

Economics

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Making Sense of Economics

by Samuel Gregg

Excerpted and Adapted from *Thinking for the Theologically Minded*, ch 2

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[...] Broadly speaking, economics may be described as the study of the production, distribution, and consumption of scarce goods and services. Economists study how people satisfy the basic requirements for daily living. To put it differently, economics is the study of how free persons choose to cooperate through voluntary exchanges to satisfy their own and others' needs in light of the reality of limited resources. [...]

Positive Economics

In the history of Western thought, the emergence of modern economics as an autonomous intellectual discipline is relatively recent. In the Aristotelian and Scholastic traditions, economics and politics were studied as part of a broader inquiry into ethics under the title of *philosophia moralis*.¹ Even in the European universities of the 1700s, economics was still taught as part of moral philosophy.²

Economics gradually emerged as an autonomous science, not least because, as the economist and Anglican thinker, Lord Griffiths, points out, the Enlightenment encouraged people to think about economics as well as many other subjects in a more abstract, even amoral (as distinct from immoral), manner.³ Modern economic theory subsequently stresses that the judgments made by individuals within economic processes involve subjective valuation. As Peter Boettke notes, "It is precisely the radical of economics that assures us that the discipline has any way to approximate 'objective knowledge.'"⁴ Economics does not, for example, attempt to determine whether profits are deserved. Rather, it seeks to tell us *how* profit has been realized, and it would be severely distracted from undertaking this task in a reasonably objective manner if the question of deservedness were the centerpiece of the analysis.

In his book on post-Enlightenment economics, Lionel Robbins defines economics as "the science which studies human behavior as a relationship between ends and scarce means that have alternative uses."⁵ In this sense, the primary task of economics is to determine the objective effects of different choices about how scarce goods may be used. While Ludwig von Mises's understanding of economics is similar, he prefers to speak of it as the study of human action so as to accent the central role played by free choice and acts in economics. To Mises's mind, economics

is a theoretical "science." . . . It is not its task to tell people what ends they should aim at. It is a "science" of the means to be applied for the attainment of ends chosen, not, to be sure, a "science" of the choosing of the ends . . . Science never tells a man how he should act; it merely shows how a man must act if he wants to attain definite ends.⁶

Both Mises's and Robbins's definitions indicate that economics is a *positive* discipline *insofar* as it involves the study of cause-effect relationships that, if they can be demonstrated as empirically true, may be regarded as having a high degree of empirical validity. Positive economics is especially concerned with discerning changes in activity -- notably those that represent responses to alterations in economic variables and policy. What, for example, are the likely effects of tax cuts targeted at certain income segments of the population upon wealth creation and distribution? Positive economics does not, consequently, involve ethical judgments concerning these relationships; it does not ask whether the object of such decisions is good or evil.

Normative Economics

The results of the study of positive economics do, however, contribute to the formulation of economic policy. Economic policy -- what some call *normative economics* or *political economy* -- articulates, according to Carl Menger, "the basic principles for the suitable advancement (appropriate to conditions) of 'national economy' on the part of the public authorities."⁷

For our purposes, the most important word in Menger's statement is *suitable*. What, indeed, is suitable? In answering this question, one cannot but enter the world of philosophy, politics, and ethics. For a variety of reasons, including moral ones, some will ascribe more value to the end of freedom than that of equality, and vice versa. To this extent, the formulation of economic policy -- understood as the selection of economic goals and the means of implementing them -- is a normative activity. It is, therefore, a legitimate field for ethical inquiry. One may even argue that when an economist goes beyond simply pointing out the objective effects of an economic choice and

renders an opinion that involves moral and/or political judgments about the means, object, and side effects of a potential or actual economic policy, he becomes less of an economist and more a public policy adviser.

A “Value-Free” Discipline?

One should, however, be aware that neither normative nor positive economics is a hard “science” in the sense that chemistry and physics purport to be “value-free” disciplines. This may be illustrated by outlining the different statements that an economist can make about taxes on cigarettes:

- *If the government increases the tax on cigarettes, people will generally smoke less.* This is a positive statement reached by logical deductions based upon certain assumptions about how people behave.
- *If the government wants to reduce the amount smoked, it should increase cigarette taxes.* This is a prescriptive statement. It does not tell us that the government should reduce smoking. Rather, it describes what a government could do if it wished to do so.
- *The government should increase the tax on cigarettes.* This is a normative statement because it is based upon the judgment that the situation after the tax increase will be generally better than the current situation.

Initially, this division seems to confirm that the difference between positive and normative economic statements lies in the judgment underscoring the latter. But on closer examination, one becomes less aware that the positive statement outlined above is not as neutral as one might suppose. For what are the *assumptions* about human behavior that underlie the logical deductions on which this statement is based? One is that people generally prefer more to less: in other words, that people are utility maximizers. In itself, this would seem to be an objectively verifiable conclusion.

But another assumption is the anthropological model of *homo economicus*: the human person as the ultimate pleasure calculator. While few economists actually suggest that this model captures the complexity of human beings, it is not a neutral model. The moral-philosophical viewpoint most akin to it is essentially a crude form of utilitarianism (i.e., nothing is intrinsically good or evil). Instead, that which is “good” is what provides most people with pleasure, satisfaction, and utility, and each person’s idea of what is pleasurable is purely a matter of subjective preference. Not all the assumptions, underlying positive economics, then, are philosophically neutral. This is not to say that economics is reducible to ethics. It only means, as Ricardo Crespo states, “that economics is not a value-free science.”⁸

It seems, then, that economics is very much a humanistic discipline rather than a physical science. Nevertheless, the preceding summary suggests that the is-ought/positive-normative differentiation still serves as a useful dichotomy for those attempting to understand the nature of economics as a field of intellectual inquiry. Not only does the distinction enable economists to highlight the more empirical aspects of their work, but it is also a way to differentiate between economics as the study of objective facts (e.g., the fact that there *is* a relationship between supply and demand) and economics as the exposition of public policies based on both those objective facts as well as the decision to pursue selected political, social, and moral goals.

¹ See J. E. Alvey, “A Short History of Economics as a Moral Science.” *Journal of Markets and Morality* 2,1 (Spring 1999): 55.

² See E. R. Canterbury, *The Literate Economist* (New York: Harper Collins, 1995), 42.

³ Brian Griffiths, *The Creation of Wealth* (London: Hodder and Stoughton, 1984), 107-8.

⁴ Peter Boettke, “Is Economics a Moral Science? A Response to Ricardo Crespo,” *Journal of Markets and Morality* 1,2 (Fall 1998): 214.

⁵ Lionel Robbins, *An Essay on the Nature and Significance of Economic Science* (London: Macmillan, 1952), 16.

⁶ Ludwig von Mises, *Human Action: A Treatise on Economics*, 3rd ed. (Chicago: Henry Regnery, 1996), 10.

⁷ Carl Menger, *Problems of Economics and Sociology* (Urbana, Ill.: University of Illinois Press, 1963), 211.

⁸ Ricardo Crespo, “Is Economics a Moral Science?” *Journal of Markets and Morality* 1, 2 (Fall 1998): 201.

Socialism, Capitalism & the Bible

By Dr. Ronald H. Nash. This essay appeared in *Imprimis*, Volume 14, No. 7, July, 1985. It is used by permission of the author.

Within the Christian church today, one can find a small but growing army of Protestants and Roman Catholics who have entered into an uncritical alliance with the political Left. The so-called liberation theologians not only promote a synthesis of Marxism and Christianity, but attempt to ground their recommended restrictions of economic and political freedom on their interpretation of the biblical ethic. A growing number of my own religious fellowship (those theologically conservative Protestants known as evangelicals) appear to stop just short of the more radical

pronouncements of the liberation thinkers. These evangelicals of the Left are convinced that the biblical ethic obliges them to condemn capitalism and endorse the politics of statism and economics of socialism.

Many writings from the Christian Left illustrate what can be called the proof-text method. What these writers normally do is isolate some vague passage (usually one from the Old Testament) that pertains to an extinct culture situation or practice. They then proceed to deduce some complex economic or political program from that text. My approach to the subject rejects the proof-text method and proceeds via three main steps. First, a Christian should acquire a clear and complete picture of the Christian world-view. What basic views about God, humankind, morality, and society are taught or implied by Scripture? Second, he should put his best effort into discovering the truth about economic and political systems. He should try to clarify what capitalism and socialism really are (not what the propagandists say they are); he should try to discover how each system works or, as in the case of socialism, whether it can work. He should identify the strengths and weaknesses of each system. Third, he should compare his economic options to the standard of biblical morality, and ask which system is more consistent with the entire Christian world-view.

Creator and Freedom; Morality and Sin

We can begin, then, by noting several relevant aspects of the biblical world-view:

(1) Certainly the biblical world-view implies that since God is the creator of all that exists, He ultimately is the rightful owner of all that exists. Whatever possessions a human being may acquire, he holds them temporarily as a steward of God and is ultimately accountable to God for how he uses them. However omnipresent greed and avarice may be in the human race, they are clearly incompatible with the moral demands of the biblical world-view.

(2) The biblical world-view also contains important claims about human rights and liberties. All human beings have certain natural rights inherent in their created nature and have certain moral obligations to respect the rights of others. The possibility of human freedom is not a gift of government but a gift from God. The Old Testament tended to focus on the economic and social dimensions of freedom. But gradually, as one moves into the New Testament, a more spiritual dimension of freedom assumes dominance. Freedom in the New Testament is deliverance from bondage to sin and is available only to those who come to know God's truth through Christ and enter into a saving relationship with Christ. Some interesting parallels between the biblical account of spiritual freedom and political-economic freedom should be noted. For one thing, freedom always has God as its ultimate ground. For another, freedom must always exist in relationship to law. The moral law of God identifies definite limits beyond which human freedom under God should not pass. Liberty should never be turned into license.

(3) The moral system of the Bible is another key element of the Christian world-view. While the Ten Commandments do not constitute the entire biblical ethic, they are a good place to begin. But it is important to notice other dimensions of the biblical ethic that have relevance for our subject. For example, Christians on the Left insist that the biblical ethic condemns individual actions and social structures that oppress people, harm people and favor some at the expense of others. I agree. Where I disagree, however, is with the next step taken by the Leftists. They claim that capitalism inevitably and necessarily encourages individual actions and produces social structures that oppress and harm people. On this point, they are dead wrong. Fortunately, the question as to which system actually harms or helps different classes of people is an empirical and not a normative matter. The Leftists simply have their facts wrong.

(4) One final aspect of the Christian world-view must be mentioned: the inescapable fact of human sin and depravity. No economic or political system that assumes the essential goodness of human nature or holds out the dream of a perfect earthly society can possibly be consistent with the biblical world-view.

Peaceful or Violent Exchange?

Now we must examine the three major economic systems that compete for attention: capitalism, socialism and somewhere between, the hybrid known as interventionism or the mixed economy. One dominant feature of capitalism is economic freedom, the right of people to exchange things voluntarily, free from force, fraud, and theft. Socialism, on the other hand, seeks to replace the freedom of the market with a group of central planners who exercise control over essential market functions. There are degrees of socialism as there are degrees of capitalism in the real world. But basic to any form of socialism is distrust of or contempt for the market process and the desire to replace the freedom of the market with some form of centralized control. Generally speaking, as one moves along the continuum of socialism to capitalism, one finds the following: the more freedom a socialist allows, the closer his

position is to interventionism; the more freedom an interventionist allows, the closer his position is to capitalism. The crux is the extent to which human beings will be permitted to exercise their own choices in the economic sphere of life.

I will say nothing more about that deplorable economic system known as interventionism, a hopeless attempt to stop on a slippery slope where no stop is possible. The only way the half-hearted controls of the interventionist can work is if they become the total controls of the socialist. Anything less will result in the kind of troubled and self-damaging economy we have had for the past several decades in the United States.

I shall attempt to get a clearer fix on the real essence both of capitalism and socialism and then see which is more compatible with the biblical world-view. The best starting point for this comparison is a distinction made most recently by the American economist, Walter Williams. According to Williams, there are two and only two ways in which something may be exchanged. He called them the peaceful means of exchange and the violent means of exchange.

The peaceful means of exchange may be summed up in the phrase, "If you do something good for me, then I'll do something good for you." When capitalism is understood correctly, it epitomizes the peaceful means of exchange. The reason people exchange in a real market is because they believe the exchange is good for them. They take advantage of an opportunity to obtain something they want more in exchange for something they desire less. Capitalism then should be understood as a voluntary system of relationships that utilizes the peaceful means of exchange.

But exchange can also take place by means of force and violence. In this violent means of exchange, the basic rule of thumb is: "Unless you do something good for me, I'll do something bad to you." This turns out to be the controlling principle of socialism. Socialism means far more than centralized control of the economic process. It entails the introduction of coercion into economic exchange in order to facilitate the attainment of the goals of the elite who function as the central planners. One of the great ironies of Christian socialism is that its proponents in effect demand that the State get out its weapons and force people to fulfill the demands of Christian love. Even if we fail to notice any other contrast between capitalism and socialism, we already have a major difference to relate to the biblical ethic. One system stresses voluntary and peaceful exchange while the other depends on coercion and violence.

Some Christian socialists object to the way I have set this up. They profess contempt for the more coercive forms of state-socialism on exhibit in communist countries. They would like us to believe that a more humane, non-coercive kind of socialism is possible. They would like us to believe that there is a form of socialism, not yet tried anywhere on earth, where the central ideas are cooperation and community and where coercion and dictatorship are precluded. But they provide very little information about the workings of this more utopian kind of socialism, and they ignore the fact that however humane and voluntary their socialism is supposed to become after it has been put into effect, it will take massive amounts of coercion and theft to get things started.

Socialist Falsehood, Capitalist Facts

To that paradox, add one more: the fact that socialists need capitalism in order to survive. Unless socialists make allowance for some free markets which provide the pricing information that alone makes rational economic activity possible, socialist economies would have even more problems than those for which they are already notorious. Consequently, socialism is a gigantic fraud which attacks the market at the same time it is forced to utilize the market process.

But critics of the market try to shift attention away from their own embarrassing problems to claims that capitalism must be abolished or restricted because it is unjust or because it restricts important human freedoms. Capitalism is supposed to be unchristian because it allegedly gives a predominant place to greed and other unchristian values. It is alleged to increase poverty and the misery of the poor while, at the same time, it makes a few rich at the expense of the many. Socialism, on the other hand, is portrayed as the economic system of people who really care for the less fortunate members of society. Socialism is represented as the economics of compassion. Socialism is also recommended on the ground that it encourages other basic Christian values such as community.

If these claims were true, they would constitute a serious problem for anyone anxious to show that capitalism is compatible with the biblical ethic. But, of course, the claims are not true. People who make such charges have their facts wrong or are aiming at the wrong target. The "capitalism" they accuse of being inhumane is a caricature. The system that in fact produces the consequences they deplore turns out to be not capitalism, but interventionism. Capitalism is not economic anarchy. It recognizes several necessary conditions for the kinds of voluntary relationships it recommends. One of these presuppositions is the existence of inherent human rights, such as the right to make decisions, the right to be free, the right to hold property, and the right to exchange what one owns for something else. Capitalism also presupposes a system of morality. Capitalism should be thought of as a system of voluntary relationships within a framework of laws which protect peoples' rights against force, fraud, theft, and violations of contracts. "Thou shalt not steal" and "Thou shalt not lie" are part of the underlying moral constraints of the system. Economic exchanges can hardly be voluntary if one participant is coerced, deceived, defrauded, or robbed.

Allowing for Human Weakness

Once we grant that consistency with the biblical doctrine of sin is a legitimate test of political and economic systems, it is relatively easy to see how well democratic capitalism scores in this regard. The limited government willed to Americans by the Founding Fathers was influenced in large measure by biblical considerations about human sin. If one of the more effective ways of mitigating the effects of human sin in society is dispersing and decentralizing power, the conservative view of government is on the right track. So too is the conservative vision of economics.

The free market is consistent with the biblical view of human nature in another way. It recognizes the weaknesses of human nature and the limitations of human knowledge. No one can possibly know enough to manage a complex economy. No one should ever be trusted with this power. However, in order for socialism to work, socialism requires a class of omniscient planners to forecast the future, to set prices and to control production. In the free market system, decisions are not made by an omniscient bureaucratic elite but made across the entire economic system by countless economic agents.

At this point, of course, collectivists will raise another set of objections. Capitalism, they will counter, may make it difficult for economic power to be consolidated in the hands of the state; but it only makes it easier for vast concentrations of wealth and power to be vested in the hands of private individuals and companies. But the truth turns out to be something quite different from this widely accepted myth. It is not the free market that produces monopolies; rather it is governmental intervention with the market that creates the conditions that encourage monopoly.

As for another old charge, that capitalism encourages greed, the truth is just the reverse. The mechanism of the market neutralizes greed as selfish individuals are forced to find ways of servicing the needs of those with whom they wish to exchange. As we know, various people often approach economic exchanges with motives and objectives that fall short of the biblical ideal. But no matter how base or selfish a person's motives may be, so long as the rights of the other parties are protected, the greed of the first individual cannot harm them. As long as greedy individuals are prohibited from introducing force, fraud, and theft into the exchange process, their greed must be channeled into the discovery of products or services for which people are willing to exchange their holdings. Every person in a market economy has to be other-directed.

New Religion of the Left

Finally, some examples of the way in which attempts to ground American liberalism and interventionism or Latin American liberationism on the Bible involve serious distortions of the biblical message. For instance, consider how radical American evangelicals on the Left abuse the biblical notion of justice. The basic idea in the Old Testament notion of justice is righteousness and fairness. But it is essential to the Leftist's cause that he read into biblical pronouncements about justice, contemporary notions of distributive justice. When the Bible says that Noah was a just man, it does not mean that he would have voted the straight Democratic ticket. It means simply that he was a righteous man.

Likewise, many Christians on the Left seek to reinterpret Jesus' earthly mission in exclusively economic and political terms. In their view, Jesus came primarily to deliver those who were poor and oppressed in a material

sense. But every member of the human race is poor in the sense of being spiritually bankrupt. Jesus came to end our spiritual poverty by making available the righteousness that God demands and that only God can provide. It is heresy to state that God's love for people varies in proportion to their wealth and social class. It is nonsense to suggest that all the poor are good and all the rich are evil. Once we eliminate the semantic game-playing by which some refer to a non-coercive voluntary utopian type of socialism, it becomes clear that socialism is incompatible with a truly free society. Edmund Opitz has seen this clearly:

As History's vice-regent, the Planner is forced to view men as mass; which is to deny their full stature as persons with rights endowed by the Creator, gifted with free will, possessing the capacity to order their own lives in terms of their convictions. The man who has the authority and the power to put the masses through their paces, and to punish nonconformists, must be ruthless enough to sacrifice a person to a principle...a commissar who believes that each person is a child of God will eventually yield to a commissar whose ideology is consonant with the demands of his job.

And so, Opitz concludes, "Socialism needs a secular religion to sanction its authoritarian politics, and it replaces the traditional moral order by a code which subordinates the individual to the collective." All of this is justified in the cause of improving economic well-being and in the name of compassion.

The Choice I Make

I think I have said enough to allow me, at least, to make a reasoned choice between capitalism and socialism on the basis of each system's compatibility to the biblical world-view. The alternative to free exchange is violence. Capitalism is a mechanism that allows natural human desires to be satisfied in a nonviolent way. Little can be done to prevent human beings from wanting to be rich. But what capitalism does is channel that desire into peaceful means that benefit many besides those who wish to improve their own situation.

Which choice then should I, as a Christian, make in the selection between capitalism and socialism? Capitalism is quite simply the most moral system, the most effective system, and the most equitable system of economic exchange. When capitalism, the system of free economic exchange, is described fairly, there can be no question that it, rather than socialism or interventionism, comes closer to matching the demands of the biblical ethic.

Ethics and Economics

by Samuel Gregg

Excerpted from *Thinking for the Theologically Minded*, ch 3

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Our unique capacities of reason and free will allow us as human beings to embrace what no other mortal creature can: the moral life. The call to do good and avoid evil is integral to the Christian message. The Christian faith is simply incomprehensible for those who cannot grasp that our past acts and omissions really affect our present and future relationship with God. From its earliest beginnings, Christianity was called *the way*. It is an expression found seven times in the Acts of the Apostles. The apostle Paul confesses, for example, that "I persecuted this way" (Act 22:4). This meant that Christianity was seen as a way of living. The new convictions it brought had a directly practical content -- faith, in other words, included morality. It was by living this way that faith was made visible as something new. A Christianity that no longer proclaimed a common way of right living but limited itself to proclaiming the inspiring ideals or narrowing moral questions to issues of tolerance, would no longer be the Christianity of Jesus Christ.

The obligations of Christians to live in truth do not somehow cease when their thought and actions embrace the economic realm. The question thus arises: How compatible is economics as an intellectual discipline with orthodox Christian teaching about the good life? Many Christians will already recognize that there are some distinct differences, even incompatibilities between the two. Yet, close attention to some of the assumptions of economics indicates that Christian morality has more in common with the "economic way of thinking" than one might initially expect.

Is There a Specifically Christian Ethic?

Any discussion of ethics and economics must involve clarifying the character of ethics. By its very nature, ethics is a *normative* intellectual exercise. As an intellectual discipline, it is concerned with the study of voluntary human

conduct; that is, all actions and omissions that people understand and will in relation to an object that they have in view. Human actions are, of course, the subject of other disciplines such as psychology and economics. But the primary interest in these fields is not what people *ought* to do but *how* and *why* they act. By contrast, the study of ethics involves knowing more than what people do. *It means asking which acts are appropriate in light of the truth about good and evil and which are not.* Broadly speaking, this involves discerning the object of an act and the intention underlying that act, as well as considering the side effects of the act and the circumstances surrounding it. The rational ordering of a freely willed human act to the good constitutes morality, but if the object of an act chosen by the will is not in harmony with the truth about the good, then it is an evil act. [...]

Economic Evidence or Moral Principle?

It is, however, more common for economists and Christian thinkers to fall out over the respective weight that should be given to the evidence of positive economics or the imperatives of moral principle when it comes to the normative exercise of formulating and implementing economic policy. One would expect an economist working in a public policy capacity to stress what positive economics tells us about the likely effects of a particular policy. If, however, an economist acting as a policy adviser insists that this is the only criterion that should be taken into account, then he is committing the basic error of supposing that an *is* makes an *ought*. To take a fictional example, one economist's research may lead him to conclude that there is much empirical evidence to suggest that a combination of slavery and child labor is the most efficient economic system of all. This conclusion, however, does not, taken in isolation, legitimize a governmental policy of permitting the development of a slave trade or allowing people to sell themselves and their children into slavery.

But when it comes to more "real-world" economic policies, one often finds that the different philosophical premises underlying what may be described as the broadly economic and broadly Christian ways of thinking are at the root of much tension between economists and Christian ethicists. Economic thinking about policy outcomes is essentially rooted in utilitarianism, the school of ethical thought that asserts the proper choice between any two alternatives is the one calculated to lead to the greatest amount of "utility" or "satisfaction" for humanity. The greatest incommensurability between utilitarian and Christian ethics concerns the possibility of doing evil to achieve a good result. Put in relatively simple terms, the orthodox Christian view is that evil, small or large, can *never* be done, regardless of how much good may flow from it (Rm 3:8), but harmful side effects (such as the death of innocent people where their death is not part of the plan) can, in rare circumstances, be accepted.¹ The utilitarian approach, by contrast, would hold that -- providing that the good effects outweighed all the bad ones -- the taking of human life is permissible.

Economists rarely deal with such life-and-death issues directly, but they do presume that the best economic policy is the one that has the best effects overall -- even if it does have some bad effects. We should not be surprised, then, that the utilitarian premises of economics are likely to lead some economists to different conclusions about the precise ethical status of economic policies than those arrived at by some Christians.

But beyond philosophical considerations, it should be noted that particular difficulties arise when it comes to economic policy precisely because there is no such thing as an economic policy that will not have some harmful effects in either the short- or the long-term. The case of tariffs is a good example. Regardless of whether a government decides to retain or abolish them, some people are going to be negatively affected by its decision. Ethically speaking, the situation is further complicated by the fact that the negative and positive effects of many economic policies will not always be immediately apparent or clearly discernible because of the limited foresight that humans have into such matters.

This reality creates particular challenges for Christians when it comes to thinking about public policy. It is unreasonable for them to demand that no one in the short- or long-term should be negatively affected by some economic policies, but as the theologian and economist Daniel Finn states, "Church documents at times speak as if even relatively minor harmful side effects prevent the moral approbation of economic policies or whole economic systems."²

This creates a twofold challenge for Christian ethicists and church leaders seeking to make meaningful contributions to economic policy debates. They must determine what moral goods are so basic that they must be respected, even at heavy costs. Second, they should devote more effort and time to the intellectually laborious but essential task of

rigorously discerning the object, intention, and side effects of economic policies so as to determine, as far as humanly possible, whether they conform to the truth about the good.

At the moment, however, Christians have no more reason to be suspicious of economics as a predictive intellectual exercise than of any of the sciences. There is, of course, a long-standing debate between the merits of faith and reason, on the one hand, and instrumental reason on the other. This debate will probably continue, notwithstanding the demonstrable dependence of the scientific enterprise -- indeed, of intellectual life itself -- on the heritage bequeathed by the Judeo-Christian foundations of Western civilization, but this debate has no special significance for economics. Whatever Christians make of the experiments proceeding from the "Enlightenment" (that highly prejudicial phrase that implies that the world that existed before the eighteenth century was mired in ignorance and superstition) and from science itself, they must also apply these doubts and objections to modern medicine, biology, and geology as to economics.

Christians might rightly object to economists' speaking on matters of public policy as if the economic calculus were the only legitimate basis for gauging improvements in social welfare, but they go too far when they reject that same calculus as having nothing of value to offer. Within its appointed sphere of the study of material well-being, there is, at present, no coherent alternative to economics for assessing whether particular policies are likely to improve material standards of living. The key is recognizing that good economics is not synonymous with good public policy. The latter demands attention to a wider set of criteria than the material.

If Christians believe that the political process has become excessively concerned with economic matters, it is hardly fair to blame economics or economists for this state of affairs. Politics, at least in democracy, reflects the preferences of voters. Unless -- and until -- voters are prepared to support policies that trade gains in material welfare for nonmaterial objectives, including a sense of community and devotion to personal holiness, we should not be surprised that economics and economists occupy center stage in the unfolding drama.

Knowing the Limits

[...] More generally, Christian ethics can act as a corrective to those economists who mistake their knowledge of some truths about human beings as being the whole truth about man. This is particularly important if Murray Rothbard, one of the leading thinkers of the Austrian school of economics, is correct when he makes the following claim:

In recent years, economists have invaded other intellectual disciplines and, in the dubious name of science, have employed staggeringly oversimplified assumptions in order to make sweeping and provocative conclusions about the fields they know little about. This is a modern form of "economic imperialism" in the realm of the intellect. Almost always, the bias of this economic imperialism has been quantitative and implicitly Benthamite, in which poetry and pushpin are reduced to a single-level, and which amply justifies the gibe of Oscar Wilde about cynics, that they (economists) know the price of everything and the value of nothing. The results of this economic imperialism have been particularly ludicrous in the fields of sex, the family, and education.³

If this is an accurate analysis, Christian thinkers can help counter such tendencies by alerting economists who are working in the realm of public policy to the noneconomic costs and benefits of economic decisions, not least in terms of sin and virtue. One would further expect Christian ethicists to focus, beyond concerns of efficiency and effectiveness, upon determining what means are appropriate to the desired ends. Often the ethical aspects of means-ends questions are not thought about fully or are not even asked by those involved in the formulation of public policy -- or, even for that matter, by some Christian ethicists. Should Christians, for example, simply accept that governments may use force to redistribute wealth without continually subjecting this proposition -- in each and every instance -- to rigorous ethical appraisal?

How, then, can economists assist the study of Christian ethics? It is true that economic research is not going to alter basic Christian moral principles, but as Thomas Beauchamp states, while economic analysis cannot change the principle that stealing is wrong, it may help inform Christians' attitudes toward a phenomenon such as inflation, inasmuch as it provides them with a better grasp of *how* inflation arises, *why* its effects are harmful, and *what* policy choices facilitate or reduce it.⁴ Positive economics can thus assist Christians in dealing with new and complex questions by identifying subtle but important implications of public policy that are not immediately apparent to those examining an issue from a predominantly moral standpoint. This, one would hope, will help Christians to engage in a more informed analysis of economic policy because it will assist them to become more conscious of the

“positive” dimension of economics and more aware of the intricacies of the qualitative and quantitative effects of different economic proposals. Those who advocate policies without knowing their full range of costs and benefits are ignorant, but anyone who supports policies while knowing but not articulating these costs and benefits is simply disingenuous. Neither is an appropriate option for economists or Christian ethicists who wish to think seriously about, and shape the direction of, public policy. [...]

¹ Here the principle of double-effect should be explained. This principle states that if an individual act has more or less two effects simultaneously, one good and one bad, I may do such an act, provided that (1) the act in itself is morally good, (2) the evil effect of the good act is not willed but only permitted or accepted, and (3) there is due proportion between the unintended evil that follow the good act, and the good achieved by that act. Aquinas uses this principle when explaining the right to self-defense (see *Summa Theologiae*, II-II, q. 64, a. 2).

² Daniel Finn, “The Church and the Economy in the Modern World,” in *Questions of Special Urgency: The Church in the Modern World Tow Decades After Vatican II*, ed. J Dwyer (Washington, D.C.: Georgetown University Press, 1986), 157.

³ Murray Rothbard, “The Hermeneutical Invasion of Philosophy and Economics,” *Review of Austrian Economics* 3 (1989): 45

⁴ Thomas Beauchamp, “The Foundations of Ethics and the foundations of Science,” *Knowing and Valuing*, vol. 4, ed H Engelhardt and D. Callahan (New York: Hastings Center, 1980), 206-69.

The Morality of Markets

By Walter E. Williams

<http://www.humaneventsonline.com/articles/05-07-03/williams.htm>

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My recent column "From Whence Comes Income" sparked considerable favorable reader response, not to mention thoughtful reader correction of my grammar error in the title: "From Whence" is redundant. Quite a few readers were a bit confused about my assertion that market allocation of goods and services are infinitely more moral than the alternative.

The first principle of a free society is that each person owns himself. You are your private property, and I am mine. Most Americans probably accept that first principle. Those who disagree are obliged to inform the rest of us just who owns us, at least here on earth.

This vision of self-ownership is one of those "self-evident" truths to which the Founders referred to in the Declaration of Independence, that "All Men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty, and the Pursuit of Happiness." Like John Locke and other philosophers who influenced them, the Founders saw these rights as preceding government, and they said, "That to secure these Rights, Governments are instituted."

The Framers of the Constitution recognized that while government was necessary to secure liberty, it was also liberty's greatest threat. Having this deep suspicion of government, they loaded our Constitution with a host of anti-congressional phrases, such as: "Congress shall make no law," "shall not be infringed" and "shall not be violated."

Once one accepts the principle of self-ownership, what's moral and immoral becomes self-evident. Murder is immoral because it violates private property. Rape and theft are also immoral -- they also violate private property.

Here's an important question: Would rape become morally acceptable if Congress passed a law legalizing it? You say: "What's wrong with you, Williams? Rape is immoral plain and simple, no matter what Congress says or does!"

If you take that position, isn't it just as immoral when Congress legalizes the taking of one person's earnings to give to another? Surely if a private person took money from one person and gave it to another, we'd deem it theft and, as such, immoral. Does the same act become moral when Congress takes people's money to give to farmers, airline companies or an impoverished family? No, it's still theft, but with an important difference: It's legal, and participants aren't jailed.

Market allocation of goods and services depends upon peaceable, voluntary exchange. Under such exchanges, the essence of our proposition to our fellow man is: If you do something I like, I'll do something you like. When such a deal is struck, both parties are better off in their own estimation.

Billions of these propositions are routinely made and carried out each day. For example, take my trip to the grocery store. My proposition to the grocer is, essentially: "If you make me feel good by giving me that gallon of milk you

own, I'll make you feel good by giving you three dollars that I own." If my proposition is accepted, the grocer is better off, since he values the \$3 more than the milk and I'm better off, since I value the milk more than the \$3.

Contrast the morality of market exchange with its alternative. I might go to my grocer with a pistol and propose: give me a gallon of milk or I'll shoot you. Or, I might lobby Congress to take his milk and give it to me. Either way I'm better off but the grocer is worse off.

Lest there's misunderstanding, there are legitimate and moral functions of government, namely that of preventing the initiation of force, fraud and intimidation, and we're all duty-bound to cough up our share of the cost. All other matters in our lives should be left to civil society and its institutions.

A Biblical View of Economics

Kerby Anderson

In this article we are going to be developing a Christian view of economics. Although most of us do not think of economics in moral terms, there has (until the last century) always been a strong connection between economics and Christian thought.

If you look at the *Summa Theologica* of Thomas Aquinas, you find whole sections of his theological work devoted to economic issues. He asked such questions as: "What is a just price?" or "How should we deal with poverty?"

Today, these questions, if they are even discussed at all, would be discussed in a class on economic theory. But in his time, these were theological questions that were a critical and integral part of the educational curricula.

In the Protestant Reformation, we find the same thing. In John Calvin's *Institutes of the Christian Religion*, whole sections are devoted to government and economics. So Christians should not feel that economics is outside the domain of Christian thinking. If anything, we need to recapture this arena and bring a strong biblical message to it.

In reality, the Bible speaks to economic issues more than any other issue. Whole sections of the book of Proverbs and many of the parables of Jesus deal with economic matters. They tell us what our attitude should be toward wealth and how a Christian should handle his or her finances. The Bible also provides a description of human nature, which helps us evaluate the possible success of an economic system in society.

The Bible teaches that there are two aspects to human nature. First, we are created in the image of God and thus able to control the economic system. But second, human beings are sinful and thus tend towards greed and exploitation. This points to the need to protect individuals from human sinfulness in the economic system. So Christians have a much more balanced view of economics and can therefore construct economic theories and analyze existing economic systems.

Christians should see the fallacy of such utopian economic theories because they fail to take seriously human sinfulness. Instead of changing people from the inside out as the gospel does, Marxists believe that people will be changed from the outside in. Change the economic base, they say, and you will change human beings. This is one of the reasons that Marxism was doomed to failure, because it did not take into account human sinfulness and our need for spiritual redemption.

It is important for Christians to think about the economic arena. It is a place where much of everyday life takes place, and we can evaluate economics from a biblical perspective. When we use the Bible as our framework, we can begin to construct a government and an economy that liberates human potentiality and limits human sinfulness.

Many Christians are surprised to find out how much the Bible says about economic issues. And one of the most important aspects of the biblical teaching is not the specific economic matters it explores, but the more general description of human nature.

Economics and Human Nature

When we are looking at either theories of government or theories of economics, an important starting point is our view of human nature. This helps us analyze these theories and predict their possible success in society. Therefore, we must go to the Scriptures to evaluate the very foundation of each economic theory.

First, the Bible says that human beings are created in the image of God. This implies that we have rationality and responsibility. Because we have rationality and volition, we can choose between various competing products and services. Furthermore, we can function within a market system in which people can exercise their power of choice. We are not like the animals that are governed by instinct. We are governed by rationality and can make meaningful choices within a market system.

We can also assume that private property can exist within this system because of the biblical idea of dominion. In Genesis 1:28, God says we are to subdue the earth and have dominion over the creation. Certainly one aspect of this is that humans can own property in which they can exercise their dominion.

Since we have both volition and private property rights, we can then assume that we should have the freedom to exchange these private property rights in a free market where goods and services can be exchanged.

The second part of human nature is also important. The Bible describes the fall of the world and the fall of mankind. We are fallen creatures with a sin nature. This sinfulness manifests itself in selfishness, greed, and exploitation. Thus, we need some protection in an economic system from the sinful effects of human interaction.

Since the Bible teaches about the effects of sinful behavior on the world, we should be concerned about any system that would concentrate economic power and thereby unleash the ravages of sinful behavior on the society. Christians, therefore, should reject state-controlled or centrally controlled economies, which would concentrate power in the hands of a few sinful individuals. Instead, we should support an economic system that would disperse that power and protect us from greed and exploitation.

Finally, we should also recognize that not only is human nature fallen, but the world is fallen. The world has become a place of decay and scarcity. In a fallen world, we have to be good managers of the limited resources that can be made available in a market economy. God has given us dominion over His creation, and we must be good stewards of the resources at our disposal.

The free enterprise system has provided the greatest amount of freedom and the most effective economic gains of any economic system ever devised. Nevertheless, Christians often wonder if they can support capitalism. So the rest of this article, we are going to take a closer look at the free enterprise system.

Capitalism: Foundations

Capitalism had its beginning with the publication of *The Wealth of Nations*, written by Adam Smith in 1776. He argued that the mercantile economic system working at that time in Great Britain was not the best economic foundation. Instead, he argued that the wealth of nations could be increased by allowing the individual to seek his own self-interest and by removing governmental control over the economy.

His theory rested on three major premises. First, his system was based upon the observation that people are motivated by self-interest. He said, "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest." Smith went on to say that "neither intends to promote the public interest," yet each is "led by an invisible hand to promote an end that was not part of [his] intention."

A second premise of Adam Smith was the acceptance of private property. Property was not to be held in common but owned and freely traded in a market system. Profits generated from the use and exchange of private property rights provided incentive and became the mechanism that drives the capitalist system.

From a Christian perspective we can see that the basis of private property rests in our being created in God's image. We can make choices over property that we can exchange in a market system. The need for private property grows out of our sinfulness. Our sinful nature produces laziness, neglect, and slothfulness. Economic justice can best be achieved if each person is accountable for his own productivity.

A third premise of Adam Smith's theory was the minimization of the role of government. Borrowing a phrase from the French physiocrats, he called this laissez-faire. Smith argued that we should decrease the role of government and increase the role of a free market.

Historically, capitalism has had a number of advantages. It has liberated economic potential. It has also provided the foundation for a great deal of political and economic freedom. When government is not controlling markets, then there is economic freedom to be involved in a whole array of entrepreneurial activities.

Capitalism has also led to a great deal of political freedom, because once you limit the role of government in economics, you limit the scope of government in other areas. It is no accident that most of the countries with the greatest political freedom usually have a great deal of economic freedom.

At the outset, let me say that Christians cannot and should not endorse every aspect of capitalism. For example, many proponents of capitalism hold a view known as utilitarianism, which is opposed to the notion of biblical absolutes. Certainly we must reject this philosophy. But here I would like to provide an economic critique.

Capitalism: Economic Criticisms

The first economic criticism is that capitalism leads to monopolies. These develop for two reasons: too little government and too much government. Monopolies have occurred in the past because government has not been willing to exercise its God-given authority. Government finally stepped in and broke up the big trusts that were not allowing the free enterprise system to function correctly.

But in recent decades, the reason for monopolies has often been too much government. Many of the largest monopolies today are government sanctioned or sponsored monopolies that prevent true competition from taking place. The solution is for government to allow a freer market where competition can take place.

Let me add that many people often call markets with limited competition monopolies when the term is not appropriate. For example, the three major U.S. car companies may seem like a monopoly or oligopoly until you realize that in the market of consumer durables the true market is the entire western world.

The second criticism of capitalism is that it leads to pollution. In a capitalistic system, pollutants are considered externalities. The producer will incur costs that are external to the firm so often there is no incentive to clean up the pollution. Instead, it is dumped into areas held in common such as the air or water.

The solution in this case is governmental intervention. But I don't believe that this should be a justification for building a massive bureaucracy. We need to find creative ways to direct self-interest so that people work towards the common good.

For example, most communities use the water supply from a river and dump treated waste back into the water to flow downstream. Often there is a tendency to cut corners and leave the waste treatment problem for those downstream. But if you required that the water intake pipe be downstream and the waste pipe be upstream you could insure less pollution problems. It is now in the self-interest of the community to clean the wastewater being pumped back into the river. So while there is a need for governmental action, much less might be needed if we think of creative ways to constrain self-interest and make it work for the common good.

We can acknowledge that although there are some valid economic criticisms of capitalism, these can be controlled by limited governmental control. And when capitalism is wisely controlled, it generates significant economic prosperity and economic freedom for its citizens. Next, let us discuss some of the moral problems of capitalism.

Capitalism: Moral Critiques

One of the first moral arguments against capitalism involves the issue of greed. And this is why many Christians feel ambivalent towards the free enterprise system. After all, some critics of capitalism contend that this economic system makes people greedy.

To answer this question we need to resolve the following question. Does capitalism make people greedy or do we already have greedy people who use the economic freedom of the capitalistic system to achieve their ends? In light of the biblical description of human nature, the latter seems more likely.

Because people are sinful and selfish, some are going to use the capitalist system to feed their greed. But that is not so much a criticism of capitalism as it is a realization of the human condition. The goal of capitalism is not to change people but to protect us from human sinfulness.

Capitalism is a system in which bad people can do the least harm, and good people have the freedom to do good works. Capitalism works well if you have completely moral individuals. But it also functions adequately when you have selfish and greedy people.

Important to this discussion is the realization that there is a difference between self-interest and selfishness. All people have self-interest and that can operate in ways that are not selfish. For example, it is in my self-interest to get a job and earn an income so that I can support my family. I can do that in ways that are not selfish.

Adam Smith recognized that every one of us have self-interest and rather than trying to change that, he made self-interest the motor of the capitalist system. And before you react to that, consider the fact that even the gospel appeals to our self-interest. It is in our self-interest to accept Jesus Christ as our savior so that our eternal destiny will be assured.

By contrast, other economic systems like socialism ignore the biblical definitions of human nature. Thus, they allow economic power to be centralized and concentrate power in the hands of a few greedy people. Those who complain of the influence major corporations have on our lives should consider the socialist alternative of how a few governmental bureaucrats control every aspect of their lives.

Greed certainly occurs in the capitalist system. But it does not surface just in this economic system. It is part of our sinfulness. The solution is not to change the economic system, but to change human nature with the gospel of Jesus Christ.

In conclusion, we may readily acknowledge that capitalism has its flaws as an economic system, but it can be controlled to give us a great deal of economic prosperity and economic freedom.

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Economic Resource Aid

Christians should be informed about economics.

"Christians need to care about the poor: that is one side of Christian social concern. But they also need to become informed about the relevant philosophical, political, and economic issues that ground wise and efficient policies to help the poor. Unfortunately, many Christians act as though the only thing that counts is *intention*. But when good

intentions are not wedded to sound economic theory, good intentions can often result in actions that produce consequences directly opposite to those we planned." Ronald H. Nash, *Poverty and Wealth: The Christian Debate Over Capitalism*, (Westchester, IL: Crossway Books, 1986) p. 9.

Capitalism is the best strategy for defeating poverty.

Just before the collapse of socialism in the Soviet bloc, Lutheran sociologist Peter Berger wrote a marvelous book about the newly industrializing countries of East Asia. These 'little tigers,' or 'little dragons' as they're sometimes called, are part of a capitalist revolution and, as Berger documents, they are defeating poverty at an amazing rate. He compares them to the Third World nations that have tried socialism for the last three decades and finds that none of the latter have grown, and indeed, that most have moved backward." K.E. Grubbs, Jr., "A New 'Liberation Theology' for the World: Faith and the Free Market," *Imprimis*, March 1991, 4.

Distribution of the wealth equals slavery.

"...all men have different gifts, talents, interests, and abilities. Left free, they will exercise those in different ways and will produce different fruits. The only way to arrive at equal fruits is to equalize behavior; and that requires robbing men of liberty, making them slaves." E. Calvin Beisner, *Prosperity and Poverty: The Compassionate Use of Resources in a World of Scarcity*, (Westchester, IL: Crossway Books, 1988), p. 54.

Capitalism takes human nature into account.

"Democratic capitalist societies exhibit the lives of human beings not perhaps as they should be but as they are, for they have been conceived in due recognition of the errant human heart, whose liberty they respect. In this, they follow the example of the Creator who knows what is in humans -- who hates sin but permits it for the sake of liberty, who suffers from it but remains faithful to his sinful children." Michael Novak, *The Spirit of Democratic Capitalism*, (New York: Simon and Schuster, 1982), pp. 81-82.

The governmental definition of poverty makes the term meaningless.

"If poverty (the lack of money) really were what ails the poor, supplying vast amounts of money surely would alleviate it. But after thirty years of Great Society-style, 'War on Poverty' welfare programs---programs that have transferred (in 1990 dollars) more than \$3.6 trillion to the poor---poverty is still winning. We ought to think about that for a minute: In the last thirty years, we gave a million dollars to America's poor nearly *four million times over*, yet all the while poverty got worse. If the money earmarked for poverty relief in this year's federal budget alone were given to the poor directly, we would have enough funds to raise every man, woman, and child in America above the poverty line and have a cool \$60 billion left over to celebrate our victory.

"Nearly 40 percent of those the U.S. government defines as 'poor' own their own homes---homes that have more living space than that enjoyed by most middle class Europeans. 'Poor' ought to retain its earlier definition: the lack of food, shelter, or clothing. And while we are engaged in the task of redefining, we ought to remind ourselves that the definition of compassion is not increased control of private income by government." Michael Bauman, "The Dangerous Samaritans: How We Unintentionally Injure the Poor," *Imprimis* 23, no.1 (1994): 3-4, 5.

Christians must act on God's commands to help those who cannot help themselves.

"The century-old question---Does any given 'scheme of help...make demands on men to give themselves to their brethren?'---is still the right one to ask. Each of us needs to ask that question not in the abstract, but personally. We need to ask ourselves: Are we offering not coerced silver, but our lives? If we talk of crisis pregnancies, are we actually willing to provide a home to a pregnant young woman? If we talk of abandoned children, are we actually willing to adopt a child? Most of our twentieth-century schemes, based on having someone else take action, are proven failures. It's time to learn from the warm hearts and hard heads of earlier times, and to bring that understanding into our own lives." Marvin Olasky, *The Tragedy of American Compassion* (Washington, D. C.: Regnery Gateway, 1992), pp. 232-233.

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