



foundations of **economics**

a christian view

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Contents

Acknowledgments ix

Introduction xi

- 1 The Biblical Foundations of Economics 1
- 2 General Principles of Human Action 14
- 3 Laws of Human Action 38
- 4 Exchange, the Division of Labor, and Property Rights 51
- 5 Indirect Exchange and Market Prices 86
- 6 Market Changes 129
- 7 Production, Capital, and Income Maximization 163
- 8 Interest and Profit 192
- 9 Prices of Factors of Production 226
- 10 Competition and the Number of Sellers 251
- 11 The Production Structure and the Social Economy 273
- 12 Money and Its Purchasing Power 310
- 13 Inflation and Recession 340
- 14 Macroeconomic Policy 382
- 15 Price Controls 409
- 16 Taxing and Spending 432
- 17 Voluntary Exchange and Regulation 458
- 18 Socialism 478
- 19 Fulfilling the Cultural Mandate 501

Bibliography 535

Subject Index 539

The Biblical Foundations of Economics

PERHAPS THE QUESTION ADULTS ask each other more than any other when they first meet is, "What do you do?" When I respond, "I'm an economist," more often than not, I get one of two requests. I either receive a feeble plea to help someone balance their checkbook, or I am asked to supply the inside scoop on what the stock market is going to do in the near future. Both of these requests belie ignorance regarding what is economics.

The term *economics* is itself derived from the Greek word *oikonomikos* which originally meant *relating to household management*. To the ancient Greek, then, economics really did involve balancing the checkbook, or at least keeping track of the family budget, closer to what we used to call home economics.

However, the body of knowledge we today call economics is a social science, not household management theory. It is social in that it focuses on interpersonal action. It concerns itself with people . . . who need people.

Economics is a science. A science is "a systematic arrangement of the laws which God has established, so far as they have been discovered, of any department of human knowledge."¹ Economics is not just the regurgitation of singular, unrelated facts about how people behave. It is a body of thought that provides a number of principles that we can apply as we seek to answer important questions like, what will happen if we raise the minimum wage, decrease income taxes, put price controls on prescription drugs, or bail out insolvent mortgage companies.

A science involves the systematic arrangement of facts and truths. Science helps us make sense of the plethora of facts we experience, and by discovering the operation of general laws, science helps us arrive at true solutions to problems we face in the world. Note also that a science is not

1. Wayland, *The Elements of Political Economy*, 15.

about arranging a body of opinions or suggestions, but a body of truths so that we show the operation of real laws that are in force in the world in which we live. When I was in college, I many times heard my friends sympathetic to the welfare state bemoan that while communism is great in theory, it is a pity that it does not work in practice. To the contrary, if a certain economic policy is bad in practice, it usually means that it is bad in theory. Not only did communism fail miserably in practice, it did so precisely because it is a failure theoretically. Austrian economists Ludwig von Mises and Frederick Hayek demonstrated the theoretical failure of socialism as far back as the 1920s and 1930s, but few wanted to listen.² Although they had ears to hear, they heard not. It took seventy years of economic stagnation, culminating in the fall of the Soviet Union, for many scholars to take a second look at the arguments of Mises and Hayek. The object of economics is to discover economic principles that are true, so that policies developed in light of those principles will be suitable for achieving our goals.

WHAT IS TRUTH AND HOW DO WE KNOW IT?

Almost two thousand years ago, a certain Roman governor of Judea asked the question, "What is truth?" An observer standing there could have been excused for replying, "Truth is looking you right in the face." However, when most contemporary scientists (social or otherwise) ask the same question, they are usually not inquiring about the nature of Christ, but about the truths of the universe that Christ brought into being—whether scientists acknowledge the source of all truth or not.

So what is truth? The *Oxford English Dictionary* defines truth as "Conformity with fact; agreement with reality." A statement is true then, if it is factually correct and if it agrees with reality. It is possible for a statement to be factually correct and yet be untrue. For example, I can usually illicit a goodly amount of sympathy by telling the story of my brief life in telemarketing. I begin by explaining how at one point in my life, after having resigned from the United States Bureau of Labor Statistics, I moved back to Iowa and found a job working as a telemarketer with a firm in Omaha, Nebraska. They were in desperate need for workers because of an account that was fabulously successful. The firm was taking credit card

2. See the articles collected in Hayek, *Collectivist Economic Planning*. See also Mises, Ludwig von, *Socialism*.

applications over the telephone for a card issuer in the Midwest. There was a huge response that caught the telemarketing firm off guard. I responded to an advertisement to work telemarketing at a wage that was \$2.50 above the norm for that type of work. Well, it did not take long for the popularity of the credit card to run its course and the calls slowed down and the firm was forced to let some people go. Because I was one of the most recent hires, I was one of the earliest to be laid off. I was given the news one week before Christmas. By stopping the story here, I can usually generate sighs of *Oh no!* as well as a general sympathy with my cause. It also tends to go away as I tell them, as Paul Harvey might say, the rest of the story. It turns out that my getting laid off a week before Christmas was no big deal, because I was living with my parents, so I did not have to worry about paying for housing or food. Suddenly it becomes clear that what some selected facts seemed to indicate regarding my plight, turns out to be not the whole truth. Indeed, people can communicate things that are not true, while only relating facts that are correct. Therefore we must understand truth to be something that is factually correct and that also corresponds to reality. It is rather easy to define what truth is; it is a bit harder to establish how we know truth.

The discipline that seeks to answer the question, "how do we know?" is a branch of philosophy called epistemology. The word *epistemology* is derived from Greek and means the study of knowledge. About the time I get to this topic in the course I teach, I usually get at least one student who asks me why we go over *this* topic. After all, this is a book about economics, not philosophy. True enough. However, as you make your way through this book, you will find that several principles, such as the law of marginal utility, the law of comparative advantage, or the law of demand, are presented as economic truths. It seems to make sense to spend a little time up front examining just how, exactly, we do know anything, so that we can be sure that the law of demand really is a *law* instead of some opinion of demand dreamt up by another ivory tower sophist. Besides, the word *epistemology* is good to toss into your vocabulary when your parents ask you what they are teaching you at college. This is especially good if it is their hard-earned money that is paying your tuition.

Throughout the history of philosophy there have been generally four schools of thought regarding how we know. The first theory of epistemology we will examine is *skepticism*. Actually, skepticism is more like the anti-epistemology. When people think of someone who is a skeptic,

they usually think of someone who doubts something, such as someone doubting whether our politicians always tell the truth. A philosophical skeptic is a little different. The fundamental proposition of skepticism is that knowledge is impossible. You may have heard it put this way: there are no absolute truths. It is fairly easy to spot the problem with this theory of knowledge. The claim that knowledge is impossible implies that we at least know that knowledge is impossible. "There are no absolute truths," he said absolutely. Consequently, skepticism is internally inconsistent and, therefore, cannot possibly be true. If it is true then it is false.

Another closely related theory of knowledge is *relativism*. Relativists do not claim that truth does not exist, but that different people, different groups, or different cultures have different truths, all of them equally true. Many advocates of multiculturalism hold this view. Contemporary American philosopher Richard Rorty also argued that truth is relative to its cultural setting. In this sense, truth is what your peers let you get away with saying. Like skepticism, however, relativism falls quickly flat on its own propositions. Notice, for example, that the claim that truth is relative to different people, groups, or cultures, is a universal claim. It is always asserted absolutely, as if it applies to everyone. The relativist asserts the proposition that for all people, groups, and cultures, it is true that all people, groups, and cultures have their different truths that are all equally true. But if this proposition truly applies to everyone, everywhere, in every culture, it contradicts what is being asserted. If this proposition is indeed true for all people, groups, and cultures, then at least one truth is not relative. Again, if relativism is true, then it is false.

A third theory that attempts to explain how we know truth is *empiricism*. At some point in your education, you may have heard something referred to as empirical. If knowledge is empirical, that means it is based on experience. Empiricism claims that knowledge is only the result of experience. Note that it does not argue that we learn *some* things by experience, but that *all* knowledge is the result of experience. British philosophers John Locke and David Hume were in this camp, as well as a lot of modern scientists. Empiricists are rather like intellectual Joe Fridays imploring, "Just the facts, ma'am."

Empiricists have argued that at birth our minds are merely blank slates upon which our experience impresses ideas, and these ideas are the source of all of our knowledge. These ideas are the result of sense experience and inner experience. Ideas of sense experience are what one would

expect: sensations like red, hot, spicy, and fuzzy. We know the bacon has burned by smelling the odor of rancid charred pork. Physical scientists use their sight to gain knowledge when looking at their various measurement instruments. You can learn whether it is a hot and muggy day by going outside and feeling the moisture and heat in the air. People learn musical technique largely through hearing sounds coming from their voices or instruments.

People can also learn by their sense of taste. The truism that appearances can be deceiving was brought home to me very clear while a student in college. One day while making my way down the cafeteria food line, I spotted a delicious looking bowl of vanilla pudding waiting for me like gold at the end of the rainbow. Filled with gastronomical joy, I placed a bowl on my tray and thought of the culinary delight that awaited me as I consumed my salad, overdone green beans, and patty melt. Imagine my shock, then, as I passed that first dollop of the pale yellow pudding into my mouth, only to be made dreadfully aware that the pudding I had been longing for was not vanilla after all, but lemon! What a sour tang abused my taste buds and proceeded to travel about my mouth. You know, the kind that makes your teeth hurt. It was my sense of taste that brought home the fact that what looks like vanilla can actually be lemon. In other words, appearances can be deceiving.

Ideas of inner experience come as we reflect on our sense experience. We use our mind to undergo mental operations such as thinking, perceiving, and doubting. By using both ideas of sensation and ideas of reflection, it is argued, we derive ideas of relation. We can combine the ideas of spicy, red, and wet to form the idea of Louisiana hot sauce. We can consider Louisiana hot sauce, mustard, ketchup, horseradish, pickle relish, and Tabasco sauce to form the concept of condiment.

Empiricism is an improvement over skepticism and relativism in that it does not assert that there is no truth, or that different cultures have different truths that are all equally true. Empiricism does not immediately descend into self-contradiction. However, it does have its own problems that leave it wanting as a valid epistemology. Remember that empiricism does not argue that *some* knowledge is the result of experience. Empiricists argue that *all* knowledge that can be known is the result of experience. Ah, as Hamlet would say, there's the rub.

When an empiricist makes the claim that we can only know if something is true based on experience, one is tempted to ask him, *where is your*

data? The only way empiricists could make such a universal claim, based on their own epistemology, would be if they had actually experienced all of the facts in the universe. No one has done that, so using their own epistemology, empiricists do not have enough knowledge to know whether their claim is true or not.

In fact, there are several truths that are not based on experience. Our knowledge of time, for example, is not the result of an image of time being impressed upon our minds. The concept of time does not stem from our experiences, but we use this concept to make sense of our experience. We understand experiences as occurring sooner and later because we use the already present concept of time to interpret our experience.

Neither are the truths of geometry and arithmetic based on our experience. Mathematicians do not go about measuring triangles to demonstrate the principles of Euclidean geometry. Even when teachers instruct children in principles of addition by taking two pennies and combining them with two more pennies to make four, such instruction relies on the children already possessing knowledge of numbers. He cannot count pennies from one to four until after he knows how to count numbers.

Additionally, the empiricist cannot logically accept the notion of causality. Causality can never be observed by our senses; only correlation can. For example, economics teaches that if the price of tea in China decreases, people will desire to buy a larger quantity of tea than they were willing to before the price drop. Empiricists cannot explain this cause and effect relationship because at most all they have to go on is data that tell them in the past higher prices for tea in China were correlated with decreases in the quantity bought. The cause and effect relationship known as the law of demand is not something that is known to be true through our sense experience, because causation is not understood through our senses. It is a logical concept that we use to make sense of our experience.

On top of that, there is no way for an empiricist to know whether the observed correlation will continue into the future even one day, let alone for all time. If all knowledge is based on experience, nothing can validly be said about the future, because we have not experienced it yet. Experience is always experience of the past.

While experience, by itself, can never provide us with universal principles—such as that of causation—that are true for all time, entire disciplines require such universal principles. Physics, mathematics, and economics, for example, all require necessary and universal judgments about

the world that are always true. If I dropped a ball yesterday and it fell to the ground yesterday yet drop that same ball tomorrow and anything can happen, then the law of gravity is not really a natural law. Rather, it is merely a description of what has happened in history. In order to discover the sort of universal laws of physics and economics, empiricism does not suffice.

None of the above should be taken to mean that we can learn nothing from empirical studies. Indeed, there is much to be learned from empirical analysis in its proper place. This chapter is focused, however, not on usefulness, but on foundations. Although we can learn true knowledge by using the experience of history, we cannot base the truthfulness of truth only on experience.

The theory of epistemology that we have left then is that of some kind of *apriorism*. The root word *prior* gives us a hint regarding the meaning of apriorism. Prior means *before*. Apriorism argues that in order for us to gain knowledge, there is something that is logically prior to empirical facts. Apriorists recognize that our mind imposes unity on experiences by applying innate mental categories in classifying and judging our experience. Our minds are not blank slates scribbled upon by atomistic facts. Our mind makes sense of our experience by organizing and judging the facts we encounter.

The laws of logic by which we think and analyze our experience are not derived from the facts, but are instead used to make sense of the facts. For example, the truth that if A is greater than B and B is greater than C, then A is greater than C is not something derived from experience. This truth—the principle of transitivity—is a logical law with which our minds are equipped that allows us to make sense of the many facts that come our way every day.

The most famous of all apriorists is probably Immanuel Kant (1724–1804), a German philosopher. He believed that we do learn by experience, but only because we can make sense of it. He argued that we can only make sense of our experience because we possess a priori categories of thought, such as logic, unity, space, and causality. Further, he thought that these a priori categories that we use to make sense of our experience are subjective aptitudes. That is, Kant believed that everyone has personal categories of thought that are known by intuition. These subjective categories introduce order into our sensory data by the mind alone. However, Kant could not get past the supposition that these mental categories do not necessarily allow us to perceive truth, but only dictate how we must

think about things. For instance, Kant would have to admit that, based on his theory, perhaps there really is no causality in the world, and that it only seems like there is because our minds are programmed to think that way. I cannot say that a drop in the price of tea in China caused an increase in the quantity of tea demanded in China, only that it is impossible for me to think otherwise. An order is impressed upon our experience, but the world as it really is remains unknowable.

A BETTER WAY

You may recognize that Kant's problem leads us back to relativism and skepticism. Your categories could be *true* for you and mine could be *true* for me and never the two necessarily have to meet. So our trek through various epistemologies seemingly has led us nowhere. Take heart. We need not despair. What if we do have mental categories but our categories are implanted in us by a Creator, and what if he has fashioned both our mind and the world so that they harmonize? This is the idea we get from God's revelation given in the Bible.

This approach is a biblical apriorism. It begins with God's revelation in both his creation and his written word. Christians believe first and foremost that God is. He exists. Additionally, as Francis Schaeffer aptly titled his important book, *He Is There and He Is Not Silent*. God has spoken to us by revealing in his word absolute truth. This truth is not necessarily exhaustive, but it is absolute.

What truths has God communicated to us in the Bible? God created and actively sustains the universe. The very first verse of the first book in the Bible teaches, "In the beginning, God created the heavens and the earth" (Gen. 1:1). God created all there is. This includes time, space, the facts of science, and the human mind.

However, God tells us not only that he created all there is, but that he also actively sustains all there is. In the letter to the Colossians Paul tells us, "For by him (Christ) all things were created, in heaven and on earth, visible and invisible, whether thrones or dominions or rulers or authorities—all things were created through him and for him. And he is before all things, and in him all things hold together" (Col. 1:16–17). The phrase *hold together* in the Greek implies that all things continue and cohere. In Hebrews 1:3 we are told that Christ upholds the universe by the word of his power. Not only did Christ create all there is, but he is right now,

even as you read this text, holding everything together. The atoms that make up the pages of this book are actually moving and vibrating very fast. It is God's providence that keeps all of those atoms from exploding. God is personally involved with his creation; he is not some sort of divine watchmaker that spun the universe up and just let it run.

Additionally, we see that God created this universe with order and purpose. In Genesis 1:14–16 we read the account of God making the sun, moon, and stars. God explicitly states that these lights were made to serve specific purposes. In verse 14 God says that they were made to “be for signs and seasons, and for days and years.” God causes the moon, stars, and planets to move in such a way to produce regular seasons, days, and years. In verse 15 he tells us that their purpose is to “be for lights in the expanse of the heavens to give light upon the earth.” The things that God has created exist for a purpose and exhibit regularity. In Genesis 1:20–25 God tells us that he made everything to reproduce after its own kind. A horse does not give birth to a pig which gives birth to a monkey which gives birth to a rhinoceros. All living creatures were brought forth according to their kinds and reproduce accordingly.

The regularity with which God providentially upholds nature is so recognizable that God uses the constancy of natural laws as evidence that we can trust his covenantal word. Speaking of God's eternal covenant with David, this word of the Lord came to the prophet Jeremiah: “Thus says the Lord: If you can break my covenant with the day and my covenant with the night, so that day and night will not come at their appointed time, then also my covenant with David my servant may be broken, so that he shall not have a son to reign on his throne, and my covenant with the Levitical priests my ministers” (Jer. 33:20–21). Here we see that the regularity of day and night is God's covenant. It is God who ensures that day will follow night and night follow day. We also find that God treats the recurrence of day and night as part of a natural law that transcends humanity. Finally, God uses the certainty of the pattern of day and night as reason to believe that God will keep a son of David on the throne.

We find similar usage of natural regularities in the Psalms. Truthfulness and faithfulness of God's word is attested to by the stability and endurance of creation (Psalm 119:89–90). The unfailing process of nature serves as token of the certainty of the enduring rule of Christ in his kingdom (Psalm 72:5–7, 17). God's covenant is as certain as the regular appearance of the moon (Psalm 89:34–37).

So the Bible affirms there is a purpose and orderliness to creation. Without such orderliness, it would be impossible to have any sort of science. There could be no scientific laws. All would be chaos. Because God created a universe with order and purpose, however, we can undertake science. We can observe natural and social regularities. We can use concepts of cause and effect to derive scientific laws.

Why do we think we have the mental ability to discover scientific laws? The Christian doctrine of man can help us here. The Christian view of man begins with the fact that man is created by God in his image. We understand more about the nature of man, then, as we understand more about the image of God. Christians understand the *image of God* to mean God's likeness. In other words, man is God's replica on earth. God created man as "a reasonable and immortal soul endued with knowledge, righteousness, and true holiness, after his own image."³ If man is God's replica, then we can learn about the nature of man by examining the attributes of God.

For the purposes of the subject of economics, it is sufficient to stress only a few characteristics of God as revealed in the Bible. One is that God thinks. In Isaiah 55:8-10 God tells us that his thoughts are not our thoughts, but are higher than man's thoughts. Now obviously God's thoughts could not be higher than our thoughts unless he actually has them. Therefore we know that God thinks. Note that this passage also affirms that *both* God and man think. In Jeremiah 29:11, God tells us that he has thoughts of peace toward his people.

Additionally God reveals to us that he is a rational being. When calling Judah back to himself, through the preaching of the prophet Isaiah we read, "Come now, let us reason together, says the Lord: though your sins are like scarlet, they shall be as white as snow; though they are red like crimson, they shall become like wool" (Isaiah 1:18). God wants us to engage in a reasoned discussion with him during which we consider the rational propositions that he makes about himself and us.

Christian doctrine also teaches that God is omniscient. He knows everything. If God knows everything, he must think thoughts and engage in cognition. As a being created in God's image, man possesses mental faculties he can use to know things. God fit us with minds that exhibit mental categories reflecting his image and with these mental categories,

3. Westminster Confession of Faith, Chapter IV, Section II.

we are able to perceive reality because the same Creator made the world so that it harmonizes with our mental categories.

Obviously, there are important differences between us and God. In the first place, while God is infinite, we are his finite creatures. Therefore, we do not have exhaustive knowledge. We can, however, know some knowledge and the knowledge that we are capable of knowing we can know with certainty. The apostle John, for example, wrote in his first letter, "I write these things to you who believe in the name of the Son of God that you may know that you have eternal life" (1 John 5:13).

We also suffer from the consequences of the fall. Man's mind has been corrupted since the fall, but we can still know things. We do not think perfectly, but we still think. Our world still reflects God's orderly being and is therefore coherent. Consequently, we are able to use our mind to investigate God's orderly creation to discover certain regularities in what God has made. We are not perfect and we make mistakes, including mental errors. We do not, however, always make mistakes. In his letter to Titus the apostle Paul approvingly quotes a Cretan poet who wrote "Cretans are always liars, evil beasts, lazy gluttons.' This testimony is true" (Titus 1:12-13). Here Paul is affirming the general observation of an unregenerate writer.

THE CHRISTIAN VIEW OF MAN AS RATIONAL ACTOR

In economics, the object of our study is man. Therefore, the Christian view of man not only instructs us regarding the possibility of perceiving truth and pursuing scientific discovery. The Bible also provides information that helps guide us to the foundation of economic science.

The Bible characterizes man as a creature who engages in action, that is, purposeful behavior. We again see this by considering the doctrine of man being created in God's image. It has been explained above that God thinks and man also thinks.

There are other characteristics of God that, furthermore, indicate that man is a being who undertakes action. God does not only think. He plans. In Ephesians Paul says of believers that "even as he [God] chose us in him before the foundation of the world, that we should be holy and blameless before him. In love he predestined us for adoption through Jesus Christ, according to the purpose of his will, to the praise of his glorious grace, with which he has blessed us in the Beloved" (Eph. 1:4-6). Among other

things, this tells us that God planned for the salvation of lost sinners before the foundation of the world. God plans.

Scripture likewise affirms that, not only does God think, but he acts as well. Within only the first four verses of Genesis, we learn that God created (v. 1), spoke (v. 3), and separated (v. 4). All of these are actions. The Bible also describes the actions of God in the framework of choice. Isaiah 14:1 is only one verse among many that explains that God chose Israel as his people from all possible alternative races. As already noted, Genesis 1:14–17 reveals that God specifically acts with a purpose. God created the sun, moon, and stars with specific ends in mind.

Because God thinks and acts with purpose and because man is made in the image of God, it is reasonable to conclude that man is able to think and act with purpose. It can be inferred, then, that a very important part of the image of God is reason: the ability to think rationally in terms of cause and effect.

Furthermore, the Bible explicitly characterizes man as one who reasons. Throughout the Bible, God deals with man in a rational manner. As we have already mentioned, when calling to man that we should follow him, God implores in Isaiah 1:18, “Come now, and let us reason together.” God appeals to our reason and expects us to make the reasonable choice based on the facts as God reveals them. In Matthew we find the instance when Jesus was warning against the doctrine of the Pharisees and Sadducees. He couched his warning in figurative language, warning the twelve against the “leaven” of the religious leaders. When the disciples did not understand and were puzzled over Jesus’ figurative language, Jesus says to them “O ye of little faith, why reason ye among yourselves?” (Matt. 16:8 KJV). The Greek word translated as *reason*, *dialogizomai*, from which we get our English word *dialogue*, means to *reckon thoroughly* and is rendered elsewhere in Scripture as *consider*, *muse*, and *think*. Jesus, then, indicates that man is a being who uses his mind to rationally contemplate questions.

From the Biblical doctrine of creation then, we arrive at a number of conclusions relevant for economics. One is that we can discover natural and social regularities. Because God’s creation is orderly and because God created us in his image with the ability to think and know, we have the ability to perceive creation and its regularities. Natural and physical regularities we refer to as natural and physical laws—such as the law of gravity. However, because part of bearing the image of God includes acting with a purpose, we can discover social regularities, some of which are economic

laws concerning human action—such as the law of marginal utility and the law of demand.

We do not, therefore, believe the teachings of economics because many people in Western Civilization have believed them, although they have. We do not believe the teachings of economics because experience verifies the truth of economics, although it does. We do not even believe the teachings of economics because all humans have rational minds which allow us to understand that humans act purposefully, although we all do have minds fit for rational thought. We believe the truths of economics because God has created us in his image with the ability to know and perceive truth and one of these truths communicated to us in his creation and his Word is that, like God, we act with a purpose.

As mentioned, economics is a social science and, therefore, studies how humans engage in social (i.e. interpersonal) activity. All of this interpersonal activity is not merely behavior. Being made in God's image, humans act with purpose. Therefore, all sound economics begins with the axiom that *humans act*. It is this doorway that opens up into the wonderful world of economics.

SUGGESTIONS FOR FURTHER READING

Clark, Gordon H. *A Christian View of Men and Things*, Chapter VII, "Epistemology," 285–325. An excellent and thorough survey of the various schools of epistemological thought from a Christian perspective. Clark concludes that a consistent epistemology must begin by presupposing the truth of the Bible as God's Word. This chapter's discussion of epistemology draws heavily on Clark.

———. *Thales to Dewey*. This is Clark's textbook history of philosophy focusing on questions relating to the issue of knowledge. An excellent place to begin if one is interested in the history of philosophy from a Christian point of view.

Jaki, Stanley L., *The Savior of Science*. An impressive explanation of the importance of Christian faith and doctrine for the development and progress of science in Western Europe during the High Middle Ages.

North, Gary, *The Dominion Covenant*, 1–26. Chapters 1 and 2 of this book provide a good explanation of the importance of the doctrine of creation for all science in general and economics in particular.

General Principles of Human Action

AS STATED IN THE previous chapter, economics is a social science. Economics is not a bunch of unrelated facts mined from years and years of data spewed out by academics and government statisticians alike. A science involves systematically arranging facts and deriving general laws. Isaac Watts, the hymn writer, pastor, and logician, described science as “a whole body of regular or methodical observations or propositions . . . concerning any subject of speculation.”¹ In order for any science to yield valid conclusions, it must proceed using a valid method. Our next question to consider is *what is the proper method of economics?*

There have been three general approaches to economics as a social science throughout history. One approach is to follow the method used in the biological sciences. A number of economists have argued that the economy is like a living organism that is constantly adapting to change over time. Consequently, to discover economic laws, economists should do empirical studies.

Ideally, this would involve performing controlled experiments like those done by biologists and botanists. In the 1990s, for example, NASA was conducting a number of studies designed to find out which plants would grow well in space. NASA is interested in eventually forming space colonies in the future on places like Mars. One of the requirements for journeying to such faraway places is food. It makes no sense to send people to colonize Mars if they die of starvation before they get there. On the other hand, including enough food on board a shuttle to feed all of the passengers for a trip as long as the one to Mars would make the vessel so heavy that the chance of getting it beyond the earth’s atmosphere is rather slim. A suggested solution is taking the seeds of plants that can be

1. Watts, *Logic*, 173.

used to grow food instead of the food itself. That way food can be grown as needed without requiring so much weight.

A question that presented itself to NASA researchers was which type of food would be the best to grow in space. Which plant could grow relatively quickly and provide the most essential nutrients with the least amount of weight? One of their winners, it turns out, is the sweet potato. NASA set out studying the growth patterns of sweet potatoes, investigating what is the optimal amount of nitrogen to add to the soil to provide the best, most nutrient-packed, fastest growing sweet potato.

How do you think they attempted to discover this? Well, you might think they simply varied different levels of nitrogen added to different sweet potato plant beds and measured their growth rates and nutrient levels, and you'd be right. However, this is not the whole story. Many other factors also play a role in sweet potato development. Soil quality, the amount of water each plant gets, the amount of sunlight exposure, and the type of sweet potato seed that is planted all will affect growth and quality. Consequently, in order to isolate *only* the effects of different nitrogen levels on sweet potato growth, NASA researchers had to perform controlled experiments. That is, they had had to keep everything besides the nitrogen levels the same. They planted the same seeds in the same soil and gave them the same water and light, and then varied only their nitrogen levels to decide which amount was best for maximum sweet potato production.

Now, that works well for sweet potatoes, because the NASA biologists can control for all of the other variables. Let's consider economics, however. Remember that economics is a social science. Its object of study is people engaging in interpersonal action. Where do people actually interact with one another? Everywhere there are people, of course. That means that the whole world would have to be our test tube or Petri dish. How easy would it be for an economist to control for every variable in the real world? Not very. In fact, it is impossible.

Human action does not occur in a rarified laboratory in a controlled environment. There is no way for us to observe how people react to a change in one variable, say their income, if all other things were held constant, because those other things are never constant. The only economic data we possess is the result of actions that have already taken place, and every action is always the result of a composite of unique factors. Action is always undertaken by particular people with particular values at particular times in particular circumstances.

For example, you may think that a lot of people go to the movies these days. You would be right. In 2007 there were approximately twenty-seven million movie tickets sold in the United States each week. You might be surprised to know, however, that twenty-seven million per week is not even close to how many tickets were sold in an average week in the 1940s. Motion picture theater attendance in the United States peaked in 1948 when on average 90 million tickets were sold every week for an average price of 36 cents per ticket. Because of inflation (about which you will learn more later) 36 cents could buy a lot more in 1948 than it can now. In 2007 people had to pay about \$3.10 to buy what in 1948 cost 36 cents. If we lowered all movie ticket prices today to \$3.10 would movie attendance increase to 90 million per week? It is doubtful. There are so many more outlets for video entertainment today compared to 1948. Television is, of course widespread. We have DVD players, pay-per-view satellite networks, and internet sites that provide movies via streaming video. All of these allow us to watch films in the privacy of our own homes. There are a myriad of video games we can play as well. The point is that the people who bought movie tickets in 1948 were people who lived at a particular time, with particular incomes, with particular tastes, and particular alternatives for video entertainment. These particulars can never be exactly duplicated and can never be held constant. One cannot do economics the same way botanists study growth rates of sweet potatoes.

Another problem with the biological approach, which is based on empiricism, is that the data used in the attempt to discover economic laws is always data of past economic activity. You will remember from the last chapter that this exclusive focus on experience is a major deficiency with the empirical approach to epistemology. Such a focus is also very problematic for economics.

Because economics is the study of the actions of living, thinking human beings, we cannot assume that human behavior that was observed under past conditions will be repeated exactly. Conditions are always changing. Even if we are able to reproduce exactly those conditions, however, we still could not assume that people would do exactly the same thing. This is because, unlike sweet potatoes that cannot refuse to grow if placed in the correct environment, humans are not merely biological organisms running on instinct and hormones. Humans are creatures made in the image of God with the ability to think and act. We have the ability to choose to eat pizza today or not to eat pizza today. We can choose to eat

pepperoni and green olive pizza or hamburger and mushroom. Humans are not merely acted upon, but are themselves actors who are catalysts for change according to their own wills.

Because humans cannot be counted on to do exactly the same thing as they did yesterday, there is no way to establish universal economic laws based on the biological/empirical approach to economics. Even if past experience tells us that people's demand for cappuccino increased whenever its price decreased for the past 100 years, the data, by itself, cannot guarantee that this observed negative relationship between price and quantity demanded will remain today, tomorrow, and forever. Therefore, although the study of economic history can be enlightening in its own right, such empirical methods will not lead us to universal economic truth.

Another approach to economics has followed the model of Newtonian physics. This approach expresses all economic relationships in mathematical terms and applies differential calculus in an attempt to solve problems. This approach has become very popular, but has weaknesses every bit as problematic as the empirical approach.

One of the weaknesses of the mathematical approach is that it violates the principle of *Occam's razor*. Occam's razor is the principle that says the simplest explanation out of a group of explanations with equal explanatory power is the best. If, for example, I want to scientifically analyze human relationships I may, as some do, decide that the best way to start is with the following: Suppose that $H = f(F)$ such that $\frac{\partial H}{\partial F} > 0$. What does this mean? The reader does not really have a clue until the scientist reveals that H is happiness and F is the number of friends one has. The scientist is saying that happiness is a function of the number of friends one has, but that is not all. Those familiar with calculus will recognize that the scientist is positing that the functional relationship between happiness and the number of one's friends is such that the first derivative of one's happiness with respect to the number of friends he has is positive. Note two things about the above example: the mathematical equation does not communicate the meaning of the scientist until he explains what H and F represent, and after all is said and done, it would have been a lot simpler to simply state that a person's happiness is positively related to the number of friends he has.

A mathematical economist could respond by arguing that, while using mathematical symbols and functions does require some interpretation, such usage actually has more explanatory power than English,

because using math allows us to learn things that cannot be learned or learned as easily without it. This brings us to the true Achilles' heel of mathematical economics. A fatal weakness with the mathematical approach to economics is that a mathematical function implies a constant quantitative relationship between variables. If, for instance, we were to propose that the relationship between the number of friends we have and our happiness is such that $H = 2 + 3F$, this tells us that *every* time we gain a new friend, our happiness increases by 3.² If the above happiness function is true, then a friend never causes our happiness to increase by 2 or 4 or any other number but 3. Of course, this makes little sense when applied to friendship and happiness.

Quantitative constancy also does not apply to economic concerns either. There are never quantitatively constant relationships between economic variables. Economists have discovered that, other things equal, the price of a good and the quantity of that good people will buy are inversely related. When the price of an ice cream sundae decreases, the quantity of sundaes demanded increases. However, we can never say exactly how much the quantity demanded will increase, because that will always depend on the actions of people. As circumstances continually change, it is likely that their consumption of ice cream will change. More importantly, because people have volition, even in identical circumstances it is possible for the same person to act differently. Human action is not merely the outcome of external forces working on the person. It turns out that in human action, everything is variable. There are no constant mathematical relationships between any variables. These weaknesses indicate that mathematical economics after the pattern of physics is inadequate for discovering economic truth as well.

If the empirical and mathematical approaches are not the best way to do economics, what is? The approach that is the most realistic and meaningful method of discovering economics is verbal logical deduction. Beginning with the axiom that *humans act*, we can use verbal statements to logically deduce principles of economics that—as long as we do not make any mistakes in our logic—are themselves true. True, not just at one point in time, but true for all time. This method has been called the *praxeological* method (praxeology meaning the study of human action) and is the method most identified with the Austrian School of economics³

2. Let us not concern ourselves just now with the problem of just how we are supposed to measure happiness.

3. The Austrian School of Economics began in the 1870s with the work of Carl Menger.

SOME FIRST PRINCIPLES OF HUMAN ACTION

As Maria von Trapp (another Austrian, by the way) once sang, "Let's start at the very beginning. It's a very good place to start." Years ago, many writers on economics, such as Nassau Senior, John Stuart Mill, John Baptiste Say, and Francis Wayland characterized economics as the science of the nature, production, and distribution of wealth. Later, writers viewed it more as the study of exchange. While economics certainly does touch on both of these topics, it is broader than both. Economics is the study of how people seek to make their lives better through human action. Exchange—trading one thing for another—is action. Two youngsters trading a Manny Ramirez baseball card for an Alex Rodriguez, a middle-aged woman paying forty-five dollars for two sacks of groceries, and a college student giving twenty dollars to his buddy to get a used copy of a textbook like this one all have one thing in common. They are all engaging in human action. Production is action. Eating a plate full of buttermilk pancakes for breakfast instead of a bowl of Life cereal is action. Therefore we begin our study of economics by discovering some of the first principles of human action. If we want to begin our journey down the yellow brick road of economic knowledge from a spot called human action, it might be a good idea to know just what is meant by the term human action. Human action is most succinctly defined as purposeful behavior. A more detailed definition of human action is *applying means according to ideas to achieve ends*.

There are three very important words in this definition. One of them is *end*. We say that human action is goal-oriented in that it always seeks to attain an end. An end is our purpose for acting. They don't call human action purposeful behavior for nothing. If a ten year-old boy trades away his Manny Ramirez baseball card in order to receive an Alex Rodriguez, it is because his goal, his end, is to obtain the Rodriguez card.

Another important word in the definition of human action is *means*. Means are the things we use to achieve our ends. These means are part of the

The Mengerian tradition was carried on by economists Eugen von Böhm-Bawerk, Ludwig von Mises, and Murray Rothbard. Other influential economists connected to this tradition include F. A. Hayek and Israel Kirzner. This tradition is referred to as the Austrian School, because the founding members were citizens of Austria. Following World War II, the Austrian tradition moved to the United States and today adherents to the Austrian School can be found throughout the world. Students interested in the Austrian tradition in economics are encouraged to explore the website of the Ludwig von Mises Institute at www.mises.org.

created order. The means we use can be found both in us and in the world around us. Part of our environment consists of things we cannot control, such as sunlight and air. These things are called general conditions and are not means used in action in the sense that we alter them in order to achieve our ends. Means are things that we can appropriate for our purposes. When you brush your teeth (assuming of course that you are not opposed to good oral hygiene), your toothbrush, toothpaste, water, and hands are all things you can control in your effort to achieve your end of cleaning your pearly whites. In other words, they are means for action.

While we will address this point in much more detail later, it should be noted at the outset that human action necessarily implies the concept of ownership. If you are to attain your end by brushing your teeth, then you must have a toothbrush, toothpaste, water, and hands that are yours to do with as you please. All of these things must be at your disposal which means that they must be your property. Hence, the very concept of human action implies the existence of property.

The third very important word in our definition of human action is *idea*. An idea is the thought about the way that we can achieve our end by applying our means. It is the notion that, *if* you use a toothbrush, toothpaste, water, and hands, you can, indeed, clean your teeth so that they too resemble a flock of sheep (see Song of Solomon 6:6).

Our definition of human action as applying means according to an idea to achieve an end immediately presents us with a number of implications about human action. One such implication is that things do not act. Things do not have ends, means, or ideas. A rock does not have an end it is trying to achieve. A tree does not have means at its disposal that it directs toward an end. A lake does not think. It does not have any ideas. Consequently, things do not act; humans do. Another implication of human action is that action is conscious behavior, not reflex. Human action is purposeful behavior that is the result of ideas we have linking means and ends. Not all human behavior is human action. Action is conscious behavior. We do some things subconsciously—such as breathing—but this is not action.

Suppose you are in the kitchen making dinner for your significant other. (This is a big winner especially for you men.) Further suppose that your sweetheart enters the kitchen, naturally distracting you from the point at hand, and as you lean over to share romantic conversation, you set your hand on a burner turned to medium-high heat. What do you do? Do

you begin thinking to yourself, "Hey, this is hot. In fact, this is *very* hot. In fact, it is so hot, that I think that if I leave my hand in its present position, I will burn it. In fact, if I do not remove it from the burner soon, it will be burned rather badly. Yes, I shall remove it." Do you move your hand away from the stove burner only after such ratiocination? Of course not! The nanosecond you touch the burner, you jerk your hand away without any need for deliberation. Thank God that he created us with sub-conscious physical reflexes. It saves us a lot of pain. However, such reflexive behavior is not what we mean by human action. Human action is purposeful, the result of conscious decisions made by human beings as the result of ideas linking means and ends.

Another thing we learn about action by contemplating its definition is that it can only be undertaken by individual persons. Only individuals can have ends and can act to attain them. Societies or groups of people have no independent existence outside of their individual members. They do not have autonomous minds that are able to think ideas, choose ends, or employ means that are separate from the ideas, ends, and means of their individual members.

Some years ago, the Southern Baptist Convention passed a resolution encouraging the members of its churches to consider whether they should continue to patronize the Disney Corporation in light of certain content in recent Disney films, as well as Disney's policy of extending health benefits to domestic partners of homosexual employees. Predictably, media outlets proclaimed, "Baptists boycott Disney!" To what extent was it actually true that Baptists were boycotting Disney? If only three Baptists decided not to buy any more Disney DVDs for their children, would it be true that the Baptists boycotted Disney? Not exactly. It is only true to the extent that individual Baptists stopped buying from Disney. A group or society only does things that are done by its members. All action begins with *individual* humans using means according to ideas to achieve their ends.



Still more about action can be learned from our definition. Unachieved ends will not be enough to produce actions. Despite the rock and roll personality Meatloaf's assertion that two out of three ain't bad, having two out of the three things necessary for action will not produce action. This should not surprise us. Proverbs 13 tells us, "The soul of the sluggard desireth, and hath nothing; but the soul of the diligent shall be made fat" (Prov. 13:4 KJV). Merely because someone has an end (the sluggard desires something) this does not mean that he will necessarily act in such a way to achieve it. In fact, the verse says that while the sluggard has an end that he desires, he has nothing.

In addition to what we find in the book of Proverbs, it is only logical that if human action is applying means according to ideas in order to achieve ends, we must have means, ideas, and ends in order for action to occur. Suppose at the end of a stressful day, you return to your room looking for some mental peace and refreshment. Suppose further that you have the idea that if you could only put on your favorite recording of Beethoven's *Pastoral* Symphony, his Sixth Symphony, you could receive peace and refreshment. However, if you have left your recording at your parent's house, you will not act to achieve your end by listening to Beethoven's *Pastoral*. If you have only an end and an idea, action will not occur. Alternatively, if you have your favorite recording of Beethoven's Sixth and you know that it will provide you with mental peace and refreshment, but you do not at that time want mental peace and refreshment, then action will not occur. If you have means and an idea, but no end, you will not act. Finally, if you have a copy of Beethoven's Sixth Symphony performed by the Columbia Symphony Orchestra conducted by Bruno Walter and you do indeed wish to receive peace and refreshment after a long day, but you have no idea that listening to Beethoven will provide the peace and refreshment you crave, you again will not put on the Beethoven. If you have the means and an end, but no idea linking the two, action will not occur. For a person to act, he must have an end, and means, and ideas about how to use his means to achieve his ends.

It should also be noted that the word action does not necessarily imply a lot of activity. Doing things that are considered passive are still actions. If one has been sitting for an hour in a chair reading and then decides to take a nap for the next hour, taking a nap is an action, because it is purposeful behavior, even though napping is a rather passive endeavor.

What are some other first principles regarding human action that we should note? One existential fact is that action always takes place in time. Time is a flux during which every action takes place. Some actions, such as producing a crop of corn, can take a relatively long time—several months in fact. Other actions, such as snapping a photograph, take such a short period of time that they seem almost timeless. However, even if the time involved is only a nanosecond, one nanosecond is a period in time.

Additionally, action is always future-oriented. We always act in the present in order to reap an end in the future. The end can be reached in the near future or more distant future. You may want to achieve that pause that refreshes, so that you take a swig of Coca-Cola. Swallowing some Coke takes maybe one second, so that you will receive refreshment one second into the future. On the other hand, perhaps your goal is to graduate with a bachelor's degree, Lord willing. From the time you begin your higher education, your goal—graduation—will be reached four years into the future (or longer for some).

Because we are finite creatures, scarcity is one of the existential facts of life. Something is scarce if the desire for it is greater than the quantity freely available in nature. It is important to note that scarcity is not the result of the fall. Even in the Garden of Eden Adam's body was finite. Consequently, he could only be at one place at one time. Adam was commanded to tend the Garden. Even though he had not sinned yet, so that death had not yet become a constraint to his life span, he still could not do everything at the same time. He had to choose to do some things sooner and other things later. In acting, people must economize their labor and their time. The same is true for other means.

The scarcity of time, however, is not the same as the scarcity of other means. We cannot appropriate a unit of time the same way we can appropriate other means. The temporal succession of time cannot be reversed. One cannot save up time like he can save money or apples for future consumption. One cannot decide to save an hour by living only twenty-three hours one day in early September, so that he can have twenty-five hours the day before the final exam, giving him an extra hour to study. Neither can a person produce more hours in a day or years in his life.

The scarcity of means requires choices regarding what we want to do most. If I spend three hours on a Sunday evening in February watching the Super Bowl, I cannot at the same time worship the Lord in a Sunday evening service. If your friend Joe spends his time producing barbecue

beef sandwiches for sale, he cannot at the same time produce Pez dispensers. A person that works all day in a meat packing plant cannot at the same time lounge around the house reading or watching television. Because we cannot do everything we want during the same period of time, we must choose to satisfy some ends and leave others unfulfilled. Consequently we must prioritize our ends. We must decide which are more important and which are less important.

All means are scarce, because there are more ends they can be used to satisfy than there are means themselves. All means must therefore be economized. *Economizing* can be defined as using our means to serve our most desired ends. Our means can be put toward satisfying more than one end, so I must choose between which ends I want the most. Your notebook paper can be used for either taking notes or making paper airplanes. Butter can either be used to make the world's greatest breakfast, buttermilk pancakes, or the world's greatest dessert, flourless chocolate cake.⁴ Butter used in making pancakes cannot also be used in the flourless chocolate cake. Therefore, we must choose which we want more, the pancakes or the flourless chocolate cake. We must rank our ends.

VALUE IS SUBJECTIVE

Another fact of human action is that people rank ends by a process of subjective evaluation. By *subjective* economists mean personal. People rank ends according to how much they value them. Take the case of Helena Sophia for instance. Helena has a stick of butter that she can use to achieve a number of ends. She can use it to make buttermilk pancakes, flourless chocolate cake, or sauté a filet of orange roughly. How she chooses to use her butter will ultimately be determined by how she ranks her three ends. A person's ranking of ends can be called a value scale or preference ranking.

Helena will allocate the stick of butter toward that end she ranks most highly or what gives her the most utility. When economists use the word *utility*, they do not refer to the electric or water company, neither do they mean something that is necessarily *useful* in performing some task. For economists utility simply means satisfaction, that is, what Mick Jagger can get none of.

4. See "Light and Fluffy Pancakes," and "Ultimate Flourless Chocolate Cake," in *The Editors of Cook's Illustrated, The Best Recipe*, (Brookline, Massachusetts: Boston Common Press, 1999), pp. 397, 461.

Suppose that Helena ranks her ends as follows:

Helena's Value Scale	
(First)	Flourless Chocolate Cake
(Second)	Buttermilk Pancakes
(Third)	Orange Roughy

She will allocate her stick of butter toward the making of a flourless chocolate cake because that is what she values most highly. Who is it that decides that flourless chocolate cake is Helena's most highly valued end for her butter? Helena does. It is Helena's own value scale that determines how the butter will be used by Helena. This is what economists mean when they say that value is subjective. People rank ends according to their *personal* preferences. In the context of economics, subjective simply means personal.

What of the buttermilk pancakes, however? She must forgo making them. She must do without. In other words, her decision to make the flourless chocolate cake requires that she not enjoy eating a batch of buttermilk pancakes. Economists refer to this *doing without* as a cost. In fact, they have a special name for it: *opportunity cost*. Opportunity cost is the value of the alternative that must be foregone as the result of choosing to achieve a certain end. For Helena, one flourless chocolate cake costs her a batch of buttermilk pancakes. Helena's opportunity cost of the flourless chocolate cake is the value of a batch of pancakes. You who are full-time college students give up the opportunity to work full-time and so for you, choosing to go to school brings with it the opportunity cost of the sacrificed income that you could have earned when working. This is one reason why high school dropout rates tend to decline during economic recessions. When the economy is in decline and businesses are not hiring as much, jobs are harder to come by and those that are available tend to pay lower wages. Hence, students give up less by foregoing such work and staying in school.

Who is it that decides what the opportunity cost for a particular action is? In Helena's case, who decided that the opportunity cost of the flourless chocolate cake was a batch of pancakes? Helena did, of course. It was her value scale that determined not only what is most valuable to

her, but also her most highly valued alternative that must be sacrificed. Consequently, just as the value of the end achieved is subjective to the person doing the acting, it turns out that costs are subjective as well. In economics there is no such thing as objective costs, because costs are values of things forgone and value is subjective.

Much confusion has been generated by well-meaning folk who, from the discussion above, conclude that economists assume that everyone is selfish and greedy. These people rightly are concerned that economics provides a true view of man. Good economists, however, never assume that people are selfish. They merely understand that human action implies a value ranking that is subjective. Economics says nothing about what people actually value. Helena could desire to make a flourless chocolate cake in order to feed others before she is fed, in which case feeding others would be higher on her value scale. It is true that some people may be selfish in an evil, greedy sense. Some people do love money and as such, commit idolatry. Others, however, do not. When Mother Theresa received \$190,000 that came with the Nobel Peace Prize, she did not blow it on a Ferrari, but spent it building a leprosarium. Was Mother Theresa selfish? I think we could all agree that she was not. Did she act in accordance to her own value scale? She used the money the way she thought it should be used, therefore the answer is yes. So when economists make the claim that people's actions are the result of subjective value, they are only claiming that such valuation is personal from the point of view of the actor, and not necessarily ascribing selfishness or charity.

Subjective value also implies, however, that the ranking of values is ordinal, not cardinal. Linguists will recognize that ordinal is a derivative of the word order. An ordinal ranking of ends ranks such ends as first, second, third, and so forth. A cardinal ranking would assign numbers to each end that assign a certain weight or measurement to the end. When we say that our temperature is 101°, it implies more than that it is higher than 100°. It implies a certain amount of degrees that can be measured.

Human value scales are always the product of an ordinal ranking, not a cardinal one. This is because there is no measure of value that can be added up. Imagine that, as often happens to me, you get invited over to dinner by a friend that is just crazy about the music of the German early baroque composer Heinrich Schütz (1585–1672). Eventually, of course, the conversation turns towards your host's various enthusiasms and finally touches on Schütz. You relate to your host that you also really like the music of the

composer in question, especially his choral collection *The Psalms of David*. Then your host exclaims that he loves Schütz more than you do. You reply, "Well, I don't know." Your host quickly shoots back, "I do. I love Schütz more than you do. In fact I love Schütz *twice* as much as you do!" Now, if you knew economics, you would know that the best response would be, "What does *that* mean? Twice as much as what?" The point is that the preference one has for the music of a particular composer or any other good, for that matter, cannot be measured. The satisfaction you or I receive from Schütz's *The Psalms of David* is a mental phenomenon that cannot be measured. There is no degree of satisfaction like there are degrees Fahrenheit. There are no *utils* of utility. There are no *satees* of satisfaction.

The fact that value is subjective does not only mean that it cannot be measured and added. Because subjective value means personal value, value also is non-comparable between individuals. Only your host knows for sure the level of affection he has for Schütz. Only you know how much Schütz's music means to you. Because there is no objective unit of measurement for value, trying to compare values between people is like claiming that I am taller than my wife because she is 5'4" while my temperature is 98.6°. It makes absolutely no sense.

While the above conclusions regarding subjective value can be deduced from the fact that humans act purposefully by allocating scarce means to achieve their most highly valued end, we do not have to rely only on our reason to be sure that our conclusions are correct. God's Word, which is sure, also instructs us that humans act according to their own subjective value. Remember that humans are created in God's image, so we can learn about the nature of man by looking at God. One thing the Bible tells us about God is that he imparts value into his creation. God makes judgments regarding creation based on his holy nature. For instance, at the end of every day during the creation week, God made an evaluation and declared what he made to be good. After he made man, he said it was very good. Now, because it was God who was doing the evaluating and because God's judgments are always objectively true, God's valuation was true in an objective sense. However, it was also a subjective evaluation because God was making his evaluation according to his own criteria. Because we are created in God's image, we also make evaluations according to our own value scales. We are not God, so our judgments are not necessarily objectively true. In fact, they are only true to the extent

that they agree with God's objective standards. However, as God's image bearer, we do subjectively evaluate our ends as we undertake action.

Additionally, the very vocabulary of the Bible characterizes man as a being who acts according to subjective evaluations. In the Old Testament, the Hebrew word that has been translated into English as *value* is *arak*. This word is used as *value* in Leviticus 27:8, 12. In this passage, God is instructing the priest regarding allowing people who rashly have made a vow to dedicate their lives to serving God in the temple to get out of their vow by paying a sacrifice. God then gives a specific price for redemption and then graciously makes allowances for those who cannot afford the price that God names. It is here that God tells the priest that he should set the redemption price depending on how much he *values* or *araks* the person wanting out of his vow. The word *arak* literally means to set in a row, arrange, or put in order. In Leviticus 27:23 *arak* is translated as *estimation*. Note that the Hebrew word for value literally refers to an ordinal ranking. In Psalm 119:127, 128, the same word is translated *esteem*.

A second Hebrew word used in the Old Testament in connection with human valuation is *mikcaw*. In Leviticus 27:23 it is translated in the Authorized Version as *worth*. According to Strong's *Exhaustive Concordance*, *mikcaw* literally means *enumeration* implying a valuation. Note again that an enumeration is an ordering—a subjective ranking of preference—not an objective assigning of cardinal values. It is clear that the Hebrew words pertaining to how humans value things refer to human subjective evaluation.

Such textual evidence is not limited to the Old Testament, but also is apparent in the New. This should not surprise those who understand that it is the same Holy Spirit who inspired all of the books in the Bible. The Greek word used in the New Testament in reference with human valuation is *timao* (pronounced tim-AH-o). This word is translated in the Authorized Version as both *valued* and *value*. Strong's *Exhaustive Concordance* tells us that its literal meaning is "to prize, i.e. fix a valuation upon; to revere."⁵ The conception of someone prizing or revering an object or person clearly implies a subjective evaluation. So we see that in both the Old and New Testaments, God's Word describes us as people who make personal, subjective value judgments. Again, this does not mean, and sound economics does not teach, that moral values are subjec-

5. Strong, *A Greek Dictionary of the New Testament*, 72.

tive or relativistic. It simply means that humans value things according to their own personal value scales. The goal of Christians is to have our value scales line up in agreement with God's.

ECONOMIC GOODS

Action, as you will remember, is applying means according to ideas to achieve ends. In order to get a firm grasp of economic principles then, it is imperative to have a proper understanding of the concept of the means people use to achieve their ends. The means people use in action are called *economic goods*.

There are two categories of economic goods: consumer goods and higher order goods. *Consumer goods* are goods that are directly serviceable. Nothing has to be done to a consumer good to make it more fit for use. For example, a Twinkie is the quintessential consumption good. All that has to be done for it to serve its purpose is to be chewed and swallowed. Nothing has to be added to it. It does not need to be further baked or warmed up. It is fit to be eaten as soon as it comes out of its plastic wrapper. For reasons that will be explained below, consumer goods are also referred to as goods of the first order.

Twinkies, however, do not just appear out of nowhere. They do not spontaneously generate. They do not just show up on the ground for us every morning like manna from heaven, although there is some speculation that the manna left for the Israelites was of similar chemical constitution and flavor as Twinkies. Of course, some scholars also have speculated that the manna in question was actually secretions from scale insects.⁶ Of course, one could then ask how such secretions came down from heaven.

In any event, for Twinkies to exist for our consumption, they have to first be made. The question presents itself: from what are Twinkies made? Hostess, the makers of Twinkies, must use other means to achieve their end of producing a Twinkie. These means are higher order or *producer goods*. These are goods that are not directly serviceable for consumption, but are transformed into directly serviceable goods in the future. They are indirectly serviceable.

What does Hostess use to produce a Twinkie that sits at your local grocery or convenience store? Well, they use yellow sponge cake, cream

6. I am not making up the bit about insect secretions. See the note on Exodus 16:14 in *The New Oxford Annotated Bible*.

Foundations of Economics: A Christian View is an introduction to economics from an explicitly Christian perspective. It maintains that there is no conflict between Christian doctrine and economic science, properly understood. Therefore, *Foundations of Economics* has three goals: to demonstrate that the foundations of economic laws are derived from a Christian understanding of nature and humanity; to explain basic economic principles of the market economy and apply them to various economic problems, such as poverty and economic development; and to show the relationship between Christian ethics and economic policy.

Foundations of Economics: A Christian View accomplishes these goals by rooting the fundamental principles of human action in the Christian doctrines of creation and humanity, and integrating them with the Christian ethic of private property. This volume explains the relevance of economics for fulfilling the cultural mandate set forth in the first two chapters of Genesis, by demonstrating how economics can help us in our task to be fruitful and multiply and have dominion over the earth, without spoiling creation, starving to death, or descending into a barbaric struggle for survival.

"To speak of an economics textbook as enjoyable, thought-provoking, and at points even entertaining, might seem implausible. But Dr. Shawn Ritenour has accomplished the improbable with Foundations of Economics, an outstanding work that makes the sometimes obtuse jargon of economics easily understood. Practical in application and sound in economic theory, Dr. Ritenour's excellent text is unapologetically free market oriented and incorporates a biblical worldview, providing a perspective on economics nearly universally missed by other texts. I pray the book finds a wide audience."

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—Timothy Terrell
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