, but in reality each is both buyer and seller. Someone with money is buying goods and services while selling money; someone with goods and services is buying money while selling goods and services. Usually we speak of those wanting to sell money and buy goods and services as exerting demand, while we speak of those wanting to sell goods and services and buy money as providing supply. Clearly, however, the principles applying to the two are identical. Those wanting to sell money and buy goods and services exert demand for goods and services while supplying money; those wanting to sell goods and services and buy money exert demand for money while supplying goods and services. The price of goods and services is measured in money; as their price rises (that is, as the quantity of money offered in exchange for them increases), suppliers will bring more of it to the market. The price of money is measured in goods and services; as its price rises (that is, as the quantity of goods and services offered in exchange for it increases), buyers will bring more of it to the market.

contribution to increased productivity of labor is directly related to how much capitalists—those who invest their money in productive enterprises—expect to receive in return for their investment. The return for the investment we call *profit*.

Thus it is, Smith recognized, that capitalists' quest for profit can be enlisted in the task of boosting the productivity of labor and therefore simultaneously raising wages and lowering prices, thus increasing the purchasing power of labor and raising the living conditions of common laborers.[15]

Smith's moral concern for the common laborer, in other words, coupled with powerful abilities of analysis and observation, enabled him to explain why workers and employers—laborers and capitalists—are natural allies, not enemies.[16] As laborers' productivity rises,

Smith's moral concern for the common laborer, coupled with powerful abilities of analysis and observation, enabled him to explain why workers and employers—laborers and capitalists—are natural allies, not enemies. As laborers' productivity rises, laborers' wages and capitalists' return on investment both can rise; as capitalists' return on investment rises, laborers' productivity and wages both can rise.

[15]This is one among many reasons why proponents of free market economics argue that allowing the market to operate freely—within the bounds of laws against fraud, force, theft, and other such properly Biblical boundaries of freedom—minimizes the harmful effects of sin in the marketplace. One does not have to assume that the capitalist—the man with money to invest—invests it in tools with the intention of improving the lives of laborers. He may do it from purely selfish motives. But because he cannot, in a free market, legally use fraud, force, or theft to satisfy his desires, he finds that the only way to get what he wants is to cooperate with others in a way that benefits them.

[16]Karl Marx (1818-1883) thought workers and capitalists were natural enemies because of a sad mistake he made in understanding what gave goods and services their value in the marketplace. He believed that all market value derived from the value of labor expended in producing goods and services—a view called the *labor theory of value*. (Marx was not alone in this belief, and indeed it has roots in Smith's own analysis, although Smith also explored other grounds of economic value.) Since capitalists' profit came from charging more for goods and services than what they paid their laborers to produce them, Marx considered capitalists' earnings "excess profit," taken for themselves by capitalists who contributed nothing to the value of the goods and services sold. This, he understandably insisted, was oppressive. This oppression he termed the *exploitation of labor*, or *worker exploitation*, a phrase and theory that became the root of Marx's theory of *class conflict*, on which Marx, his colleague Friedrich Engels (1820-1895), and their followers Vladimir Lenin (1870-1924), Joseph Stalin (1879-1953), and other Marxists built the Communist revolution. However, Marx's entire analysis was mistaken for two primary (and many lesser) reasons: (1) The tools capitalists provided to laborers multiplied the laborers' productivity. Thus the tools themselves—bought by the capitalists' investment—made an important and measurable contribution not only to the value of the products, even on the assumption that cost of production was the true determinant of market value, but also to the earning power of the workers. (2) The *production cost theory of value*, however, is wrong. As Ronald Nash points out in the textbook for this course, all economic value (unlike moral value) is relative and subjective; it is subjectively imputed to goods and services by potential buyers and is relative to those buyers' differing and constantly changing circumstances, tastes, needs, and so on. (Ronald H. Nash, *Poverty and Wealth: The Christian Debate Over Capitalism* [Westchester, IL: Crossway Books, 1986], chapter 4.) No matter how much time, capital, and raw material goes into making something, if no one wants it enough to pay for it, its economic value will be zero.

laborers' wages and capitalists' return on investment both can rise; as capitalists' return on investment rises, laborers' productivity and wages both can rise, for two reasons: (1) capitalists can afford to bid higher for laborers' services, and (2) capitalists can afford to equip laborers with more and better tools. It is not difficult to see how this process becomes self-replicating, with higher profits driving improvements in both wages and tools; the improved tools driving increasing productivity both directly through their own use and indirectly through their promotion of increasing division of labor; and the increasing productivity of labor in turn driving higher profits, thus continuing the cycle in an upward spiral. A prudent person then, desiring in his benevolence to improve the lot of common people, will understand these basic economic insights and do what he can to improve both the division of labor and the formation of capital. This means, for example, discouraging policies—like high taxes on capital gains—that reduce the profitability of capital investment and promoting policies that encourage investment.

The Art of Economics

Tracing out wide and long-term effects of various choices as we have just done—exercising prudence—is the very heart of economics. One of this century's best economic writers, Henry Hazlitt (1894-1993), summed it up in what he called "Economics in One Lesson": "The art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups."[17] Much sound economic thinking consists in foreseeing and thus being able to avoid the undesired ill consequences of many proposals that at first blush appear just and compassionate. Those who presume to give economic advice without learning this art of economics are both imprudent and conceited, and all too often their good intentions have begotten the inventions of torture. As economist Walter Williams put it in an outstanding analysis of the negative impacts of American economic policies promoted to help the poor, ". . . truly compassionate policy

> **"The art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups."**
> **—Henry Hazlitt**

The Austrian economist Eugen von Böhm-Bawerk (1851-1914) was among the earliest theorists to construct a *subjective theory of value*, defining value as "the significance which a good or a complex of goods possesses for promoting the well-being of an individual," this significance rooted in a good's being a necessary condition "of some usefulness that contributes to our well-being." But usefulness toward our well-being is not alone sufficient to invest economic value in something. "In order that there be value, usefulness must be paired with *scarcity*." (Eugen von Böhm-Bawerk, *Capital and Interest*, 2 volumes, translated by George D. Huncke and Hans F. Sennholz [South Holland, IL: Libertarian Press, 1959], 2:128-9.) Böhm-Bawerk added to this insight his classic analysis of *marginal utility* to flesh out the full subjective theory of economic value that first became one of the defining characteristics of what is known as the Austrian school of Economics (including such thinkers as Karl Menger [1840-1921], Ludwig von Mises [1881-1973], the Noebel Laureate Friedrich A. Hayek [1899-1992], and such contemporary economists as Milton Friedman and Israel Kirzner) and later became the standard notion of value in all—or almost all—non-Marxian economics, reflected in introductory-level textbooks on economics. (E.g., Gwartney and Stroup, *Economics: Private and Public Choice*, 4th ed. [San Diego: Harcourt Brace Jovanovich, 1987], 12: "The Value of a Good or a Service Is Subjective"; at the high school level, see Russell Kirk, *Economics: Work and Prosperity* [Pensacola, FL: A Beka Book Publications, 1989], 18-21, 68-78.)

[17] Henry Hazlitt, *Economics in One Lesson* (Westport, CT: Arlington House, [1946] 1979), 17.

requires dispassionate analysis."[18]

The inherent interrelatedness of moral concerns like justice, benevolence, and prudence with consequential analysis is part of why I find most conventional definitions of economics unsatisfactory. "The classic definition of economics," writes Thomas Sowell in an introductory textbook, "is that it is the study of the allocation of scarce resources which have alternative uses."[19] Economics *does* study the allocation of scarce resources that have alternative uses, but it does much more, also. Economics of the sort exemplified in Adam Smith not only studies allocation as it is, but also recommends, in the light of analysis both practical and moral, ways in which the allocation can be improved. And economics that cares about turning natural scarcity into abundance can never be defined satisfactorily by focusing only on scarcity. Indeed, precisely that definition of economics leads many people to the mistaken conclusion that our only option in this world of scarcity is to divide a pie of unchanging size among the various people who want pieces of it, and that for this reason one person's gain must always mean another's loss. A more insightful economics, it seems to me, seeks ways to expand the pie, so that everyone's slice may be made bigger without necessitating making anyone's slice smaller.

Thus I find a standard dictionary's definition of economics as "the science that deals with the production, distribution, and consumption of wealth, and with the various related problems of labor, finance, taxation, etc."[20] more attractive because it points toward production of wealth rather than mere division of it. And the definition of economics offered in a *Dictionary for Business and Finance* as the "[s]ocial science concerned chiefly with the way society chooses to employ its limited resources, which have alternative uses, to produce goods and services for present and future consumption"[21] is also attractive for the same reason. Yet both of these present economics, as do most textbooks, as if it were a positive, or value-free, science, one that does nothing but observe and describe but does not prescribe, particularly not from a moral perspective.

Is Economics a Value-Free Science?

Positive economics describes things as they are and predicts consequences from choices. Normative economics tells how things ought to be and judges the moral desirability of means and ends.

The author of the textbook for this segment of our course, Ronald Nash, distinguishes—as do many economists[22]—between positive and normative economics. "Positive or scientific economics," he writes, "is descriptive in the sense that it seeks to determine and report *what is the case*. . . . Positive economics reports that under policy A one set of conditions will be followed by certain consequences, while under policy B a different set of conditions will produce different consequences. But positive economics offers no judgment as to which policy is superior." In contrast, "Normative economics builds on the information supplied by positive economics and makes value-judgments about the alternative policies that can be pursued. Normative economics makes judgments about *what ought to be the case*. . . . When people are engaged in normative economics, they go beyond the question of whether a certain set of conditions will lead to a particular set of consequences. They are involved

[18] Walter Williams, *The State Against Blacks* (New York: McGraw-Hill, 1982), 49.
[19] Thomas Sowell, *Economics: Analysis and Issues* (Glenview, IL: Scott, Foresman, 1971), 2.
[20] Jean L. McKechnie, et al., eds., *Webster's New Twentieth Century Dictionary of the English Language, Unabridged*, 2d ed. (USA: Collins-World, 1977), 574.
[21] Terry, *Dictionary for Business and Finance*, 95.
[22] See similarly Gwartney and Stroup, *Economics: Public and Private Choice*, 13-14.

in making judgments about whether those consequences are good or bad." Positive economics, according to Nash, is an objective science, but not normative economics: "The claims made by someone doing positive economics are verifiable or falsifiable, at least in principle. . . . The judgments of normative economics cannot be falsified by empirical data; they cannot be tested."[23]

Recognizing that some aspect of economics is value laden is a step in the right direction compared with the standard notion that economics is entirely a value-free science. But it falls short of the understanding of economics required by a fully Biblical world view. That understanding must recognize that there is no such thing as a positive, or value-free, science, least of all economics.

Why No Science Is Value Free

In centuries past, before most of the Western world came under the spell of Enlightenment positivism, theology was considered the "Queen of the Sciences," and philosophy her handmaiden. Medieval thought referred to the seven liberal *arts* equally as the seven *sciences*, divided into the *trivium*—grammar, dialectic (logic), and rhetoric, which must be mastered as the three elementary tools of all further learning; and the *quadrivium*—arithmetic, music, geometry, and astronomy, the four gateways into the larger sciences of theology, philosophy, politics, law, economics, history, literature, art, physics, chemistry, biology, engineering, and so on.[24] All of these were equally termed *sciences*, which presupposed that each of them included and could convey real knowledge, not mere opinion. Since positivism wove its enchantment, however, much of the West has embraced the myth that true knowledge is attainable only by observation of the world through our senses, and since then we have been assured that true science is solely empirical—a sad fact that has provoked some non-empirical sciences like psychology, sociology, politics, economics, and sometimes even philosophy and theology to masquerade as empirical sciences.

To say that these sciences are non-empirical is not to imply that they do not incorporate empirical aspects, but that their roots are in the study of non-empirical things: souls or minds, and ideas, choices, likes, and dislikes. For these sciences to forget their humane—their non-empirical—roots is for them to become sterile, inaccurate, and misleading. We see this in psychology, for instance, in the tendency even among some Christian psychologists (literally, "scientists of the soul") to reduce the soul (or mind) to nothing more than electro-chemical stimuli in the brain, thus abandoning the cure of souls for the treatment of bodies and substituting medical "therapy" for the moral counsel and discipline of Scripture.[25] We see it also in the tendency for economics to be reduced to mere

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[23] Ronald H. Nash, *Poverty and Wealth: The Christian Debate Over Capitalism* (Westchester, IL: Crossway Books, 1986), 14-15.

[24] Dorothy Sayers discussed the trivium and quadrivium in what has become a famous lecture, "The Lost Tools of Learning," delivered at Oxford University in 1947. It is reprinted as an appendix to Douglas Wilson's *Recovering the Lost Tools of Learning: An Approach to Distinctively Christian Education* (Wheaton, IL: Crossway Books, 1991), which in itself is a very helpful discussion of how Christian education can be revived and restored by returning attention to the trivium and quadrivium.

[25] An introductory textbook on psychology frequently used by Christian colleges—including Covenant College—is David G. Myers and Malcolm A. Jeeves's *Psychology Through the Eyes of Faith* (New York: Harper and Row, 1987), promoted by the Christian College Coalition. Its authors favor the physicalist monist view of man (that man is solely material/physical), stating that "mind is not an extra entity that occupies the brain" (21-22). It should hardly be surprising, therefore, that they argue—contrary to Scripture—that homosexuality is biologically determined and therefore that homosexuals should deal with their guilt feelings not by repenting and finding forgiveness and transformation in Christ but by reconciling themselves to the normality and goodness of homosexuality (111-13). Thus can a metaphysical assumption drive those who hold it to a moral position (in this case, a moral position opposite that of God's Word). A good defense of Biblical anthropological dualism—the doctrine that man is both physical and spiritual—is Arthur C. Custance's *The Mysterious Matter of Mind* (Grand Rapids: Zondervan, 1980). Two soundly Biblical discussions of homosexuality are Greg L. Bahnsen, *Homosexuality: A Biblical View* (Grand Rapids: Baker, 1978) and David A. Noebel, *The Homosexual Revolution*

econometrics—the use of mathematical and statistical methods to verify and develop economic theories, which in its limited way is legitimate and useful but is not by any means the whole, or even the heart, of economics.

There is, in fact, no such thing as a value-free science. This is implied by the very meaning of the word *science*. Coming from the Latin word *scire*, "to know," science is, most simply, knowledge, however acquired and whatever its content. The pursuit of knowledge, the practice of science, rests on presuppositions that are by no means value neutral. That every science values knowledge over ignorance is obvious, but did you ever wonder why? Why do the sciences value knowledge over ignorance? From the perspective of positivism, intent on sustaining the mask of moral neutrality, the only available answer is utilitarian: "Knowledge is useful. It works. Ignorance doesn't." But this is merely to push the answer to the question back a step, and even to complicate it. It invites the new question, "Works toward what end?" "Toward the well-being of man," comes the positivist's answer. "And precisely what is the well-being of man, and why should it be pursued? Why not rather pursue the suffering of man? Why, in fact, pursue anything? Why not instead, like the devout Hindu meditator, rid ourselves of all sense of individual identity and all multiplicity of thought and be absorbed in the universal Brahman, the unity of which is so absolute as to make knowledge—which presupposes a knower and a known and a body of knowledge—impossible?"

The pursuit of knowledge, the practice of science, rests on presuppositions that are by no means value neutral.

To ask such questions is to reveal the great geological fault line in utilitarian thinking. The utilitarians propose to substitute happiness for virtue as an end, and to judge all means by their propensity to increase our happiness. Sir James Fitzjames Stephen (1829-1894), once himself a disciple of Jeremy Bentham (1748-1832) and John Stuart Mill (1806-1873), the two great utilitarians, devastated utilitarianism by laying bare its absurdity in his *Liberty, Equality, Fraternity* (1873), in an argument summarized by Russell Kirk:

(Manitou Springs, CO: Summit Press, 1984). Also helpful is the chapter "Is Change Possible?" in David Chilton, *Power in the Blood: A Christian Response to AIDS* (Brentwood, TN: Wolgemuth & Hyatt, 1987). A Christian medical doctor addresses homosexuality Biblically in Frank M. du Mas, *Gay Is Not Good* (Nashville: Thomas Nelson, 1979). Karen Scalf Linamen and Keith A. Wall powerfully and lovingly convey the spiritual and emotional torment of homosexuality in *Deadly Secrets* (Colorado Springs: NavPress, 1990), the true story (taken from personal diaries) of a young homosexual. Leanne Payne's *The Broken Image: Restoring Personal Wholeness Through Healing Prayer* (Westchester, IL: Cornerstone [now Crossway] Books, 1981) offers helpful instruction in how homosexuals may be liberated from their bondage to sin through repentance and prayer. An excellent critique of the secularization of Christian psychology is part of Jay Adams's *The Christian Counselor's Manual* (n.p.: Presbyterian & Reformed, 1973), in which Adams also constructs a Biblical understanding of man, his problems, and the ways to address those problems in counseling. Adams is not popular among Christian psychologists, but I have yet to encounter any of his critics who accurately describes his views. Some other good critiques of conventional psychology from a Christian perspective include Richard Ganz, *PsychoBabble: The Failure of Modern Psychology—and the Biblical Alternative* (Wheaton: Crossway Books, 1993); William Kirk Kilpatrick, *Psychological Seduction: The Failure of Modern Psychology* (Nashville: Thomas Nelson, 1983) and *The Emperor's New Clothes: The Naked Truth About the New Psychology* (Westchester, IL: Crossway, 1985); and Paul C. Vitz, *Psychology as Religion: The Cult of Self-worship* (Grand Rapids: Eerdmans, 1977). Some good secular criticisms of contemporary psychology include Karl Menninger, *Whatever Became of Sin?* (New York: Hawthorne Books, 1973); E. Fuller Torrey, *Freudian Fraud: The Malignant Effect of Freud's Theory of American Thought and Culture* (New York: HarperCollins, 1992); Garth Wood, *The Myth of Neurosis: Overcoming the Illness Excuse* (New York: Harper & Row, 1983).

> What, for that matter, is happiness? Mill thinks he can test it, and plan the happy society. What conceit! "Where are we to find people who are qualified by experience to say which is the happier, a man like Lord Eldon or a man like Shelley; a man like Dr. Arnold or a man like the late Marquis of Hertford; a very stupid prosperous farmer who dies of old age after a life of perfect health, or an accomplished delicate woman of passionate sensibility and brilliant genius, who dies worn out before her youth is passed, after an alternation of rapturous happiness with agonies of distress?"
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> These questions never can be answered; they are "like asking the distance from one o'clock to London Bridge." The legislator and the moralist never really try to obtain the happiness of each individual: they simply endeavor to persuade or compel men to accept their particular view of life. The positivists' aspiration to complete a design for making men happy, and—still more presumptuous—to arrange that each man's happiness shall count for as much as another's, is their crowning absurdity. Here Stephen makes mincemeat of his adversaries; and in demolishing them, he annihilates the cardinal principle of his own nominal preceptor, Bentham. The grand scheme of God is inscrutable; the object of life is virtue, not pleasure; and obedience, not liberty, is the means of its attainment.[26]

". . . the object of life is virtue, not pleasure; and obedience, not liberty, is the means of its attainment."
—Russell Kirk

The Theological and Moral Basis of Science

Why ought we to value knowledge over ignorance? Because it promotes human happiness? Balderdash! Utilitarianism offers no adequate answer. But Biblical Christianity does. We ought to value knowledge over ignorance because that is what God made us to do, according to His own image implanted in us. We ought to value knowledge over ignorance because in Christ "are hidden all the treasures of wisdom and knowledge" (Colossians 2:3), because God's Word instructs us to "put on the new man who is renewed in knowledge according to the image of Him who created" us (Colossians 3:10), because Christ, the divine Word or Logos (John 1:1), wisdom personified (Proverbs 8:12-36), calls out to us, "Now therefore, listen to me, my children, for blessed are those who keep my ways. Hear instruction and be wise, and do not disdain it. Blessed is the man who listens to me, watching daily at my gates, waiting at the posts of my doors. For whoever finds me finds life, and obtains favor from the LORD; but he who sins against me wrongs his own soul; all those who hate me love death" (Proverbs 8:32-36).

We ought to value knowledge over ignorance because in Christ are hidden all the treasures of wisdom and knowledge; truth over falsehood because Christ is the way, the truth, and the life; honesty over dishonesty because in Christ all the promises of God are yes, and amen.

No science is value free because all science values knowledge over ignorance. But that is not the only reason. In addition, all science values knowledge of *truth* over knowledge of *falsehood*. Again we ask, "Why?" And again positivism can answer nothing better than, "Because it works. Because it promotes human happiness." And again we retort, "And what is

[26]Russell Kirk, *The Conservative Mind from Burke to Eliot*, 7th ed. (Washington: Regnery Gateway, 1986), 313.

happiness, how is it to be measured and counted and crammed into your utilitarian calculus?" And again the utilitarian is left speechless. But Christianity can answer. Why should we value truth over falsehood? Because "This is the message which we have heard from Him and declare to you, that God is light and in Him is no darkness at all. If we say that we have fellowship with Him, and walk in darkness, we lie and do not practice the truth" (1 John 1:5-6), because Jesus Christ is "the way, the truth, and the life" (John 14:6), and this Christ says to us, ". . . you shall know the truth, and the truth shall make you free" (John 8:32).

And there is yet another reason why no science is value free: because all sciences value honesty over dishonesty. When a scientist is caught falsifying data, frequently his career is destroyed. Why? Because honesty "works"? *Works toward what end?!* No satisfactory answer comes from the positivist. But again divine revelation has the answer. We should value honesty over dishonesty because we worship the God "who cannot lie" (Titus 1:2), because "it is impossible for God to lie" (Hebrews 6:18), because in Christ "all the promises of God . . . are Yes, and in Him Amen, to the glory of God through us" (2 Corinthians 1:20), because this God has commanded us, "You shall not . . . lie to one another" (Leviticus 19:11), and so "the wrath of God is revealed from heaven against all ungodliness and unrighteousness of men, who suppress the truth in unrighteousness" (Romans 1:18). To repeat Kirk's conclusion, ". . . the object of life is virtue, not pleasure; and obedience, not liberty, is the means of its attainment."[27]

The Moral Roots of Economics

If it is true that no science is value free, we must affirm the same all the more emphatically of economics. A science it is, but it is farther than most from being a positive, value-free science. How do we know this? There are several reasons.

First, as we saw at the start of this lecture, the founder of modern economics, Adam Smith, was not an economist but a professor of moral philosophy, and his ideas about economics all derived from his ethics. For Smith, I am convinced, economics was no "positive science" but rather—and this is the definition of economics that I prefer—*moral philosophy applied to man's marketplace relationships*. For Smith, economics was the practice of prudence in applying the principles of justice and love in the marketplace.

Three reasons why economics is not a value-free science: (1) The founder of modern economics, Adam Smith, was a moral philosopher who built his economics on his moral assumptions. (2) Economics values efficiency over inefficiency. (3) Economics has to do with moral laws.

Second, economics focuses much of its analysis on efficiency, which is measured by profit or loss, in other words, by excess of income over expense (profit) or expense over income (loss). Economists constantly assume that efficiency (profit) is preferable to inefficiency (loss). Why? Because profit promotes happiness or well being? We have seen the dead end before. Why then? Christianity responds: "In the beginning God *created* the heavens and the earth. . . . Then God said, 'Let Us make man in Our image, according to Our likeness . . ." (Genesis 1:1, 26). "By faith we understand that the worlds were framed by the word of God, so that the things which are seen were not made of things which are visible" (Hebrews 11:3). So in creation God started with nothing and wound up with everything; if that is not efficiency, then there is no such

[27]Kirk, *The Conservative Mind*, 313.

thing as efficiency. And there, by the way, is the theological justification of profit. We point also to the parable of the talents (Matthew 25:14-30), in which the master—who represents God—rewards the servants according to the efficiency, or profitability, with which they handled his investments, and which ends, "For to everyone who has, more will be given, and he will have abundance; but from him who does not have, even what he has will be taken away. And cast the *unprofitable* servant into the outer darkness. There will be weeping and gnashing of teeth" (Matthew 25:29-30).

Economics and the Ten Commandments

Third and finally, the etymology of the word *economics*, coming from the Greek words *oíkos*, meaning "house," and *nómos*, meaning "law," tells us that this is no morally neutral endeavor. While some of the "laws" of economics are largely descriptive—they tell us merely what happens under various circumstances—not all of them are or even can be, for economics deals with *human* behavior, and human beings are not like rocks, trees, and animals—determined by an unbroken chain of physical cause and effect. Persons are not things, and law for persons is not the same as law for things. Law for things is descriptive; law for persons is prescriptive. It is imposed on persons by someone else. As Christians approaching economics, therefore, we must ask, "*Whose* law?" Man's law? Then we must choose between the rule of one (absolute monarchy), the rule of the majority (unlimited democracy), and the rule of the minority (unlimited oligarchy), all of which, unless limited by some law that transcends them, are tyrannies. And if they are limited by that transcendent law, then they are not the ultimate law we seek. The law of nature? Unless this means what it once meant—the moral law of God revealed in creation (and clearly the positivists do not have this in mind)—it must mean what Darwin meant by it, the survival of the fittest, nature red in tooth and claw, anarchy—for which human beings have always shown themselves willing to substitute any kind of tyranny. No, neither human nor natural but divine law is the Biblical answer. God's law, designed to preserve liberty and order alike by guiding people in self-government (Exodus 20:1-17); God's law, perfect, sure, right, pure, clean, true, and righteous; more desirable than honey; good for warning us against danger, and bringing a reward (Psalm 19:7-11); God's law, which even pagans recognize as wise when they see it fleshed out by God's people (Deuteronomy 4:5-8); God's law, on which to meditate is to be blessed, prosperous in every endeavor (Psalm 1).

And does God's law say things relevant to economics? Certainly. Every commandment of the Decalogue is relevant to economics:[28]

> **Every commandment of the Decalogue is relevant to economics.**

1. "You shall have no other gods before Me." Nothing, therefore, must usurp God's place in our scale of values. Economic value is indeed subjective, but God's value to us is infinite and absolute. "No one can serve two masters," said Jesus, "for either he will hate the one and love the other, or else he will be loyal to the one and despise the other. You cannot serve God and [riches].[29] *Therefore* I say to you, do not worry about your life, what you will eat or what you will drink; nor about your body, what you will put on. Is not life more than food and the body more than clothing? . . . Therefore do not worry, saying, 'What shall we eat?' or 'What shall we drink?' or 'What shall we wear?' For after all these things the Gentiles seek. For your heavenly Father knows that you need all these things. But seek

[28]The summary of the Decalogue's economic implications below is necessarily brief. It focuses almost solely on the negative—prohibitory—implications of the commandments. But, as the various catechisms teach us, all of the commandments have positive implications as well. Time simply does not permit tracing those out in this lecture.

[29]*New King James Version*, margin.

first the kingdom of God and His righteousness, and all these things shall be added to you" (Matthew 6:24-25, 31-33, emphasis added).

2. "You shall not make for yourself a carved image . . .; you shall not bow down to them nor serve them. For I, the LORD your God, am a jealous God. . . ." There is no substitute for God, and valuing anything else above or instead of God is idolatry. Therefore the Christian is to "put to death . . . covetousness, which is idolatry" (Colossians 3:5). When the rich young ruler chose his riches over God, he turned his riches into an idol.

3. "You shall not take the name of the LORD your God in vain. . . ." To take God's name in vain was chiefly to use it to confirm an oath, but then not to keep the oath. Oaths, or contracts, are to be kept, not violated. "LORD," David asked in Psalm 15, "who may abide in Your tabernacle? Who may dwell in Your holy hill? He who walks uprightly, and works righteousness, and speaks the truth in his heart; . . . he who swears to his own hurt and does not change" (Psalm 15:1-2, 4c). A promise to pay must be kept, and no bankruptcy law, no matter how appealing the economic arguments for it may sound, can relieve us of that obligation.

4. "Remember the Sabbath day, to keep it holy. Six days you shall labor and do all your work, but the seventh day is the Sabbath of the LORD your God. In it you shall do no work: you, nor your son, nor your daughter, nor your male servant, nor your female servant, nor your cattle, nor your stranger who is within your gates." When Jesus instructed the rich young man to sell all and give to the poor, He challenged him to trust God instead of riches. He challenged him to learn the fundamental Biblical principle of *resting* in the grace of God expressed in His providence. Had the young man done so, he would have learned that God meets the needs of those who seek Him above all else (Matthew 6:33) and so would have learned of salvation by grace through faith instead of by works. Jesus called him to strip away all security but God. The Biblical command to rest (Exodus 20:8-10) requires the same thing. By resting, Christians commemorate the completeness of God's creative and redemptive work (Exodus 20:11; Deuteronomy 5:15; compare 6:10-14a), and acknowledge that our work is not for ourselves but for the Lord and His Kingdom (Colossians 3:23, 24; compare Ephesians 6:5-8; 1 Corinthians 7:22). Thus we confirm that we depend not on ourselves but on God to provide for all of our needs. This includes not only salvation but also food, clothing, shelter—everything necessary to living and serving according to His will. By resting when God tells us to rest, we testify that we serve a Master who takes care of His servants. And in honor of the liberation from bondage that God has achieved for all His people, every employer owes his employees a regular day of rest during which they can turn their attention to worship and the enjoyment of God's gifts. A Biblically shaped economy will show that it values God and people above money and things by reserving one day each week for rest.

5. "Honor your father and your mother, that your days may be long upon the land which the LORD your God is giving you." At the heart of every economy, as of every society, is the family, in which there are mutual obligations of parents and children. Parents are to take care of their children (2 Corinthians 12:14), and ". . . if anyone does not provide for his own, and especially for those of his household, he has denied the faith and is worse than an unbeliever" (1 Timothy 5:8). Conversely, grown children, and even grandchildren, are to take care of their aged parents and grandparents who cannot care for themselves (1 Timothy 5:4). Sound economic policy, therefore, will avoid creating incentives that undermine the family by interfering with the responsibility either of parents to care for their dependent children and grandchildren or

Sound economic policy will avoid creating incentives that undermine the family by interfering with the responsibility either of parents to care for their dependent children and grandchildren or of children to care for their dependent parents and grandparents.

of children to care for their dependent parents and grandparents. Clearly this principle calls for serious questioning of our present unemployment, welfare, and Social Security programs, and cautions against proposals for a national health care program.

6. "You shall not murder." Other Biblical laws, related to this commandment, prohibit not only murder but also intentional bodily harm. No economic calculations can justify wanton disregard for human life and safety. Whatever one might think about the cogency of economic arguments about "overpopulation," they certainly cannot justify abortion, for instance—although they have been used to that end. Legal and economic policies must hold people and corporations responsible for the negative impacts of their actions on the life and health of others. Thus, for instance, it is right to require polluters to pay reparations to those whose life or health (or property, covered by the eighth commandment) is damaged by their pollution. Doing so effectively would create a strong incentive for businesses to reduce their pollution to avoid lawsuits.

7. "You shall not commit adultery." Here is one of several points at which a free market approach to economics differs significantly from libertarianism. To libertarians, prostitution and other forms of business that violate the seventh commandment are "victimless crimes" and therefore should not be crimes at all. But the Bible knows nothing of "victimless crimes." The freedom of free market economics is a freedom within the limits of God's moral law, not libertarian licentiousness. Free market economics does not imply that "Madame Molly's Marvelous Maids" has any proper role in the marketplace, any more than it implies that "Murder, Inc." ought to be permitted to ply its trade. Marriage is a sacred institution, ordained by God; it is also vitally important to social well being. The best protection against children's becoming involved in crime, drug abuse, and sexual promiscuity, for instance, is their parents' staying faithful to their marriage vows. Economic policies that undermine marriage—like paying young mothers more in welfare if there is no adult male living in the household than if there is, and applying higher tax rates to married couples than to singles—are clearly inconsistent with this aspect of Biblical law.

8. "You shall not steal." Of all the commandments, this has the most obvious economic implications. Economics most commonly deals with people's property. This commandment implies that there really is such a thing as private ownership of property, and that to take property without permission is wrong. But theft is not always obvious. As the *Heidelberg Catechism* (question 110) reminds us, it may also be devious:

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> What does God forbid in the eighth commandment?
>
> Not only such theft and robbery as are punished by the magistrate, but God views as theft also all wicked tricks and devices whereby we seek to draw to ourselves our neighbor's goods, whether by force or with show of right, such as unjust weights, ells, measures, wares, coins, usury, or any means forbidden of God; so, moreover, all covetousness, and all useless waste of his gifts.

Fiat money inflation—increasing the money supply by the introduction of printed paper that serves as money only because the government declares it legal tender and not because anyone would value it as money otherwise—is a form of theft, just as surely as counterfeiting, there being neither moral nor consequential difference between the two.

The *Catechism*'s reference to unjust weights and measures reflects the Scriptures' prohibition of unjust weights and measures as a form of theft: "You shall do no injustice in judgment, in measurement of length, weight, or volume. You shall have honest scales, honest weights, an honest ephah, and an honest hin" (Leviticus 19:35-36). Fraudulent weights and measures were a means by which merchants could cheat their customers. So also was the use of fraudulent money (note that the *Catechism* mentions "unjust . . . coins")—coins, for instance, that were gold or silver on the outside but a base metal on the inside, yet were represented as pure. In my book *Prosperity and Poverty* I have argued, as have various Christian writers on economics, that fiat money inflation—increasing the money supply by the introduction of printed paper that serves as money only because the government declares it legal tender and not because anyone would value it as money otherwise—is a form of theft, just as surely as counterfeiting, there being neither moral nor consequential difference between the two.[30] Legal and economic policy that shows partiality to the poor over the rich is equally unjust with policy that shows partiality to the rich over the poor (Exodus 23:3, 6); as Old Testament scholar J. Barton Payne puts it, "Israel's judges were warned not to permit economic need to influence their decisions (Lev[iticus] 19:15); for in the distribution of property the standard, 'Thou shalt not steal,' includes stealing, even by society as a whole."[31] There is good reason to question the morality of government programs that forcibly take wealth from some people to give it to others—whether from poor to rich, from rich to poor, from poor to poor, or from rich to rich. As R. C. Sproul points out, "When people use the power of the ballot box to vote for themselves largess or subsidies from the general coffers, it is a sophisticated form of stealing. . . . Christians need to be sensitive about how they use the power of the ballot."[32] Lest we think that merely because transfer payments of this sort are *legal* they must be right, the Bible warns of "the throne of iniquity, which devises evil by law" (Psalm 94:20). And lest anyone think I am criticizing only the poor for receiving welfare (which I am doing), let me also point out that the *majority* of transfer payments in our country go not to the poor but to the middle class and the rich, and even the majority of money budgeted for welfare programs for the poor is paid to upper middle class bureaucrats who run the programs, never reaching the poor. Similarly, agricultural and business subsidies are equally condemned right along with poverty subsidies by the commandment against theft.

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[30] E. Calvin Beisner, *Prosperity and Poverty: The Compassionate Use of Resources in a World of Scarcity* (Westchester, IL: Crossway Books, 1988), chapter 10.

[31] J. Barton Payne, "Property," in *Baker's Dictionary of Christian Ethics*, edited by Carl F. H. Henry (Grand Rapids: Baker, 1973), 542.

[32] R. C. Sproul, *Ethics and the Christian: Right and Wrong in Today's World* (Wheaton: Tyndale House, 1983), 63.

Any economic system, therefore, that denies the right to private property—like full-fledged socialism—is inherently unbiblical. So also is any economic system that prohibits people's using their property as they choose *within the limits of God's moral law*. Despite the guarantee against the taking of property without due process of law and just compensation in the Fifth Amendment to the Constitution, many regulations of property use in America today violate this principle.

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9. "You shall not bear false witness against your neighbor." This commandment, which applies specifically to testimony in a court of law, is amplified by the more general injunction, "You shall not . . . lie to one another" (Leviticus 19:11). Misleading contracts, false and misleading advertising, fraudulent lawsuits, and the like all violate this commandment, and all do damage to the economy. Just as some people have criticized free market economics on the grounds that it would permit violence and sexual abuse, so also some have thought that it would permit false advertising. That is not so.

10. "You shall not covet . . . anything that is your neighbor's." As Christians, we believe that God works all things together for our good (Romans 8:28). We violate that belief when we covet what belongs to another. St. Paul both exhorts us and demonstrates by his own example how we should think:

> Finally, brethren, whatever things are true, whatever things are noble, whatever things are just, whatever things are pure, whatever things are lovely, whatever things are of good report, if there is any virtue and if there is anything praiseworthy—meditate on these things. The things which you learned and received and heard and saw in me, these do, and the God of peace will be with you.
>
> But I rejoiced in the Lord greatly that now at last your care for me has flourished again; though you surely did care, but you lacked opportunity. Not that I speak in regard to need, for I have learned in whatever state I am, to be content: I know how to be abased, and I know how to abound. Everywhere and in all things I have learned both to be full and to be hungry, both to abound and to suffer need. I can do all things through Christ who strengthens me. [Philippians 4:8-13]

Covetousness displays our discontent with the circumstances in which God, in His loving providence, has placed us. There is nothing wrong with desiring, by just and charitable means, through serving others, to build wealth; if there were, God would not have used the promise of wealth as an incentive for keeping His law, which He did many times (e.g., Deuteronomy 7:12-14), or assured us that the righteous man leaves an inheritance to his children's children (Proverbs 13:22a). But there is something very wrong indeed with longing to gain wealth unjustly or without regard to serving others. On the contrary, Paul exhorts us, "Let nothing be done through selfish ambition or conceit, but in lowliness of mind let each esteem others better than himself. Let each of you look out not only for his own interests, but also for the interests of others.

Covetousness displays our discontent with the circumstances in which God, in His loving providence, has placed us.

Let this mind be in you which was also in Christ Jesus, who, being in the form of God, did not consider it robbery to be equal with God, but made Himself of no reputation, taking the form of a bondservant" (Philippians 2:3-7). "Now godliness with contentment," Paul says, "is great gain. For we brought nothing into this world, and it is certain we can carry nothing out. And having food and clothing, with these we shall be content.[33] But those who desire to be rich fall into temptation and a snare, and into many foolish and harmful lusts which drown men in destruction and perdition. For the love of money is a root of all kinds of evil, for which some have strayed from the faith in their greediness, and pierced themselves through with many sorrows. But you, O man of God, flee these things and pursue righteousness, godliness, faith, love, patience, gentleness. Fight the good fight of faith, lay hold on eternal life, to which you were also called and have confessed the good confession in the presence of many witnesses." (1 Timothy 6:6-12).

No Reward But God

Listen carefully now. I will conclude with these thoughts, and if you learn nothing more from this lecture, by all means learn this. God Himself must satisfy all our longings. Unless we are committed to this, we will be tormented time and again by covetousness, envy, and jealousy as we see others prospering more than ourselves. Often they will be the wicked, and we will, with the psalmist Asaph, wonder how this can be. Why is it that so often the wicked prosper, while the righteous suffer? Asaph admitted that his questions about that nearly drove him to apostasy (Psalm 73:2), that had he spoken forth his doubts and confusion when they were at their height, he would have led astray the people of God (Psalm 73:15), that the problem was too difficult for him to solve by the power of his own mind:

> When I thought how to understand this,
> It was too painful for me—
> Until I went into the sanctuary of God;
> Then I understood their end.
> Surely You set them in slippery places;
> You cast them down to destruction.
> Oh, how they are brought to desolation, as in a moment!
> They are utterly consumed with terrors.
> As a dream when one awakes,
> So, Lord, when You awake,
> You shall despise their image.
>
> Thus my heart was grieved,
> And I was vexed in my mind.
> I was so foolish and ignorant;
> I was like a beast before You.
> Nevertheless I am continually with You;

[33]Here is the Biblical standard of contentment. I have argued elsewhere that food and covering sufficient to protect us from the elements is the Biblical standard of poverty. Someone who has these things is not poor, by Biblical standards. Those who lack them qualify for systematic charitable aid to the poor. Also, this is the standard of systematic charitable aid from churches: it should be designed to raise people to this level, not to place them above it at some subjectively defined standard relative to the rest of society. See *Prosperity and Poverty*, chapters 14 and 15; the articles "The Poor Among Us: How Should Your Church Help?" and "How Much for How Many? Could Churches Really Support America's Poor?" in *Discipleship Journal*, 9:1 (January/February 1989), 17-20; and "Poverty: A Problem in Need of Definition," *Stewardship Journal*, vol. 2, nos. 5-6 (Winter 1993), 22-28, 47.

You hold me by my right hand.
You will guide me with Your counsel
And afterward receive me to glory.

Whom have I in heaven but You?
And there is none upon earth that I desire besides You.
My flesh and my heart fail;
But God is the strength of my heart and my portion forever.
For indeed, those who are far from You shall perish;
You have destroyed all those who desert You for harlotry.
But it is good for me to draw near to God;
I have put my trust in the Lord GOD,
That I may declare all Your works.
[Psalm 73:16-28]

In preaching on this passage, St. Augustine taught that just as one who marries for money is contemptible, so also is one who serves God for money, or comfort, or safety, or health, or power. Whoever serves God only to gain a reward from Him actually holds the reward more precious than God. He is, to use Augustine's word, "unchaste." The sole reward we should seek in serving God is God Himself. And whoever seeks and serves God only for Himself, and not for any other reward, will always be content in Him, for God has promised to reveal Himself to those who seek Him with their whole hearts (Jeremiah 29:13).[34]

Martin Luther expressed this lesson beautifully in a hymn:

The whole wide world delights me not,
For heaven and earth, Lord, care I not,
If I may but have Thee;
Yea, though my heart be like to break,
Thou art my trust that nought can shake.[35]

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God Himself must be our ultimate satisfaction. "Whom have I in heaven but you?" asked Asaph. "And being with you, I desire nothing on earth. My flesh and my heart may fail, but God is the strength of my heart and my portion forever" (Psalm 73:25-6). Heaven itself would be Hell without God; but with God Earth is Heaven.

[34]Augustine, *Expositions on the Book of Psalms*, in *A Select Library of the Nicene and Post-Nicene Fathers of the Christian Church*, Series I, 14 volumes, edited by Philip Schaff, translated by A. Cleveland Coxe (Grand Rapids: Eerdmans, 1979), 8:341.

[35]Cited in Franz Delitzsch, *Psalms*, translated by Francis Bolton, in C. F. Keil and Franz Delitzsch, *Commentary on the Old Testament*, 10 volumes (Grand Rapids: Eerdmans, 1976 rpt.), 5(2):321-2.