

SECTION I

THE FRAMEWORK OF ECONOMICS

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There is only one difference between a bad economist and a good one: the bad economist confines himself to the visible effect; the good economist takes into account both the effect that can be seen and those effects that must be foreseen.

Frédéric Bastiat

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

Henry Hazlitt

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1 WHY BASIC ECONOMICS?

The Dominion Mandate

And God blessed them. And God said to them, “Be fruitful and multiply and fill the earth and subdue it, and have dominion over the fish of the sea and over the birds of the heavens and over every living thing that moves on the earth.”

Genesis 1:28

“Why do we have to have money?” a five-year-old girl asked. It was clear both from her manner in asking the question and her surrounding remarks that she was not interested in learning about the function of money. That is, she was not interested in an account of the origin of money or a discussion of the great convenience of having a medium of exchange. She was concerned that there is a price to pay for the things she wants; that they cost money, and that she did not have enough. To put it another way, she was asking why she could not have whatever she wanted without any cost attached to it. No doubt, hers was an age-old question. Pushed to answer the question briefly, most of us would probably say, “Well, that’s just the way it is.” But there is more to this answer. It is in the nature of things. That is, economics is built into the nature of the very world we inhabit.

1.1 In the Beginning . . .

In terms of the origin of her problem, the Bible gives an answer in the book of Genesis. After God created Adam and Eve, He placed them in the Garden of Eden and gave them a mission. There are several observations to be noted in the description of life in its perfect state before the Fall. Eden was a garden, rather than a wilderness. Planning had gone into its design to provide fully for the needs of its inhabitants. All their material needs could be met by the numerous plants that grew there and the bountiful fruit they produced. Nevertheless, the man and woman still had to tend to the Garden to produce the things that they wanted. Beyond that in Genesis 1:28, in what is known as the **Dominion Mandate**, they were instructed to venture out beyond the Garden and to turn the whole earth into a garden by taking dominion over it. This project could only be accomplished by work. Thus, even in the condition of moral perfection, work was instituted to achieve a purpose. The reality that we must work to produce things and, thus, that there will always be a cost connected to

Dominion Mandate—as recorded in Genesis 1:28, after God created Adam and Eve and placed them in the Garden of Eden, he commanded them and their descendants to take dominion of the whole earth.

Getting the Point . . .

What are some differences between a garden and a wilderness?

good (n.)—a commodity or service that can be utilized to satisfy human wants and that has exchange value; in other words, the means that we use to achieve our ends.

There are four necessary conditions for something to be considered an economic good:

- the existence of a human desire
- the commodity or service must be useful to the satisfaction of that desire
- the causal connection (that it is useful to satisfy a desire) must be known
- humans must have command over the commodity or service to direct it to productive use.

Example: crude oil was not always thought of as a good, but was once thought of as merely a pollutant.

public policy—programs of action that proceed from legislation. Policy is set by government action; first by the legislature that passes laws, then by the executive branch that executes laws, and finally by the judicial branch that judges whether the law is upheld. The limits of what the government could do were explicitly restricted by the U.S. Constitution. The basic underlying assumptions about human nature and economic principles will determine the results of policy.

economics—the systematic study of the effective production of those goods that are most wanted with the least use of the scarce resources available.

economic principles—God’s built-in features of well-functioning human interaction in the material world.

universal principles—principles that apply to all people, in all places, at all times.

the things we want, has always been a part of the human condition. Since humans are finite creatures and cannot do everything they might desire to do at once, they must choose their individual courses of action to accomplish their own unique parts of this grand project.

But something else happened. There was one tree in the Garden whose fruit they were warned not to eat lest they die. Eve disobeyed, ate the fruit, and also gave some of it to Adam to eat. As a result, God judged them and cast them out of the Garden. Moreover, He cursed the earth so that it would no longer fully cooperate with their efforts. “By the sweat of your face,” He said, “you shall eat bread.” In short, thereafter their labor would not be as effective as it otherwise would have been. That is, from this point forward mankind faced increasing difficulty in achieving their intended purpose since the creation would not respond as well as it was originally designed. Thus, the matter of work became more complicated. If we followed these ideas through to their many implications, it would lead us toward the answer of why we cannot have what we want without giving up something else we may also want.

1.2 Questions Addressed by Economics

Economics does not attempt to answer the question of why things are the way that they are. It does, however, give help in answering a whole range of other questions. It deals with an essential and pressing aspect of life. Its subject matter is the production and distribution of **goods** and all that is entailed in it. Economics deals with such questions as who gets what? How are prices determined? How do markets operate? What motivates people to produce? What goes into production? And even what makes certain things goods? Since this is its field, it also treats many matters that deal with **public policy**. Indeed, no single subject appears to occupy more attention in the issues that arise and tends to divide people more than economic questions. Nor is it too much to say that how governments deal with these questions is often a matter of life and death and can entail liberty or serfdom.

That is not to suggest that economists do, or should be the only ones to, make public policy decisions touching upon the economy. Rather, it is to suggest that all of us who participate in public policy decisions need to be versed to some degree in the subject of economics. That is not only the case concerning public policy but also in private matters that have to do with ourselves, our families, and our business concerns.

This work is intended as an introduction to economics, to the principles of economics, and to the issues and problems that economics touches. It is a basic work. It does not intend to deal with the complexities that arise at the more sophisticated levels of the discipline, to confound understanding with numerous charts, to present econometric models, nor to introduce accounting or statistics problems. These may all have their places, but they are not in a basic economics.

In the simplest terms, **economics** is a study of the thrifty use of scarce resources to satisfy human wants. God created an orderly universe, and there are discoverable principles that govern how systems operate. **Economic principles**, so far as they are valid, are **universal** in their application. That is, they apply to all peoples at all times: to Australians as well as to Americans, to Englishmen as well as to the Japanese, to those who live on the smallest most remote island as well as to the inhabitants of the largest cities. That is, they exist in the nature of things and have their foundations in human nature and the nature of human relationships. That is not to say that economic principles are well known to all peoples in all

places at all times. Nor even to say that they are well known by people generally anywhere at any time, though the degree to which they are known certainly does vary. It is rather to say that in this respect the principles of economics resemble the laws of physics and chemistry, though lacking both the measurable precision and the widespread agreement that prevails for some of chemistry and physics.

Any given study of economics does have a cultural context. It must be written in some language or languages and thus will be colored by the usages of language. It is apt to be influenced by the prevailing popularity of ideas at any given time and place. Moreover, each individual has his own outlook, manner, prejudices, and assumptions that will have bearing on what he writes. Even so, the principles of economics, so far as they are valid, are universal, for they are derived from underlying conditions, which are themselves universals. These frameworks will be further developed as we proceed in the following chapters.

1.3 A Brief History of Economic Thought

Economics is a fairly new subject to make its appearance in schools and colleges. It did not become a full-fledged academic discipline until the last half of the nineteenth century, although a considerable body of thought on it had been developed over the three centuries preceding that. While economics is generally taught in many high schools today, many college students manage to evade the study of it. It is taught in most colleges and universities, although often as an elective course. It should be emphasized, however, that many people have grasped some of the principles of economics long before it was taught in the schools and colleges, much as people have known more or less of astronomy whether they learned it formally or not. The teaching of economics formally has been a mixed blessing. Teaching economics in schools just barely preceded two other developments: the development of sociology and the spread of socialist doctrines. For Europeans especially, the study of economics has been entangled with sociology, and socialist ideas have greatly altered what is often taught as economics. In American colleges and universities, there is great disagreement as to whether economics should be placed in schools of business, or social sciences.

Moreover, economists often differ heatedly with one another. There are a number of “schools” and persuasions of economics. There are Marxists, Fabians (gradualist socialists), Austrians, Keynesians, classicists, neoclassicists, institutionalists, mercantilists, syndicalists, and those who write of Christian economics. Besides which, in even less precise terms, there are interventionists, socialists, monetarists, free traders, nationalists, redistributionists, advocates of corporatism, and an assortment of other isms. Some are proud of their persuasion. Others do not avow any particular persuasion but may be tagged by others. In an important sense, there are probably as many or more varieties of economics in the world as there are ideologies.

The starting point for the study of economics is of fundamental importance in the identification of economic principles and their application. While there may be a tacit agreement among economists on certain principles, one’s underlying starting assumptions can lead to a marked difference of opinion as to how we should act upon them. For example, some economists assume the law should be based on a cost/benefit basis without regard to ultimate moral principles. While they might affirm that a free economy is the best one, they do so for an entirely different reason from those who begin with a natural rights foundation. Usually, it is not

Getting the Point . . .

List a few universal principles you have learned from other subject areas.

What would be the consequences of acting in such a way that you are trying to deny or “break” them?

Can you think of any universal principle that a person could break?

“schools” of economic thought—general categories of ideas related to the application of economic principles. This book is based in the Austrian school of thought because it is based on the natural law premise. Other schools you may hear of during the course are Keynesian, monetarist, and Marxian.

anarchists—people who believe that there is no need for government.

totalitarian—state where government uses force to control any aspect of life that the leader might decree. In an economic sense, central planning would be used to determine the production and distribution of goods and would displace the market.

theology—the study of God.

philosophy—the study of God's creation.

Greco-Roman tradition—Western Civilization draws its roots from Greece and Rome. Specifically, Greek and Roman philosophers used reason and observation to find universal principles, from which, they attempted to build their philosophy.

Judeo-Christian tradition—tradition pertaining to Jewish and Christian heritage. Specifically, that all humans are fallen, guilty of sin, and desperately in need of a Savior.

doctrine of limits—because all humans are fallible, all the organizations, institutions, and structures that we create will also be flawed.

that economists disagree on the economic principles themselves. It is typically disagreement on how important they are and what political application, if any, should be made of them. It may be easier to begin to grasp the lines of difference by describing the two extremes. At one extreme are those who believe in the autonomy of economics and who tend to be political **anarchists**, i.e., doubt that government is essential or think it can be replaced entirely by the market. At the other extreme are **totalitarian** economists (usually Marxists or communists but also including democratic socialists and some Keynesians). The totalitarians would have government control the production and distribution of goods, and would, therefore, displace the market with central planning. They seek to solve every problem by government-directed analysis to determine what laws and regulations should be put into place that would supposedly make things cheaper. In reality, this planning only results in shoddy goods and services that are unaffordable, and often simply unavailable.

To anyone who has ever become enthralled with the free market and theories of how it works, it is easy to see how they might proceed to become anarchists. This is made easier if they conceive of economics as autonomous, that is, as having no subordination to **theology** or **philosophy**. In short, they conceive of a science that can stand on its own philosophical feet, so to speak. The next step would be to contrive a philosophy for economics (which might, incidentally, be supposed to embrace other aspects of life as well). This was the tendency of the English utilitarians, Jeremy Bentham and John Stuart Mill, as well as the Austrians, notably Ludwig von Mises, though none of these was anarchistic. Having established the autonomy of economics as a science, it is easy enough by focusing on the working of the market to imagine that government is unnecessary, that people could provide for all their wants and needs in the market.

Totalitarian economics goes to the opposite extreme. It tends to vest all control over the economy in government, to have government control all productive property, command production, and determine how the product shall be distributed. Such a system is necessarily tyrannical since it denies people generally any but the most remote control over their own economic affairs. Moreover, it tends to be not only tyrannical in all economic matters, but in other spheres of life as well. Modern totalitarian governments have demonstrated well the thesis that where there is no economic freedom there is hardly any freedom at all.

This work should be placed somewhere between the anarchistic and totalitarian position. To say that it is simply in the middle would be to talk not only nonsense but to abandon principle as if it did not rely on other principles. That there are principles that are neither anarchistic nor totalitarian will be one of the theses of this work. These principles are not drawn from either anarchism or totalitarianism. They have a much sounder and longer established basis. They are principles rooted in the **Greco-Roman** and the **Judeo-Christian traditions**—that is, in Western Civilization. In this framework, economics is not an autonomous study or discipline. Rather, it is subordinate to moral and philosophical truths that do not simply exist to promote some version of economics. Government is not supposed to be omnipotent or omni-competent to direct all human affairs. One principle, among many others, looms out of that long experience. It is what may well be called the **doctrine of limits**. It is that humans are limited and fallible creatures, that all of their organizations, institutions, and structures are affected by these limitations; that the power and sway of anything must be limited by design; that government, above all, must be severely limited.

These are, of course, only the most general terms for moving toward setting out some principles of economics. They tell us little specifically

about the sort of economics that is to follow and something more on that needs to be said as well. Perhaps the best way to describe it is to say that it is an Anglo-American economics. To call it Anglo-American (it is not much distinct from classical economics) is not meant to suggest that it is ethnic, nor that it excludes work done by those of other nationalities. Rather, it is to suggest that it came out of the English traditions that provided the foundation for the rapid economic growth and prosperity that began in the nineteenth century.

Doctrine of Limits

Humans are limited and fallible creatures, and every area of their being is impacted by the fall. Because of this, all organizations, institutions, and structures are also affected by these limitations, and the power and sway of all of them must be limited by design. Government above all must be severely limited because of its monopoly on the use of force.

That is, it is an economics written in that strain of thought that began to take shape in England in the late seventeenth century with John Locke, among others, and came to fruition in the eighteenth and nineteenth centuries with Adam Smith (who will be discussed more fully in the next chapter), Pelatiah Webster, David Ricardo, and was added to by many others. It is an economics nurtured by the natural law philosophy that recognizes the individual's natural rights of life, liberty, and property. It is an economics arising in the framework of the unfettered spread of Christianity. Anglo-American economics is obviously economics phrased in the English language and given form within that culture and tradition. Again, it must be said, economic principles are universal, so far as they are valid, but they can only be put into effect—indeed, they are apt only to be believed—in a cultural soil attuned to them. In any case, economic principles, when separated from their cultural, moral, and philosophical framework, wither and die.

1.4 Broad Framework for Economics

Why not a Christian Economics? Well, why not a Christian Political Science? Why not a Christian Biology? Why not a Christian Physics? Why not a Christian Chemistry—and so on through all academic disciplines and fields of study? We might as well ask, why not a Christian Science? In fact, there is a sect that goes by the name of Christian Science, which provides one of the clues why a Christian Economics might be a dubious proposition. The main reason is that Christianity is

John Locke (1632–1704)

English philosopher, with a Puritan background. He was much embroiled in controversy and sometimes in politics. His most famous philosophical work is an *Essay Concerning Human Understanding*. In this work, he argued that our knowledge is not innate but comes to us from sense impressions. He was an early (and late) advocate of religious toleration and wrote on such subjects as education, economics, political theory, and religion. Probably his greatest impact on the world was the natural rights doctrine.

Pelatiah Webster (1726–1795)

American economist and political thinker. He was born in Connecticut, educated in New England, and became a Congregational minister. Later, Webster left the ministry to go into business. He emerged during the constitution making period as a spokesman and writer for free enterprise and free markets. As one encyclopedia says, “Webster’s contributions to the Union were his cogent arguments for the Constitution, and his vigorously stated views on money, credit, taxation, and trade.”

not primarily concerned with economics, or science, or physics, or with many other fields of learning or disciplines. Its concern is primarily with the eternal, the Revelation of God to man, the norms for man, and his redemption. In truth, the chief message of the Scriptures is the gospel. It is God's revelation of how people can be saved from their rebellion against

God and against His natural order of creation. The study of economics deals with the mundane and the earthly. It is concerned with the production and distribution of goods, and with the discovery and setting forth of the principles that apply to this realm of human activity.

That is not to suggest that Christianity is irrelevant to economics, or any other aspect of life. Rather, Christianity, or any other transcendent religion, may best be thought of as the overarching framework within which the study of economics takes place. The Scriptures do not enumerate or explain the principles of economics. These must be discovered by reason and investigation in the same way we would study any other subject. Thus, we are proceeding here on the idea that God has revealed Himself in His Word (the Bible) and in His Work (Creation). Science is the study of Creation and economics is one of its subjects. Theology is the study of God, and the Scriptures are God's self-revelation to mankind. While some truths about economics can be derived from the Scriptures, that is not their primary purpose.

The main point here, however, is to demonstrate that economics and economics exist in contexts or broader frameworks. It is possible to discuss and study the market as if it has an existence all its own and is separate from other and sometimes higher considerations and determinations. But it is well that we keep in mind that such examinations are **abstractions** from the political, moral, and natural setting within which they always exist. When economics deals only with these abstractions, it can never be much more than a greenhouse plant, so to speak.

Having dealt with the framework broadly, it is time now to flesh it out with particulars.

David Ricardo (1772–1823)

English economist who made one of the earliest attempts to systematize economics. He was born in London and as a youth went to his father's business on the stock exchange there. By the time he had reached the age of 25 he had sufficient wealth to turn his attention to study and writing. Ricardo read and was greatly influenced by Adam Smith's *Wealth of Nations*. In consequence, he gave his attention to the systematic study of economics and is one of the main figures in the school of Classical Economics. Although he wrote treatises on a variety of aspects of economics, by far his most important work was *Principles of Economics*. He set economics on the path to become an academic discipline.

abstractions—an attempt to model or simplify some real world phenomenon to a general quality or characteristic, apart from concrete realities, specific objects, or actual instances in order to promote a better understanding.

It is no crime to be ignorant of economics, which is, after all, a specialized discipline and one that most people consider to be a 'dismal science.' But it is totally irresponsible to have a loud and vociferous opinion on economic subjects while remaining in this state of ignorance.

Murray Rothbard

STUDY GUIDE FOR:

1 WHY BASIC ECONOMICS?

Chapter Summary

Economics is a study of the thrifty use of scarce resources to satisfy human wants. Since these wants are unlimited while the resources available to satisfy them are scarce, choices must be made. Thus, economics involves the study of the production and distribution of goods and services, the operation of markets, an examination of prices, and an analysis of public policy. The aim of this study is the identification of underlying universal principles with which all people, regardless of cultural differences, must learn to live.

Though there is considerable agreement among economists about the basic principles of economics, there is widespread disagreement as to how these principles apply to public policy. When applied in political systems, the results range from totalitarian to anarchistic. One is therefore tempted to classify all economic schools of thought as lying somewhere along this spectrum. Yet such a classification is naive since it asserts that only the tension between these extremes informs the political debate, but this is not the case.

Economics is not an autonomous subject. It is subordinate to the principles of theology and philosophy. In the study of Western Civilization, the Judeo-Christian and Greco-Roman traditions provide the background within which the study of economics proceeds. These traditions include a natural law philosophy and an understanding of the natural rights of the individual. This understanding of life and the environment provides the informing framework within which it is possible to identify the principles of economics that promote growth and prosperity. It is also possible to compare the outcomes from this understanding of the world to those of competing theologies and philosophies to clarify sound economic principles.

Points of Emphasis

1. The Creation, Dominion Mandate, and Fall all have implications in understanding economics. That a purposeful God intentionally created an orderly universe for His glory, that He created each human to bear His image as he takes dominion in creation, and that man through the Fall brought sin into the world all provide the foundation for our study.
2. Work was not a result of the Fall. It was part of God's perfect original Creation design. It was made more difficult by the Fall.
3. Valid economic principles are universal. That is, they apply to all people in all places at all times.
4. There are many "schools" of economic thought. They differ greatly in how economic principles should be applied politically. They all generally fall somewhere within two extremes: anarchists and totalitarians. Anarchists hold that government is unnecessary and should not intervene in human interactions. Totalitarians hold that government should always step into every supposed problem situation with central planning and regulation.
5. Because all humans are fallible creatures, all human organizations, institutions, and structures will have weaknesses and must be designed so as to limit their power and sway.
6. Economics must be understood within a broader philosophical context where it is subordinate to higher principles of theology and philosophy.

Identification

1. Dominion Mandate
2. good (n.)
3. public policy
4. economics
5. economic principles
6. universal principles
7. “schools” of economic thought
8. anarchists
9. totalitarian
10. theology
11. philosophy
12. Greco-Roman tradition
13. Judeo-Christian tradition
14. doctrine of limits
15. abstraction

Review Questions

1. In the Genesis creation account, when is human work mentioned? Why is this significant?
2. Describe some similarities and some differences in the nature of work before and after the fall. List some words used in Genesis 3 to describe the difference..
3. Why is discovering universal principles important?
4. What are the consequences of trying to “break,” deny, or disobey these principles?
5. What are some practical reasons that it is important to discover principles of economics?
6. Briefly, describe where economists agree and disagree about the principles of economics.
7. Briefly, describe the two extremes of thought on the political application of economic principles.
8. Taking the doctrine of limits into account, what would you have to conclude about any legislative answers our Congress designs?
9. Why is a written constitution important to the functioning of a nation?

Activity

“The worst thing that can happen to a good cause is, not to be skillfully attacked, but to be ineptly defended.”

~Frédéric Bastiat

1. In the study guide for many chapters you will be asked to prepare a case for or against a position on an issue. In preparation for that, do some research on writing a position paper, and work with your teacher to establish some guidelines.

For Further Study

1. Hugh Welchel, “Are there Economic Implications in the Creation Story?” The Institute for Faith, Work & Economics, June 29, 2017, <https://tifwe.org/are-there-economic-implications-in-the-creation-story/>.