Six

RENDER UNTO CAESAR

The Role of Government in the Economy

**"In capitalism man exploits man;
in socialism it's the other way 'round."**

Abba Lerner

"Market capitalism can deliver goods and services in amazing quantities, but it cannot guarantee caring communities that sustain body and spirit."

James Halteman

"My kingdom is not of this world."

John 18:36

SYNOPSIS: Despite the demise of most communist nations, there is still a broad variance in the size and role of government among countries. In Italy, for example, government expenditures account for 48 percent of GDP. Increasingly, however, government's control of resources is being shifted to competitive markets as citizens are voting in favor of democratic capitalism and less government. Regardless of where a nation falls on the spectrum between socialism and capitalism, without transcendent values, the moral foundation provided by God, democratic institutions cannot function effectively. Christians need to be active in the public square.

Meeting in a meadow called Rynnymede, between Windsor and Staines, King John of England, under duress from his nobles and church leaders, signed the Magna Carta on June 15, 1215. The Magna Carta established the principle that neither citizens nor kings are above the rule of law, and God endows the law. The Magna Carta was the first significant kick in the shins to absolute state despotism. It covered a laundry list of liberties that survive to this day, such as the right to a fair trial by a jury and under the laws of the land, compensation for the confiscation of property by the state, the raising of taxes by common consent, and the freedom of the church from civil interference. From the Magna Carta, following the Glorious Revolution of 1688, came the 1689 English Bill of Rights and Act of Toleration (with respect to freedom of worship). Completing the transfer of sovereignty to the people, the 1689 Bill of Rights was the antecedent of the U.S. Bill of Rights.

The concept of government "of the people, by the people and for the people" is steadily encroaching on nations in every continent. This does not mean, however, that there is consensus on how much government people want and need. Certainly communism, except in recalcitrant Cuba and North Korea, is dead. Nevertheless, socialism, where citizens through the expression of their collective will determine the allocation of resources and the resultant goods and services, is very much alive. While direct government ownership of the means of production is on the wane, central planning, substantial redistribution of income and social engineering through regulations and the law all occur in more socialist nations. A mixed capitalist economy, such as the United States where central government expenditures account for 22 percent of Gross Domestic Product, stands in sharp contrast to such nations as Israel and Italy (48 percent of GDP), France (47 percent), Sweden (44 percent), Hungary (43 percent), Denmark and Portugal (41 percent), and the United Kingdom (39 percent).[1] And environmental laws aside, the recent trend in the United States has been toward deregulation of economic activity (e.g., railroads, airlines, trucking, the Internet).

In this chapter we will consider two issues. First, what is the prevailing range of views among economists with respect to government's size and the extent of its involvement in daily affairs? We will briefly examine the position of those economists who favor reliance primarily on competitive markets and the beliefs of those who favor socialism. Second, do we find Scriptural support for any one particular view? Should Christians favor socialism or capitalism? Is Christianity, as theologian Paul Tillich claimed, the religion of socialism, or the religion of capitalism as claimed by Michael Novak?

The Perspectives of Economists

Adam Smith believed that when the system of natural liberty and free markets prevails, government must attend to only three duties: protection of society from foreign invasion, the erection and maintenance of certain public works, and "duty of protecting, as far as possible, every member of society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice"[2] (see chap. 2). These duties of jurisprudence encompass both remedial justice, including redress for injury to persons (physical and reputation) and property, and commutative justice, centered primarily on laws that protect property rights and encourage equilibrium between the market and the "natural" price (the scholastic tradition of the "just" price). Smith makes no definitive statement on distributive justice, although various remarks in his writings show a recognition that markets can fail in their distributive function due to regulations, taxes and patterns of property ownership founded on greed.

Adam Smith clearly saw human nature as fallen and believed that competition serves as a major curb on the excesses of self-interest. Smith was a strong proponent of the use of the state's powers to keep entry to markets open. Government should be very judicious in the granting of monopolies and tariffs, he said, and quotas should generally not be used to limit foreign competition. Smith opposed regulations that gave exclusive privileges to corporations, that limited entry into occupations through apprenticeships and that in any other way constrained the open operation of product and labor markets.

Today, economists who favor competitive markets as the primary means for determining the allocation of resources, output and income do not go far beyond Adam Smith's basic position. Such economists do recognize market failure and the consequent need for government action with respect to external effects such as air and water pollution (chap. 11) and the lack of perfect information (unavoidable ignorance) among consumers and employees. They acknowledge that the market produces an unequal distribution and wealth, and so they support various temporary economic "safety nets," but they oppose massive redistribution of income through government taxes and social programs (chap. 10). They also concede that the macro economy rarely comes to equilibrium at full employment with low inflation, but reject the neo-Keynesian fiscal adjustments to the economy. Instead, they support deliberate, transparent monetary policy to dampen the business cycle.

These economists tend to favor economic growth over social goals and see economic growth as coterminous with quality of life. They, therefore, are wary of any governmental actions that may intrude on the free process of innovation and "creative destruction" that drives economic growth over the long haul (chap. 5). This would include an aversion to overregulation and to inheritance and antitrust laws that may reduce individual and collective entrepreneurship and incentives to hard work and productivity. They see competitive markets as generally providing a level playing field for everyone willing to put forth reasonable and sustained effort, and although opposing discrimination, are not strong advocates of government regulations or actions that give special advantage to any one group. Individuals should be constrained primarily by their personal moral codes, they say, and the social processes and social order emerge spontaneously as an undirected consequence of chance interactions.

The views on government put forward by James Gwartney, Richard Stroup and Russell Sobel are representative of the more conservative position. They make four assertions. First, higher taxes or additional borrowing will impose an increasing burden of deadweight losses on the economy, as the size of government expands. Second, as government grows relative to the market sector, diminishing returns will reduce the rate of return derived from government. Third, the political process is much less dynamic than the market process and there is less incentive for increased productivity. Fourth, as government grows it invariably becomes more heavily involved in the redistribution of income and regulatory activism—two activities that encourage wasteful rent-seeking, as individuals and firms seek returns that exceed opportunity costs.[3]

On the other hand, economists who favor socialism, or at least a greater presence of government in economic affairs, believe the selfishness of individuals requires the imposition of an ordered society based on reason and conscious design (i.e., planning). They would not necessarily cast Adam Smith aside but would put greater emphasis on the need for distributive justice, government regulation and a tradeoff between economic growth and quality of life orchestrated by government. Greater emphasis on distributive justice is exhibited in such countries as France, Sweden and Denmark through such actions as government-provided health care to all citizens, free child care, extensive housing subsidies, extended paid maternity leave, free college education, substantial subsidies to agriculture, and unemployment benefits that extend for a year or more. Government regulations are much stricter with respect to such issues as the environment, worker safety, land use and building codes. The government even mandates to employers the minimum vacation days workers must receive (e.g., four weeks in Germany). While neo-Keynesian policies would obviously not be anathema to economists favoring socialism, given the already substantial size of government, they would not necessarily favor full employment over social welfare. This is evidenced in part by the high, even double-digit, unemployment rates found in many of the socialist countries. Most of the industrialized socialist nations do adhere to stable monetary policies in order to keep inflation well under control.

Which group of economists is right? The trend over the past two decades has most definitely been toward more reliance on competitive markets. This includes the still undemocratic totalitarian nation of China with its mix of competitive markets and state-operated businesses, as well as industrialized countries such as France and the United Kingdom. This is, in part, recognition of the power of the price mechanism to automatically coordinate the preferences of consumers with the availability of resources and the capacity of producers. The lack of incentives for efficiency in large government bureaucracies is also a factor. It is safe to say that extreme socialism—with the collective ownership of property, extensive state-operated enterprises, the equalization of income and all-pervasive economic planning—is, as the Marxists were fond of saying, confined to the dustbin of history. Such terms as *market socialism* and *democratic socialism* are used today to represent the path between capitalism and the socialism of command economies.

Research shows that countries with a high degree of economic freedom, including lower levels of government spending as a percent of GDP and lower levels of government transfer payments and subsidies, experience higher rates of economic growth (GDP per capita) than countries with less economic freedom.[4] When it comes to economic growth, competitive markets are the horse to ride. Nevertheless, cultures, traditions and common values still vary among nations. As a result, nations choose to allocate their scarce resources in various ways. Nations with a strong democratic tradition may choose to trade off economic growth for free universal childcare or mandatory parental leave benefits. So long as the choice process is democratic, as opposed to coercive or bureaucratic, and the tradeoffs explicit (e.g., higher labor costs with resultant product prices that are less competitive), one cannot say the outcome is less preferred.

What guidance does Scripture provide with regard to the alternative roles of government in economy and the choice between socialism and capitalism?

A Christian Perspective

Jesus makes it clear that his kingdom is not of this world (Jn 18:36). Throughout his ministry on earth, when Jesus preached the gospel of the kingdom, he used the Greek word *(basileia)* that refers to the right or the authority to rule over a kingdom. As Charles Colson notes, "The kingdom of God is a rule, not a realm. It is the declaration of God's absolute sovereignty, of his total order of life in this world and the next."[5] The initiation of the kingdom was the major focus of Jesus' preaching and ministry. Through the kingdom we find salvation, a restored and meaningful relationship with God, and the expressed moral authority of God. Until Jesus comes again, the state is ordained by God to restrain sin and promote justice. "While it cannot redeem the world or be used as a tool to establish the kingdom of God, civil government does set the boundaries for human behavior."[6]

Christians have the same civic responsibilities as all citizens, but as citizens of the kingdom of God we are also to bring God's transcendent standards of righteousness and justice into the public square. Christians are to pay their taxes (Mt 22:15-21; Rom 13:6). Civil authorities are to be obeyed unless they set themselves in opposition to divine law (Jn 19:11; Rom 13:1-5). From a kingdom perspective the individual comes first—before the state or the social order. Ultimately, Christians are "aliens and strangers on earth" (Heb 11:13). Christians are to resist the temptation to use the coercive power of the state to bend society into conformity with our view of the kingdom. We must take care not to fall prey to the secular myth that the state can transform people. The state can constrain or not constrain people. It can influence individual behavior by threatening individuals' property, livelihood, families and lives. But, as the rapid disappearance of the influence of the communist philosophy on individuals in Eastern Europe evidenced in the early 1990s, that does not constitute personal transformation. King Josiah had the Book of the Covenant read to all the people of Judah. He removed the idols from the temple, did away with pagan priests, outlawed mediums and spiritualists, and destroyed the high place where children had been sacrificed to the sun god. Yet these sweeping outward reforms did not last long beyond Josiah's reign because the hearts of the Jewish people were not transformed (2 Kings 22—23).

Christians and the church must also be keenly aware that by standing for kingdom values, they will often be challenging the state's claim to ultimate authority in society. This is the legitimate yet often lonely and dangerous role of being the salt and light for God in this fallen world, speaking the truth in love. Beginning in the Garden, God gave men and women the freedom to choose to do what is right. This is the heart of democracy. Given fallen human nature, political systems tend to seek after power. In a centralized socialist system this may involve a small, elite group seeking to impose its views on the majority, whether from altruism or from material greed. In a democracy this may require elected officials to pander to the sinful desires of various segments of society in order to get the funds and votes to win a campaign. Whenever the state sets itself in opposition to divine truth, Christians are called to prayerful civil action and even civil disobedience, to enter the public square in a stand for divine truth. The nonviolent resistance to the state of Martin Luther King Jr. is one of the supreme examples in the twentieth century of faith in action in the public square.

With respect to government involvement in economic affairs, Scripture seems to generally support the views of Adam Smith. As discussed in chapter one, because humans are steeped in sin, we need the state to administer justice, to protect against aggression and to provide for public works (1 Kings 10:9). For the same reason, concentration of civil (and economic) power should be kept limited, with appropriate checks and balances, and complete freedom in economic affairs is rejected. As one observer commented, "We are sinners, and our economic life always shows it." The judiciously constrained coercive powers of government are to be used to encourage economic competition and minimize exploitation in product and resource markets (e.g., antitrust legislation, limiting barriers to entry, guaranteeing the right to collective bargaining).

God wants commutative justice in economic affairs (e.g., prices are not just when there is fraud or coercion in the market). Weights and scales are to be honest, a full measure is to be given (Lev 19:35; Deut 25:15; Prov 20:23; Lk 6:38), and currency is not to be debased by inflationary monetary policy or other means (e.g., mixing lead with silver). Lies and deceit are not to enter into economic transactions. Procedural justice requires that contracts and commitments be honored (Lev 19:13). Neither consumers, nor borrowers or lenders or suppliers are to be exploited. Absence of commutative and procedural justice in an economy raises the costs and reduces the frequency of transactions, reducing overall economic well-being.

God also desires justice when people are wronged economically, so that they get back what is lost. In cases of accidental loss the costs of restoration are to be borne partially or fully by the negligent party (Ex 21:33-36; 22:5-8, 11-15). In cases of crimes against property or persons the perpetrator's punishment may include public confession, multiple financial restitution and even death. With false accusations, the accuser is generally given the penalty associated with the alleged crime (Deut 19:16-19).

The Bible supports decentralized private ownership of most resources (chap. 4), and God clearly warns about the dangers of centralized material, political and economic power (1 Sam 8: 6-18). There is consensus among both conservative theologians, such as Michael Novak, and liberal theologians, such as Ronald Sider that, when it comes to economic growth, competitive markets are the clear winner over planned economies. Observes the late pope John Paul II, "On the level of individual nations and of international relations the free market is the most efficient instrument for utilizing resources and effectively responding to needs." He adds, however, "But there are many human needs that find no place on the market."[7] The benefits of the free-market economy come at a price. That price includes an unequal distribution of wealth and sinful individuals doing bad things to themselves, their families and their communities.

But is the government responsible for distributive justice? Economists disagree. So do Christians. As shown in chapter ten, neglect of the poor is not an option for Christians. All persons are made in the image of God. Each life is sacred and precious in his sight. Every person should have access to the basic provisions necessary for life (e.g., food, clothing, shelter, health care) and the opportunity to participate as an accepted member of the community. God is on the side of the poor, the weak and the oppressed, and so he clearly wants his people to fight economic injustice. People are to be treated equitably, without partiality. Every person who is able to work should have access to the productive resources necessary for dignified participation in the economy. We see a bias against a growing inequality in the distribution of wealth in the Old Testament traditions of the sabbatical and Jubilee years—times when debts were forgiven, property restored to its original owners and persons who had sold themselves into servitude in order to satisfy debts were set free. Those with authority in government are admonished to "defend the rights of the poor and needy" (Prov 31:8-9; Jer 22:16).

In a democracy citizens have the right to voluntarily redistribute wealth and provide charity through private means. We can also elect officials who will take public actions to help the needy. But there indeed exists great variation among democratic industrialized nations with respect to the extent of their social welfare spending (see chap. 10 for details). The caveats are twofold. First, as Michael Novak observes, "All sectors of society desire more, so politicians promise more. They spend money not their own, money the system does not have. The structural flaw in all welfare democracies is the desire of every population to live beyond its means."[8] Collecting that money through high or extremely progressive taxes helps to destroy the incentives that generate economic growth and may lead to a diminished economic base for all citizens. Second, rhetoric about compassion is often a vehicle used by politicians to obtain power. And political allocation of resources, regardless of its stated purpose, tends to be biased in favor of certain elite interests. According to economists Gwartney and Stroup, "politicians are led as if by an invisible hand to reflect the views of special interest groups, even though this leads to wasteful policies."[9]

In our competitive market economy, as the traditional Christian values of self-discipline have given way to self-indulgence and hedonism, most firms and investors simply see new opportunities for making money. The boom in pornography (chap. 14) and gambling (chap. 13), for example, is simply a matter of suppliers meeting consumers' demand for entertainment. The destructive spiritual impact on individuals, families and communities, the accompanying nihilism and the degradation in the eternal value of each soul is ignored. Christians and the church are obligated to bring God's transcendent standards into the public debate on the regulation of these activities, into the management decision-making structure of corporations (chap. 12), and into the lending decisions of financial institutions.

The rapid growth in productivity and prosperity in market-based economies has also led to rampant consumerism. Rampant consumerism, a sin of both the rich and the poor, is idolatry, a state of discontent built on covetousness and the substitution of having for being. While God does not want Christians to live in abject, oppressive poverty, we are called to be content in all things and to put the kingdom first. The many prosperous Christians in developed countries with market economies are warned by Jesus to give serious consideration to focusing less on consumption and saving (building bigger barns [Lk 12:18-21]) and more on charity.

Government certainly shouldn't allow interest paid on unsecured consumer debt to be deductible from taxable income, and high taxes could be placed on such things as luxury goods and vacation homes. Despite rhetoric from some social activists, research generally indicates that advertising doesn't create demand, rather it shifts demand among alternative substitutes. People actually do enjoy and value their DVD players, iPods and cell phones. And advertising does inform consumers regarding the range of prices and characteristics of products and services. Nevertheless, government certainly can and should play a role in limiting false advertising and advertising of harmful products (such as tobacco).

Aside from taxing and spending, government has enormous impacts on economic activity through the regulatory process. Scripture clearly prohibits discrimination by economic class (Jas 2:1-4) or gender, race, ethnicity, or age (Acts 2:17-18; Gal 3:26-29). Government should be aggressive in legislating against discrimination and prosecuting those who commit acts of discrimination. Government regulations should also protect workers from employers who would expose them to unsafe conditions or would steal from their pension funds, just as it protects them from unions that would deny them the right to work. Overregulation, however, represents a serious danger for a number of reasons. First, it allows regulated industries to take advantage of government-erected entry barriers to raise prices and lower the quantities of products and services. Second, it attracts special interest groups of all stripes to seek special advantages from legislators and bureaucrats, a process that may involve corruption and bribery. Finally, particularly extensive and onerous governmental regulations will encourage disobedience and reduce citizens' respect for the authority of government (contrary to what Scripture desires).

Conclusion

So, which is the appropriate choice of economic systems for Christians: capitalism or socialism? Recent history shows that nations are increasingly voting in favor of democratic capitalism and less government. Good stewardship of resources provides a scriptural affirmation of that movement. At the same time, God's concern for the poor is in strong evidence from the beginning to the end of his Word. Certainly the competitive market system has demonstrated its superior ability to generate a rising tide that lifts all ships. Yet disagreement remains among both Christians and nations as to what constitutes an acceptable minimal standard of living and how that minimal standard should be provided. The choice appears to lie on a continuum between mixed capitalism (such as in the United States) and the market socialism found in many Western European democracies.

Whatever the choice, it does not constitute the major threat to the survival of these societies. Differences in GDP per capita income are important but not essential. Democracy is essential. The real threat is the movement of nations into the post-Judeo-Christian era of relativism. Can these affluent societies, can any society, thrive and survive in defiance of the absolute transcendent authority of God? Without a moral foundation, can democratic institutions function? Without democratic institutions there is no freedom of religion. And without religion there is no institution to challenge the power of government. Observes Christoph Schönborn, "His kingdom is not of this world, but it comes into this world."[10] Every time Christians apply their faith to economic issues, whether in the public square or the corporate boardroom or the nonprofit management structure, they have a chance to bring decision-making back into accord with the values of the kingdom, protecting us from the natural destructive consequences of our sinful natures.

Discussion Questions

1. From a Christian perspective, why did Marxist communism fail?

2. Which is a more Christian form of government, democratic capitalism or democratic socialism?
3. What functions does government have to undertake because of fallen human nature?
4. Should Christians concern themselves with the regulatory activities of government? If so, what areas of regulation are most significant?