Making Sense of Your Dollars

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A Biblical Approach to Wealth

Ian Hodge Ph.D.

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Dedicated to
R. J. (John) Gollan
a man of faith *and* integrity

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Table of Contents

Foreword — by R.J. Rushdoony i

Introduction iii

1. The Social Conditions for Wealth 1

2. An Age of Envy 15

3. A Biblical View of Wealth 27

4. The Humble Lawn-Mower 37

5. Death, Taxes 49

6. . . . and Inflation 63

7. A Biblical View of Debt 79

8. Alternatives to Debt 87

9. Faith and Insurance 93

10. The Creation of Wealth 107

11. The Preservation of Wealth 117

12. Six "Golden Rules" Rules for Financial Independence 131

13. Conclusion 139

14. Postscript: A Special Word to Men 151

A. Eight Arguments Against Debt 155

B. A Note on the Commentaries 167

C. Debt versus Rent 175

D. Further Reading 179

Index 189

Foreword

by R. J. Rushdoony

To be *on target* is a rare gift. Too many thinkers write intelligently but discursively so that we gain little more than a series of observations without a clear-cut focus. This is not the case with Ian Hodge: his writings have never been concerned with a parade of information and self-promotion but with a concern to share relevant and helpful insights with his readers.

A non-Christian emphasis common to too many churchmen limits the Christian's concern to things spiritual. Such an opinion is a relic of the Manichaean heresy which held that two gods of equal power ruled all things; the one god who was evil and darkness was the author of the material world, while the other god, who was light, was the author of the spiritual realms only. This false opinion causes many churchmen to neglect what Scripture teaches about the material world, whose author and maker is the triune God. God who made all things governs all things by His law-word. He deals in His law-word with speech, and also weights and measures, with gossip and also the use of the land, with family concerns and also thefts and other offenses, and so on and on. As Maker of all things, material and spiritual, His law-word governs all things. We must not forget that with the Reformation there was a return to the Bible — and to God's very practical rules for living. Martin Luther thus stood firm on the doctrine of justification, but he also condemned the debasement of gold and silver money.

Ian Hodge, in *Making Sense of Your Dollars*, summons us to think realistically and Biblically about wealth. This does not mean his work is for the wealthy, but it is for all who want to be faithful stewards under the triune God. His concern is with a Biblical view of wealth so that we may use our talents as the Lord would have us do. As Hodge notes, "Wealth as such is not the goal of the Christian. It is, however, the direct outcome of his obedience to God's commands." Man was created to work, and by means of work he makes the Kingdom of God and himself better for having lived.

Hodge's analysis is good theology because it is good, practical economics from a Biblical perspective. He carefully outlines the meaning of inflation *and* the fact that, morally, it is theft. He recognizes that men in debt are not truly free, and he spells out the Biblical mandate here. We live in a time when all kinds of self-serving justifications are given for debt, and Hodge's critique is an excellent and careful one.

His comments on such subjects as insurance are again relevant and practical as well as morally sound. His discussion of "Wealth Strategies that Work" is again telling, especially as he counsels that we understand economics *and* our own psychology, so that we act realistically. His "Six 'Golden Rules' for Financial Independence" is a gem.

In brief, what Ian Hodge has given us is a sound guide for Christian economic activity. It is a short guide, and there is no excuse for not reading it carefully.

Because of their false spirituality, too many evangelicals will not read books on economics. This is sad, because it means self-blinding. We live in an economically oriented world. We dare not blind ourselves to economic facts. One of the reasons for our current world economic crisis is that Christians have withdrawn from that realm, among others, and have surrendered it to men of no faith who are destroying the world's economies and the nations. We need a return to Biblical norms in every area of life and thought. We cannot limit Christianity's message to our souls: it must command our daily lives, and our pocketbooks. This Ian Hodge summons us to do.

Rousas John Rushdoony
September 4, 1995
Vallecito, California, USA

Introduction

THIS IS A STUDY concerning money and wealth. More particularly, however, it is an endeavor to explore a *Christian* view of money and wealth.

Now a question might be running through your mind: Isn't the Christian view of wealth the same as everybody else's? Why do we need *another* book on money and finance when, frankly, there are probably more books than a person can hope to read in a lifetime? Titles such as *How to Grow Rich, More Money, Never Say Budget, The Credit Trap, Blood in the Streets, The Richest Man in Babylon, The Economic Time Bomb* and *Why the Best-Laid Investment Plans Usually Go Wrong* are all designed to grab the investor's attention and offer a variety of ideas concerning wealth and its management.

There is also a growing list of books by Christian authors to tempt those who have even the slightest desire for more wealth. *Wealth and Wisdom, Debt-Free Living, Wealth and Power, Money and Power, Wealth and Poverty, Rich Christians in an Age of Hunger* and *The Coming Economic Earthquake* offer varying views of wealth and money from the Christian community. Here, as elsewhere, we get conflicting opinions. This is not necessarily bad, since there is an aspect of money management that no adviser can escape: we are all limited in knowledge.

No one knows the future with absolute certainty except God Almighty. Many authors of books on money management and wealth attempt to forecast what is going to happen in the future. Though authors might use the Bible when making predictions, some writers are correct with their predictions while others get it wrong. Here, as elsewhere, the Bible offers us the best strategy: "Where there is no counsel, the people fall; but in the multitude of counselors there is safety" (Prov. 11:14). It is the limited knowledge of those who give advice that should be the motivating force for us to seek help from several sources.

There is, however, another reason we need a variety of opinions when it comes to money and wealth. Our sinful natures make it very hard for us to be totally honest about money. It is not an idle warning that "the love

of money is a root of all kinds of evil" (I Tim. 6:10). The late Malcolm Muggeridge once made the pungent observation that when it comes to money and sex people find it difficult to be honest. Money and our dependence upon it are intensely personal. Consequently, it is difficult for us to have an entirely objective view about money and how wealth should be managed. For this reason alone the more counselors we have the more likely we are to have our intense passions on the subject modified by someone else's wisdom.

The times in which we live are truly exciting. Some people might be less than enthusiastic about this statement. While some are finding their own business or their employer's business is expanding rapidly, others are being retrenched. While some are increasing their wealth, others are taking lower paid jobs — any job — in order to survive.

At the end of 1994, Australia was beginning to come out of a four-year recession, the worst since the Great Depression. This is the recession Australia "had to have," according to Prime Minister Paul Keating. Why Australians had to suffer a recession has not been explained, but you can be certain that it is somehow associated with money and people's attitude to it. More specifically, if we are going to have a consistently biblical explanation of an economy that fluctuates from boom to bust, we can be confident that the issue is tied up with moral and ethical issues as they relate to money.

The necessity for multiple counselors is one reason why a further book on wealth might be welcome in the market-place. But there is another reason. Very few books provide an overview of money and wealth from a biblical perspective. Some are practical books on financial management and don't pretend to offer a philosophical and theological view of money and wealth. This book is an attempt to provide a biblical framework for thinking about money and wealth. Thus, if you wish to invest in the stock market, this book will not tell you *how* to do it. It will, on the other hand, tell you *why* you probably ought to be investing in the stock market.

Looking at the topic from another perspective, there are a few Christian writers telling us we should limit the amount of wealth we create for ourselves; another group, on the other hand, tells us to get as much as we can. Little wonder that the average person is confused. In this analysis, I attempt to explain why it is that wealth is not something to be despised but rather something that the godly Christian should seek — not for selfish purposes, however, but for the extension of God's kingdom. Much as some might preach against money and wealth, churches need money to expand; evangelists and missionaries need to be paid while they work in fields that cannot support them financially. It is those who stay at home who must find the money to pay for these activities. And money, it has been said, doesn't grow on trees.

A popular way to talk about Christianity today is to say that we are to have a relationship with Jesus. This, of course, is perfectly true, provided we make sure that we follow the Bible's teaching on what this relationship

should really be. Too easily, however, and encouraged by our sinful natures, we can forget that this relationship with Jesus deeply involves moral issues. This is another way of saying that a relationship with Jesus involves the issues of everyday life, since we are called upon moment by moment to make choices that indicate our allegiance to Jesus Christ. It might be in a small matter such as refusing to use illegally copied software on a home computer, or it might be a larger issue to do with dishonesty concerning contracts in the business world. It might be over the issue of sexual faithfulness to a spouse, or making sure children are taught, trained and prepared for adult life in a proper manner. Life is inescapable, and the choices we make in life revolve around our understanding of Christian faith and the demands God makes upon us through the summary of His moral law, the Ten Commandments. It is also inescapable that money and wealth touch us at every point of our lives. We cannot live without it. Wealth, therefore, must somehow fit into the moral framework of biblical ethics.

It is unfortunate that Christians today have an ambivalent attitude towards money and wealth. For a long time we've been taught that too much wealth is wrong, that we should not be pursuing wealth, and that true spirituality should shift our attention in other directions. This teaching is only partially true. Taken by itself it constitutes a wrong view about wealth and a wrong view about man's purpose on this earth. I recall a conversation I had a few years ago with an elder in the church where I was a member. He had gone into business for himself, and like so many who take this step found himself earning less money than he would if he worked as an employee. He praised the fact that he was not too wealthy and gave the impression that his poverty was more noble than riches. My response to his comment was this: "Think what our church could do in the area of evangelism if it had just one millionaire tithing his money each week." His silent contemplation was all the answer I needed. He clearly had not thought of wealth in this context. Anyway, before he had time to recover, I added a second comment: "Imagine what our church could do if it had *several* millionaires tithing each week!"

It is evident from the Bible that it is wrong to make money and wealth our primary goal in life. When our goal is God's glory, then the pursuit of wealth as a *necessary* means to finance the extension of the kingdom of God on this earth is a noble and worthy task. I emphasize *necessary* here because it is often thought that the kingdom of God will be blessed and extended by poverty rather than by wealth. This view originates partly from a mistaken notion of what wealth really is, but also stems from a mistaken notion of what the Bible teaches about money and wealth. While we are warned about pursuing wealth as an end in itself, in the Bible we are also told that God's blessings upon his faithful people include material possessions.

Since the Bible provides us with the wisdom of Almighty God we have an obligation to make some effort to work our way through the Bible, learning and applying what it has to say on the topic. If this book is able

to contribute in some way to help people better understand what the Bible has to say about wealth, then I will have achieved my purpose in writing it.

In the first seven chapters I try to lay out some general biblical guidelines that I think are crucial to a proper understanding of wealth. I commence this survey by showing what wealth is and how it comes into existence. The origin of wealth as we know it is inextricably linked with the rise and expansion of Christianity throughout the Western world. This is a key ingredient, missing from many Christian books on the topic of money and wealth. Too readily some authors tell us we should limit our wealth. They fail, unfortunately, to tell us *how* this practice of limitation will make the world a better place in which to live.

Another problem with investment books is that they offer a superficial approach to investing by omitting certain issues that are crucial to any investment decision. For example, it is often suggested that one should make certain investments because a particular company or fund manager is producing high returns for the investor. While this might be true, as an investor you not only need to know who is a good manager of other people's money, you also need to know what is going to happen in the future. In the first half of 1987 many stock brokers were telling people which companies had produced spectacular returns for investors. Knowing that *and* investing in many of those companies was bound to help the investor lose his money in October that year, if he held onto the investment until the market crash. What people also needed to know was what was going to happen in the future, since this would have an even greater impact on the results they might expect from an investment.

Attempting to predict the future, however, is one thing that many advisers avoid. They dodge it for many reasons. It might be because they don't think it's important. It might be because they don't care. And it could also be because they don't have the proper analytical tools to enable them to foresee accurately what is going to happen over the next few weeks or months ahead. It goes without saying, no one can foresee the future with absolute accuracy. But it is equally certain that we must learn to do this as best we can or pay an enormous price in economic terms.

So I begin this book with a look at what it is we're trying to achieve as investors. In the first instance, I don't look at fund managers, or any of the other array of investment opportunities. What I want the reader to think about is what he is trying to achieve. Without a map we cannot reach our destination. Without an investment goal chart it is unlikely we'll achieve our financial ambitions. To say that we want more wealth is a superficial answer to a difficult question. It is not just money that we want, but the things that money can buy and we need specific objectives — an action plan — in order to succeed.

Wealth, however, simply cannot provide everything. Some things that are necessary for investment are not supplied by wealth but are provided by external circumstances. These are the conditions *necessary* for wealth to be created. For example, the social conditions of the former USSR did little

to help most people get richer. Rather, it did the exact opposite: it impoverished vast areas of the world that formerly had an abundance of food and other goods.

I try to explain why it is that in the Western world, that portion of the globe most influenced by Christian faith over the past 2,000 years, there is an enormous deposit of accumulated wealth that has come about through centuries of the wealth creation process. Unless we acknowledge the prevailing social conditions that provided a climate where people could become productive and create wealth, we can end up misplacing our investments and so defeat our real goal: the increase in wealth, not only for ourselves, but for others as well.

Next I try to focus attention on what wealth is according to the Bible. Some people believe wealth is merely money. If we think about it, though, money is not wealth. You can't eat money or travel overseas on it. But money does permit you to buy food and a plane ticket.

For many, increasing wealth is a matter of simply not spending money. They get a job, stay in the job and put a few dollars away each payday. While there is a place for this kind of activity, it does not answer the fundamental issues of wealth creation. Therefore, I illustrate why it is that work is our best investment strategy, and why our vocation (also referred to as our "calling"), should become the primary focus of attention in any wealth creation program.

In chapters five and six I look at three things that will affect any investment strategy: death, taxes and inflation. These are inescapable, so we should understand them from a biblical perspective or be willing to lose all or part of our wealth. Unless we plan properly any one of them could leave us — or our loved ones — economically destitute.

Following this is a discussion on two areas of money management where there is much confusion. Debt and insurance are complex topics, but the biblical answer to them is not too difficult to discover. Unfortunately, not much has been written by biblical scholars on either of these topics. Most commentators dismiss the key passage dealing with debt in a superficial manner. Therefore, I provide a framework to determine what is the biblical view of debt.

In chapter nine I explain what biblical faith is and why it is that Christians should buy insurance — not only insurance on items such as a home or a car, but why Christians should also buy life insurance. I also offer general guidelines about the options available for those seeking to understand this complex area.

Chapters ten and eleven contain practical advice on wealth creation and wealth preservation. In these chapters, you will find strategies that you can put into place immediately to put you on the road to better financial health. Chapter twelve contains six "golden rules" for successful wealth management.

By the time you've finished this book, I hope to have provided you with a biblical framework for understanding money and wealth. With this knowledge you'll be able to develop your own specific action plan. You may need to consult with experts in various fields to help you do this. By all means avail yourself of every piece of expert help you can get. You'll need it.

At the same time, you'll be confident that there does not have to be a conflict in your thinking between Christian faith on the one hand and the accumulation of wealth on the other. These are not opposing choices, and for too long we have been given a false leading on the true nature of wealth from a Christian perspective.

My prayer is that readers will be helped by this book, not for selfish purposes, but that through their own financial program they will see that the creation and management of wealth are powerful tools for the extension of God's kingdom on earth. This is the task of each one of us. We do not work for our own glory but in order that everything we do might bring glory and honor to our Lord and Savior, Jesus Christ.

CHAPTER 1

The Social Conditions for Wealth

AS THE TWENTIETH CENTURY draws to a close, Christians find themselves in what may well turn out to be one of the most interesting periods of human history. The collapse of communism in the Soviet Union does not appear firmly established. The people's revolt under the leadership of Boris Yeltsin surged forth in a non-violent overturning of a system that has bankrupted and starved the Russian people and those who constituted the USSR. The Ukraine, for example, once the bread-basket of eastern Europe, could not feed its own people in recent years let alone export food to other countries.

Yet, some people in the former Soviet Union seem unable — or unwilling — to cope with their new-found freedom. They are hungry, and so they look to the state as a supplier of their daily bread. Their preference seems to be for a return to communist control rather than the liberty under which they might solve their own economic problems. This view is supported by a letter to the editor, where a Ukrainian resident from Lviv argued that life was better under the old communist regime. The writer claimed that before peristroika she could afford to go to the beaches at the Black Sea every summer as well as afford a visit to the theaters every night. Her job as an engineer had been secure. Circumstances, however, had now changed. "Culture people and scientists" had become "redundant." Theaters are out completely, so too are the holidays at the Black Sea. Her job had gone. This is why, she argued, the "National Socialists are popular in Russia and Ukraine." [1]

An American medical doctor, William Campbell Douglass, who lived in St. Petersburg for a year recently, wrote this indictment against the city's residents:

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1. Letters to the Editor, *The Weekend Australian*, August 13-14, 1994.

> Only about one person in four in this crazy city makes any attempt to better himself or herself by earning extra income. Although desperate for more goods, they won't *earn* them. They prefer to do things the old way: complain and look vainly to the all-powerful state for rescue.
>
> It's a collective father complex. The cold and humorless Lenin, even though he seized power through terror and with practically no popular support, metamorphosed into "Grandfather Lenin" and so quickly replaced the Tzar as the collective father. The vast majority of Russians honestly believe that people are the children of the state and *must* be provided with housing, education, entertainment, a job, food, and health care (and vodka).[2]

Bread and circuses — and being kept by the state — are more important than freedom and liberty. Yet it is precisely in those parts of the world where freedom has been emphasized and achieved to some degree that we find that greatest concentration of wealth. Why?

A situation not unlike some aspects of the former USSR has occurred in Africa. Under colonial rule, many countries became more than self-sufficient in food production and were net exporters of food. Yet, in recent years the specter of famine has arisen in previously fertile areas of this huge continent. What are the explanations for this economic decline?

Australia is an interesting case. Prior to the settlement of the white man the Aborigines had a short life span, little food and none of the conveniences of modern medicine. In short, Australia had a "population problem" — not enough food for the people who lived there. Yet the settlement of the white man has turned Australia into a literal garden, resplendent with fruits, vegetables, and a variety of meats and grains. It was a remarkable achievement that within a century of Australia's settlement by the British in 1788, Australians enjoyed the highest per capita income and one of the fast-growing economies in the world.[3] This garden image is particularly relevant for me, since I was born and raised on the edge of the desert, in the midst of the irrigation systems. The Murrumbidgee Irrigation Area[4] is clear evidence of the productive capacity of the land once regular water can be obtained. The towns of Griffith and Leeton, in the heart of the MIA, are truly oases in the midst of the desert. The desert blossomed with food of many kinds as a result of the application of modern science and technology.

Few people are willing to deny that over the 2,000 years since the birth and death of Jesus Christ, mankind has experienced significant economic progress. Why has this progress occurred? Was it merely an evolutionary process, inevitable from the start? Or was it a progress foreordained by

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2. William Campbell Douglas, *St Petersburg Nights* (Atlanta, GA: Second Opinion Publishing, 1995), p. 216, emphasis in original.
3. Paul Johnson, *The Birth of the Modern World Society 1815-1830* (New York: HarperCollins, 1991), p. 249.
4. One of the richest irrigation areas in Australia, situated in south-west New South Wales.

God Almighty, who rules and governs this world moment by moment? For the Bible-believing Christian, the alternative to evolutionary thinking is the biblical idea of a personal God who controls everything that happens according to His foreordained purposes. God's foreordination, however, does not exclude human action,[5] the things people do to better themselves economically. In the Bible, we find that while God achieves His purposes through all people on the earth, there is a special place for those who are called "His people." Therefore, it should not be surprising to find that economic advancement, a part of what the Bible calls "blessings" (see Deuteronomy chapter 28), has come from those parts of the globe where Christian faith and character have been most prominent.

The idea of progress, however, goes against some contemporary Christian thinking. There are a couple of reasons for this. *First,* many Christians have confined themselves to the narrow area of personal salvation, thereby ignoring wider issues of applied Christian faith. *Second,* for many Christians their belief about historical progress has been colored by their view of eschatology. (Eschatology is the study of "end times.") But an interesting question arises: If the world is to get worse and worse, then why is it that we've had enormous economic and technological progress during man's earthly history? The Bible certainly does not allow us to argue that a consistent application of atheism will make the world a better place in which to live. What we do know is that the primary impetus for the improvement in social conditions has come from those parts of the world where Christianity flourished.

There is no explanation for the rise of what is referred to as Western civilization without the recognition of the influence that Christian faith has had in various parts of the world. Writing about the technological advances of the medieval world, Lynn White Jr made this pertinent observation: "to an extraordinary degree, medieval religion created the climate of its environment."[6] Under the impetus of a new found faith people that were noted for their ferocity, their penchant for war, and their human sacrifices, became innovators, developing tools and instruments that would improve the quality of life for everyone.[7] Western civilization has not always been in existence, and its origins are unique to Christianity.

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5. Loraine Boettner, *The Reformed Doctrine of Predestination* (Philadelphia, PA: Presbyterian and Reformed Publishing Co., [1932] 1976), pp. 254-258.
6. Lynn White, Jr., *Medieval Religion and Technology* (Berkeley, CA: University of California Press, 1978), p. 253.
7. The relationship between faith and eschatology in the development of Western civilization has not been explored to any great depth. However, Edward C. Banfield observed a cultural, and therefore religious, connection in the respective classes in society and their view of the future (*The Unheavenly City,* Boston, MA: Little, Brown and Company, 1968, pp. 48ff). This future orientation is religiously motivated, and cannot be understood in the West without an understanding of the Christian faith. See also Gary North, *Millennialism and Social Theory,* (Tyler, TX: Institute for Christian Economics, 1990).

The Failure of Rome

By the time of Constantine the end of the Roman world was in sight, although another century was to pass before its final demise. Underlying the failure of the Roman Empire was its idea of sovereignty and authority. Unwilling to acknowledge the absolute sovereignty and authority of the Triune God, the Romans had eventually placed their faith in the Roman state and the Caesars.

Once sovereignty is attributed to the state, however, no limit is placed upon the powers granted to it.[8] This led to a range of economic restrictions upon the individual. For example, it was necessary to obtain permission from a "competent" authority before individuals could dispose of goods and chattels. Ironically, the Roman state at one time existed for the purpose of protecting the property rights of its citizens; it ended with "a system of servitudes unparalleled in the annals of civilized man. . . . The Eternal City which, in the course of her long and varied history, had offered in succession the model of a vigorous and aggressive peasant community, then of the imperializing, colonizing, and assimilative world-power, finally presented to the world a picture of immobility, the immobility of a fully matured civilization."[9] This is the immobility of a fully matured non-Christian civilization. Combined with this was a hostility in the upper classes to using their hands either for purposes of making money or serving others. In short, the upper classes refused to work.

The Romans were caught in a philosophical problem that manifested itself in the realm of economics. Although engineers had developed the water mill capacity to three horse power during the first century B.C., the Romans were reluctant to develop their technology because of the effect it would have on employment. Vespasian refused a labor-saving device that would help in the transportation of heavy columns on the grounds that he needed to look after the free wage earners. Technological advancement would create unemployment, it was believed. Rather than provide an environment where what we call the entrepreneurs could develop new business activities, the Roman world instead based its economy on slavery and serfdom.[10]

Another, more telling, cause of the collapse of Rome was its abandonment of the economic laws of supply and demand. Instead, under Diocletian, state control of the means of production — socialism — was instituted. The controls over economic activity were purchased: those who accepted the controls were guaranteed security of employment. A little

8. Charles Norris Cochrane, *Christianity and Classical Culture: A Study of Thought and Action from Augustus to Augustine* (Oxford: Oxford University Press, 1940), p. 181.
9. *Ibid.*, p. 307. See also Henri Pirenne, *A History of Europe From the Invasions to the Sixteenth Century* (London: George Allen & Unwin Ltd., [1936] 1939).
10. Jean Gimpel, *The Medieval Machine: The Industrial Revolution of the Middle Ages* (London: Pimlico [1976] 1992), pp. 8,9.

government control, however, leads to greater economic control,[11] and eventually price controls were introduced in A.D. 301. Naturally, taxes increased. But tax evasion became "almost epidemic."[12] A special police force was constituted to collect the taxes. Where necessary, torture was used on wives and children to make them reveal hidden wealth. Consequently, "the well-to-do concealed their riches, local aristocrats had themselves reclassified as *humiliores* to escape election to municipal office, artisans deserted their trades, peasant proprietors left their over-taxed holdings to become hired men. . . ."[13] Thousands abandoned towns and villages to seek refuge outside Roman areas of jurisdiction.

The concealment of riches is what we would call hoarding. Rather than spending their wealth indicating their social status, Roman families were hoarding for fear of taxes. Hoarding itself is a sign of people's lack of faith in the social conditions, and occurs when people are afraid of the future. This helped create a shortage of money. The lack of gold in circulation not only led to an inability in citizens to pay their taxes, but also provided an environment to debase the currency.[14] This helps to explain the ease with which the barbarians overran the Empire: they were welcomed by the overburdened citizens.

Reform in the West

Even at its height the Roman Empire did not achieve the economic greatness of the medieval world of Western Europe. Whereas the price of goods doubled for every 100 miles of transport in Roman times, during the early medieval period 100 miles of transport added only 30% to the cost of goods. The harnessing of water power in the medieval period enabled one person to grind what would have taken forty people without the machine. The development of machine power in the medieval period has been called the first Industrial Revolution.[15]

A significant economic gain occurred when three-field rotational farming replaced the two-field model in the late eighth century. Under the two-field system, a 600-acre manor would plant 300 acres while the remainder was left fallow. The following year, the portions were reversed. Under a three-field system, 400 acres were planted each year, while only 200 acres remained fallow. This "invention," attributed to Charlemagne,[16] provided an additional 100 acres (or one-third) on which to grow food during the

11. Ludwig von Mises, "Middle-of-the-Road Policy Leads to Socialism," in *Planning For Freedom* (South Holland, IL: Libertarian Press, [1952] 1980), pp. 18-35.
12. Will Durant, *Caesar and Christ* (New York: Simon & Schuster, 1944), p. 643.
13. *Ibid.*, p. 644.
14. Peter Spufford, *Money and Its Use in Medieval Europe* (Cambridge: Cambridge University Press, 1988), Ch. 1. While Rome debased its currency, Byzantium, on the other hand, maintained the fineness and weight of its coinage from the fourth to the eleventh centuries (p. 21).
15. Gimpel, *The Medieval Machine, p. viii.*
16. Lynn White Jr., *Medieval Technology and Social Change* (Oxford: Oxford University Press, 1962), p. 69.

year. Since the fallowed land was ploughed twice in a year while the planted portion was ploughed only once, the three-field system reduced the amount of labor needed to farm the 600 acres. This reduction in the amount of time to farm 600 acres provided an impetus for the acquisition of additional land to cultivate; so too did the rise in the population. By the end of the first millennium forest land was being reclaimed, rivers and streams were diked, and usable land created out of swamps and moors.[17] Three-field rotation also permitted the planting of a second crop. With three fields, a spring, as well as the traditional winter planting, could take place. Crop variety could be increased to protect against failures as well as provide a more balanced diet.

Such were some of the improvements in economic conditions. But why couldn't this kind of improvement occur under the Roman state? It did not occur under the Romans because of their attitude to work. In the Roman world work, as a means of making an income, was frowned upon. Those duties were left to the slaves whose purpose was, naturally, to relieve the Romans of the necessity to work.

> One of the signal failures of the Roman Empire had been in the sphere of economics. Although golden opportunities offered themselves, the Romans were unable to establish and maintain a broadly based, balanced economy of enterprise and growth in agriculture and industry with which to feed a healthy and reciprocally invigorating commerce. No doubt their many conquests, their acquisition of great numbers of slaves, their easy extraction of tribute amounting to piratical loot, and their contempt for productive labor, ranging from what we should call the highest professions down through business to the poorest agricultural and industrial employment, had much to do with their failure. . . .
>
> [A] grave collapse of Roman power and order occurred in the West, indicated most clearly by a political, military, and moral breakdown which was inseparably connected with an underlying economic and social failure. . . .[18]

The animosity toward productive labor in Rome had placed the Empire at the mercy of those who had the food. Thus, for example, Vespasian became emperor because he controlled Egypt, at the time Italy's main source of wheat. With economic bargaining power behind him, Vespasian could virtually hold the Roman Senate to ransom. Septimus Severus was

17. Henri Pirenne, *Medieval Cities* (Garden City, NY: Doubleday, [1925] 1956), p. 57. In the words of White, "forests fell, swamps were drained; dikes stole polders from the sea." (*Medieval Technology*, p. 72.)
18. William Carrol Bark, *Origins of the Medieval World* (Stanford, CA: Stanford University Press, 1958), pp. 102, 104, emphasis added. In the words of J.B. Bury, "The Romans of the Empire originated nothing. It is not too much to say that, from Augustus to Augustulus, poverty of ideas, incapacity for hard thinking, and excessive deference to authority characterized the Roman world." Quoted in H. St. L.B. Moss, *The Birth of the Middle Ages 395-814* (London: Oxford University Press, 1935), p. 13.

able to do the same by seizing North Africa. The Roman attitudes to work and leisure form an important ingredient in the downfall of the Empire.[19]

The Christian monks, in contrast, insisted that work is worship. *Laborare est orare!* became an identifying mark of monastic life.[20] The faith that replaced the humanism of the Roman Empire, however, was governed by a standard that made work something noble and worthwhile; something highly prized and to be sought after. Whereas Rome was hostile to productive labor, Christianity positively encouraged human endeavor. Governed by the Scriptures of the Old and New Testaments, the early Christians understood their calling under Christ to be the new humanity. While they understood that all things were to be done to the glory of God, they also understood their highest goals would be reached by being servants to their fellow man. Consequently, "the Middle Ages was one of the great inventive periods of mankind."[21]

The Rise of the West

Once released from the shackles of Roman paganism, the human spirit spread its wings with innovation. The development of the horse collar and the horse shoe provided an increase in energy that could be used in many ways. Earlier, the harness was placed around the neck and up over the animal's withers; the harder he pulled, the more he choked. The collar, on the other hand, permitted the animal to place all the weight of the load directly on his shoulders. Another invention, the horse shoe, provided protection for the feet and allowed the animal to work longer periods than an ox. Thus, the horse, the collar and the horse shoe provided an increase in productive capacity for the medieval laborer unheard of in earlier times.

The horse eventually replaced the ox in much of Europe as the preferred work animal. Whereas in earlier periods the horse could only pull about 500 kilograms, in the medieval period this was increased five-fold or more, according to Gimpel. (The Theodosian Code of 438 made it a punishable offense to place a load on a horse greater than 500 kilograms. In 1910, a retired French cavalry officer, Lefebvre des Noëttes, conducted experiments illustrating that under the Greek and Roman methods of harnessing, a horse was unable to pull more than 500 kilograms.[22]) The horse could also work much faster than the ox, and this increase in energy was not lost on the farmers in the medieval era. The increase in food production coincided with an increase in population and general economic activity.

The harnessing of machine power is also to be found in this period. Curiously, although it has been argued that China was once the more technically advanced society, by the fourteenth century Western Europe

19. Durant, *Caesar and Christ*, pp. 319-337.

20. Herbert Lüthy, *From Calvin to Rousseau* (New York: Basic Books, [1965] 1970), p. 59.

21. Gimpel, *The Medieval Machine*, p. viii.

22. *Ibid.*, p. 32.

had overtaken her.[23] Thus, while examples of the crank motion can be found in China in the first or second centuries after Christ, it was the development of the crank in the West that allowed the combined use of rotary and reciprocal motion in the medieval period. Some have argued that "the technical advance which characterizes specifically the modern age is that from reciprocating motions to rotary motions."[24] The author of these words, Lewis Mumford, is also attributed with introducing the idea expressed by White thus: "that medieval technology had been immensely significant for the emergence of modern capitalism, industrialism and urbanism."[25]

It is difficult to overstate the tremendous changes that were going on. A colorful description of the Middle Ages is given by Gimpel:

> There was a great increase in population, which led to massive movements of people. They emigrated; they opened up and colonized new lands; they founded and built new towns. Conditions favored free enterprise, and this led to the rise of self-made men. Capitalist companies were formed and their shares were bought and sold. Entrepreneurs were fully prepared to use ruthless business methods to stifle competition. They introduced extensive division of labor to increase efficiency, and their enterprises called into being a proletariat whom they could exploit. The workers retaliated with wage claims, absenteeism, and strikes.
>
> Energy consumption increased considerably. Technological innovations brought about improvements in the efficiency of existing methods and also led to a successful search for new sources of energy. Many of the tasks formerly done by hand were now carried out by machines. Concurrently there was a revolution in agricultural methods, which enabled farmers to produce enough food for an expanding population and provide a more varied diet. There was a marked increase in the general standard of living. The growth of industry and the search for new sources of raw materials led to extensive industrial pollution of waterways and, on a wider scale, posed a severe threat to the environment, with grave long-term consequences.
>
> The entrepreneurs, the landowners, and the financiers were able to extract large profits from this industrial expansion, and the growth of capitalism brought about modern methods of accountancy and banking, which in turn led to further expansion. The people with financial power also wielded political power, and economic sanctions could be employed very effectively for political ends. The period was characterized by a sense of optimism, a rationalist attitude, and a firm belief in progress.[26]

23. William H. McNeill, *History of Western Civilization* (Chicago, IL: University of Chicago Press, 1949), p. 330. For a history of China, see Jacques Gernet, *A History of Chinese Civilization* (Cambridge: Cambridge University Press, [1972] 1982).
24. Lewis Mumford, *Technics and Civilization* (New York:Harcourt Brace Jovanovich, [1934] 1963), p. 80.
25. White, Jr., *Medieval Religion*, p. xvi.
26. Gimpel, *The Medieval Machine*, pp. viii-ix.

This is not a portrait of what some people have called the "Dark Ages." This is an enlightened age imbued with a dynamic energy that led, eventually, to a second Industrial Revolution.

Western civilization is based on centuries of innovation and technical development, and it was the Christian religion that provided the environment for improvements in social conditions. If nothing else, when the tribes of northern Europe converted to Christ they fought less and worked harder. Peace is a necessity if people are to devote their energies to building rather than destruction.[27] Christianity, however, brought more than peace. Tarnas summarized the moral teachings that transformed the pagan world thus:

> Christianity brought to the pagan world a new sense of sanctity of all human life, the spiritual value of the family, the spiritual superiority of self-denial over egoistic fulfillment, of unworldly holiness over worldly ambition, of gentleness and forgiveness over violence and retribution; a condemnation of murder, suicide, the killing of infants, the massacre of prisoners, the degradation of slaves, sexual licentiousness and prostitution, bloody circus spectacles. . . .[28]

Peaceful conditions, however, often depend on technological development and its application to warfare in order to deter invaders. Thus, the invention of the foot-stirrup, a device that had its beginning in a loose surcingle or a device large enough to accommodate a big toe alone, was a significant development that changed the art of warfare in the eighth century. The primitive stirrup first appeared in India in the second century before Christ, but it took several centuries before the device was subjected to innovative change. The foot-stirrup permitted the horseman to place his weight on the stirrup, thereby gaining lateral support in the saddle. In warfare, this meant the substitution of horse power for man power. For enemy troops, this development was devastating. With the lance held firmly under the arm, "the blow is struck no longer with the strength of a man's muscles, but rather by the impetus of a charging stallion and rider."[29] It was the Franks under the leadership of Charles Martel, according to White, who developed "mounted shock combat," a practice that soon spread among other peoples, including those who hoped to defeat them.

Here, again, we see that economic and technical developments were occurring rapidly in Northern Europe. The West was much more open to innovation than places such as Byzantium, the Levant, India, and China. A major part of the reason for this was the freedom and individual liberty that could be found in the feudal territories of the West.[30] Economic freedom

27. Henri Pirenne, *Medieval Cities,* p. 55. See also John A. Hall, *Power and Liberties: The Causes and Consequences of the Rise of the West* (Harmondsworth, Middlesex: Penguin Books, 1986); William H. McNeill, *The Rise of the West* (Chicago, IL: University of Chicago Press, 1963).
28. Richard Tarnas, *The Passion of the Western Mind: Understanding the Ideas That Have Shaped Our World View* (New York: Ballantine Books, 1991), p. 117.
29. White, Jr., *Medieval Religion,* p. 78.
30. Friedrich Heer, *The Medieval World* (Harmondsworth, Middlesex: Penguin Books, 1961), p. 72. See also Andrew Bell, *Historical Sketches of Feudalism* (London: Partridge & Oakey, 1852); Carl Stephenson, *Medieval Feudalism* (Ithaca, NY: Cornell University Press, 1942).

and political freedom go hand in hand, and in the West economic freedom prevailed. The restoration of honest money under the Carolingians was an important step in the economic development of Europe.[31]

It is not only in the realm of economic advancement that we find the Christian West in the forefront, however. The early monasteries were not simply places for people to work; they were centers of education, and medicine was often practiced by the monks. Surgery was a necessary and legitimate part of the work in the monastery. By the thirteenth century, quite remarkable advances in medicine had been made. A Dominican monk, Theodoric Borgognoni (d. 1298) wrote several treatises on surgery, one of which included how to prevent the festering of wounds by washing them with wine, a technique developed by his father.[32]

Music and the arts were put into the service of the church so that all man's activities might glorify God. Lang would eventually argue that in the medieval period, "Music played an important role in the Christianization of heathens and in the subduing of occasional pagan uprisings. . . ."[33]

On other fronts, man's first successful flight is dated from this period of innovation. In the early eleventh century, Eilmer (or Oliver) of Malmesbury glided over 600 feet before crashing, breaking both legs in the process. By the time we reach the later middle ages, we find the Italian and French humanists at the forefront of not only technological and engineering development, but also in the movement away from biblical faith.

Yet a tremendous legacy, not only the production of wealth, but a moral use of wealth, had been left by medieval Christianity. Charity had become a hallmark of the Christian West, and not even the Crusades of the Middle Ages could hide the achievements. The historian W.E.H. Lecky pointed out that the Christian response to mankind's physical needs — charity — was one of the great accomplishments of the church after the collapse of Rome. In the words of Lecky, "surely no achievements of the Christian Church are more truly great than those which it has effected in the sphere of charity."[34] Even during the Crusades, Christian charity was working to break down barriers and reach ordinary people with the Christian message. "No period of history exhibits a larger amount of cruelty, licentiousness, and fanaticism than the Crusades; but side by side with the military enthusiasm, and with

31. Norman F. Cantor, *The Civilization of the Middle Ages* (New York:HarperCollins, 1993), p. 191.

32. Lawrence R. Brown, *The Might of the West* (New York: Ivan Obolensky, 1963), p. 520. On this issue, Joseph Lister had been preceded by six centuries. Theodoric's discoveries, according to Brown, were ignored in the rediscovery of the ancient Greeks during the period. This love of the Greeks in the rise of humanism resulted in an ignoring of anything that did not fit with Greek discoveries. Hence, argues Brown, this particular medical knowledge "was deliberately disregarded in professional and educated circles" (p. 522). A similar pattern of returning to Greek thought is found in Copernicus's hypothesis for a heliocentric rather than a geocentric earth. (See Tarnas, *The Passion of the Western Mind*, pp. 248-271.)

33. Paul Henry Lang, *Music in Western Civilization* (London: J.M. Dent & Sons, 1942), p. 58.

34. W.E.H. Lecky, *History of European Morals* (New York: George Braziller, [1869] 1955), Vol. II, p. 85.

the almost universal corruption, there expanded a vast movement of charity, which covered Christendom with hospitals for the relief of leprosy, and which grappled nobly, though ineffectually, with the many forms of suffering that were generated."[35]

Finally, Lecky concluded, "the high conception that has been formed of the sanctity of human life, the protection of infancy, the elevation and final emancipation of the slave classes, the suppression of barbarous games, the creation of a vast and multifarious organization of charity, and the education of the imagination by the Christian type, constitute together a movement of philanthropy which has never been paralleled or approached in the Pagan world."[36] That's some achievement, especially when there are those who are keen to deny that any good could come out of the medieval church.

These are the origins of the world as we know it, with the Reformation being a great attempt by Christians to recover lost ground. Not surprisingly, we find the recovery of individual liberty and freedom where the Reformation was most active, together with the onset of a new impetus in technological and economic development. This was the dawn of the second Industrial Revolution.

Freedom to Invest

Perhaps you're wondering what this historical survey has to do with investing. Surprisingly, it has everything to do with finance. It is far too easy to develop false notions about money and wealth. We readily confuse ends with means and mistakenly pursue means as if they were ends. By ends, I mean the ultimate goals that we have in life; means are the things or methods we use to achieve our goals.

It is easy to confuse the purposes for which wealth is necessary with the pursuit of money itself. The first question of the Westminster Shorter Catechism asks: "What is man's chief end?" Answer: "Man's chief end is to glorify God and to enjoy Him forever." The pursuit of wealth should be seen in this context. It is not an end in itself, but wealth can be a means for each of us to bring glory and honor to our God and Savior, Jesus Christ.

Material possessions are what we properly call wealth. Too often we limit our view of wealth to money only, yet on reflection many of us would get rid of our money today in exchange for something else. Perhaps we'd like better tools for work, more education for the children, maybe just a repaint and repair job on the house. In summary, however, money, being merely a medium of exchange, serves its purpose only when it is exchanged for something else. Our wealth, therefore, is not just our money but the whole range of economic goods and services available at our disposal, the myriad of things for which money can be exchanged.

I commenced this chapter looking at the Roman Empire and its collapse because I believe that when it comes to investing, we need to make sure

35. *Ibid.*, p. 95.
36. *Ibid.*, p. 100.

we get things in their proper order. There are not too many people reading this book who would prefer to live under a totalitarian system. While we can often legitimately complain about the over-regulation and controls that government at all levels imposes upon us, we cherish our freedoms too much to abandon them lightly for a social system built on severe restriction of individual liberty. Ultimately, this restriction includes constraint of the individual to worship and praise the God of Heaven. This is why our concept of society must be the key element in the use of wealth.

The Christian Empire — Christendom — replaced the pagan Roman Empire. The rise of Christendom didn't occur overnight; different periods of history indicate various degrees of acceptance of Christian faith. But the general progress of Christianity throughout the centuries is as unmistakable as it is remarkable.[37] Thus, it is no surprise to find that in those nations where Christianity has had most influence, there is found most freedom for the individual. And where there has been most liberty there has been the greatest economic and material advancement.

Conclusion

If liberty and freedom are necessary conditions in order to fulfill our calling under God, then our investment philosophy and the strategies we implement must first be designed to establish these conditions. If man's chief end is to glorify God, then the social environment necessary for man to achieve this must be the condition we would want as a major objective.

In this chapter I have drawn attention to some of the differences between the Roman world and the civilization that replaced it. No one should want to turn back the clock and live, once again, under a non-Christian, humanistic and totalitarian system of government. Yet that is the direction many of our so-called Western countries are headed. And it is being financed by the improper use of wealth. It is a rather unfortunate commentary on the condition of contemporary Christianity that so many Christians are inadvertently involved in financing the devil's work.

Our investment strategy, therefore, must help us achieve freedom and liberty, not just for ourselves, but for our neighbor as well. If we are to achieve any sense of fulfillment in this life, it will be insofar as we live our lives in the calling God has for us, whether at home, business or in our local church. Therefore, we need a social environment that allows us to follow God's calling for our life. And it is a society free from the heavy hand of government regulation that is the best environment for Christianity to flourish. It is, of course, Christianity itself that provides these conditions. The free society is not produced by communism, socialism, Hinduism, Shintoism, Buddhism, humanism or Islam; it is Christianity alone that produced the relatively free society of the Western world.

We are also taught in Scripture, however, that we cannot confine ourselves to selfishness, that we must also consider the circumstances of our

37. Judith Herrin, *The Formation of Christendom* (London: Fontana, 1987).

neighbor and do all that we can to help him. This latter motive is the necessary ingredient to lubricate the wheels of commerce. Material advancement is not possible unless those at the cutting edge of technology produce the goods and services that will help their fellow man work out his own calling under God. The aim of business is to provide goods and services for other people. The first aim is not profits, though these are vital to the continuity of any business venture. Although we need to consider our own material circumstances, our first aim is to help our fellow man in his calling so that he can fulfill God's purposes in his life. This is why we work.

But there are other aspects of society that require our attention. Failure to understand the forces that work against the Christian establishing godly behavior can lead to financial shipwreck. In the next chapter we look at two further influences that need to occupy our attention in order to understand wealth and its management.

CHAPTER 2

An Age of Envy

FREEDOM FOR THE INDIVIDUAL is a necessary social condition in order for people to fulfil their callings. But freedom does not exist in abstraction. Nor does it exist between the ears only. It requires an atmosphere where a person has the liberty to act, without restraint, in order to achieve certain goals. This atmosphere, or social condition, is a political system that has minimum government, allowing individuals to pursue their God-given callings in the way they think best.[1]

The wise investor should recognize a force at work today that aims to take this away. This force is religious in nature and anti-Christian in its motivation. It is, like all non-Christian belief systems, an endeavor to create heaven on earth —Utopia — without God. While its aims might be noble, its results are disastrous, as Molnar observed.

> At utopia's roots there is defiance of God, pride unlimited, a yearning for enormous power and the assumption of divine attributes with a view to manipulating and shaping mankind's fate. The utopian is not content with pressing men into a mould of his own manufacture; he is not a mere despot, dictator or totalitarian leader holding all temporal and spiritual power. His real vice is, first, the desire to dismantle human individuality through the dissolution of individual conscience and consciousness. In a raving moment, the story goes, Caligula wished that mankind had only one head so that he might chop it off with one blow. So, too, the utopian: he wants to deal with one entity so as to simplify his own task of transforming indomitable human nature into a slave.[2]

At the heart of the utopian urge is a desire to be God. Genesis 3:5 records that the temptation that came to man in the Garden was "to be as God." Eat of the forbidden fruit, the Tempter said, and you shall be like

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1. This idea had its most famous exponent in the post-Reformation era in Adam Smith with his notion of the "invisible hand." See Adam Smith, *An Inquiry into the Nature and Causes of The Wealth of Nations,* Edwin Cannan ed. (Chicago, IL: University of Chicago Press, 1976), Book IV, Ch. II, pp. 474ff.
2. Thomas Molnar, *Utopia: The Perennial Heresy* (New York: Sheed and Ward, 1967), p. 227.

God, knowing (or determining) good and evil for yourself. Since that fateful day utopianism has been with us as men have attempted to build a better world without God.

A pattern emerges, however, whenever men attempt to live without the God of the Bible. One consistent feature of a non-Christian society is the denial of the freedom of the individual. What makes Western civilization so remarkable, even with all its faults, is that individual liberty does not become lost among the masses of humanity. This is one of the "triumphs" of Christianity. In the Christian system of social order everyone has limited jurisdiction, including the highest earthly authorities in church or state.[3]

The utopian, on the other hand, "makes the human condition so rigid that freedom is excluded from utopia."[4] When the absolute sovereignty and authority of God are denied, these properties are transferred to some aspect of the created order, most often the political state or a single political leader. Totalitarianism and a loss of freedom for the individual are the result.

The alternative to freedom in the human realm is a social system that represses liberty. In this century repressive systems such as Marxism or socialism have appeared. (In this context, socialism and communism are synonymous terms.) As an economic system both involve state ownership and control of property. While under communism all property is generally owned by the state, under socialism nominal ownership remains with the individual, but the owner is regulated at many points how he may use his property (or wealth. The clearest example of the communist system is the former Soviet Union, while Nazi Germany is an example of the socialist form.[5]

Unfortunately it is not just the overtly socialistic nations that have restricted personal liberty. In the democratic nations of the so-called free world the individual finds himself bound and restricted by a plethora of rules and regulations. Ostensibly they are the result of legislation designed to help the ordinary man but, in reality, they hinder and repress individual

3. Rousas John Rushdoony, *The Foundations of Social Order* (Phillipsburg, NJ: Presbyterian and Reformed Publishing Company, 1972), Chapter 7, "The Council of Chalcedon: Foundation of Western Liberty," pp. 63-82. According to Rushdoony, the Chalcedon formulation on the nature of Christ — divine and human, yet no commingling of the two natures — reduced the state "to a human order, under God, and it was denied its age-old claim to divinity for the body politic, the ruler, or the offices" (p. 67). "Western liberty began when the claim of the state to be man's savior was denied. The state then, according to Scripture, was made the ministry of justice. But, wherever Christ ceases to be man's savior, there liberty perishes as the state again asserts its messianic claims. Man is in trouble, and history is the record of his attempt to find salvation. Man needs a savior, and the question is simply one of choice: Christ or the state? No man can choose the one without denying the other, and all attempts at compromise are a delusion" (p. 82).

4. Molnar, *idem.*

5. Ludwig von Mises, *Socialism: An Economic and Sociological Analysis* (London: Jonathan Cape, 1936).

liberty.[6] These, too, must be seen as repressive of the human spirit. Mankind was created to think and act rationally. His abilities rise to the top best when, in freedom, he is challenged to use his God-given faculties for the glory of God and the benefit of his fellow man.[7]

The key indicator of a repressive system is regulation of the individual in order to redirect his activity into areas he would not choose voluntarily. Under any system of state control, the economic choices of people in authority replace the choices of individuals. A repressive system is one where the choices of a ruling body are imposed by legislative decree upon the individual. It is a system, in other words, where individual choice is restricted and replaced by the choices of others.[8]

One does not need a degree in political science or economics to conclude that people are losing their hard won liberties. There are very few decisions that we can make that are free from government regulation and control. We may not educate our children without permission from the appropriate government department.[9] Nor may we commence a business without obtaining the necessary permission from state or local authorities. The only real freedom we appear to have is the freedom that exists between our ears, the freedom to think what we like. But we are not encouraged to take these ideas and put them into practice. The political climate places obstacles in our way, making it difficult, and sometimes impossible, for us to do what we would like to do. Occasionally there is a valid reason for these restrictions. More often we'd be better off if the inhibiting legislation were removed.

Our liberty, however, is not just denied by rules and regulations. When a person finds it necessary to allocate up to 48% of his working time to pay taxes, then it cannot be said he is free.[10] He is a slave whose freedom can only be achieved after he has worked the hours necessary to pay the taxes imposed by the state. This is clearly limited freedom, a freedom for only 52% of the time spent in productive activity. The remaining portion is spent working to fulfill state-imposed obligations. An ancient idea held "that freedom was incompatible with direct taxation."[11]

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6. See Clarence B. Carson, *The Flight From Reality* (Irvington-on-Hudson, NY: Foundation for Economic Education, 1969).
7. Francis Nigel Lee, *The Origin and Destiny of Man* (Phillipsburg, NJ: Presbyterian & Reformed Publishing Company, 1974); Leland Ryken, *Work and Leisure in Christian Perspective* (Portland, OR: Multnomah Press, 1987).
8. Ludwig von Mises, *A Critique of Interventionism* (New Rochelle, NY: Arlington House, [1929] 1977).
9. Brian Crittenden, *Parents, the State and the Right to Educate* (Melbourne, VIC: Melbourne University Press, 1988); E.G. West, *Education and the State* (2nd ed., London: Institute of Economic Affairs, 1970); William Boyd & Edmund J. King, *The History of Western Education* (London: Adam & Charles Black, 1961).
10. The highest PAYE (Pay As You Earn) tax rate in Australia is 48.5%, including Medicare levy.
11. Justo L. González, *Faith and Wealth: A History of Early Christian Ideas on the Origin, Significance, and Use of Money* (San Francisco, CA: Harper & Row, 1990), p. 37.

Curiously, we look back at the abolitionist movement of the late eighteenth century and praise those who worked to emancipate the slaves in England and America. Yet we fail to realize that a new form of slavery has been introduced. We forget, for example, that our great-grandparents did not find it necessary to pay income tax. The reemergence of income tax in the twentieth century must be seen, therefore, as a modern phenomenon, and a return to the confiscation of people's wealth by the political order. By modern, I mean introduced little more than half a century ago. We need to recognize that today we are enslaved by the state in a way that would have been unacceptable to our ancestors. They would not have accepted some aspects of the social conditions that we experience today. We do not understand the enormous impact of Christianity until we understand the "ancient liberties" that were established. These included freedom from both church and state, allowing the individual to pursue his calling under God with few fabricated hindrances. According to Lord Acton, by the Middle Ages "representative government, which was unknown to the ancients, was almost universal. The methods of election were crude; but the principle that no tax was lawful that was not granted by the class that paid it — that is, that taxation was inseparable from representation — was recognized, not as the privilege of certain countries, but as the right of all."[12]

Things have changed. In the past people resisted taxes much lower than today's levels. Today, taxation demands well above the amounts that men fought over are imposed in most countries. While there are reasons for this, there are questions here for the thinking person. Is this the level of taxation that God wants us to have? Has He ordained that the state should take up to 48% or more of a person's wage in order to provide social welfare programs, cradle-to-grave security? A detailed response to this question is beyond the scope of this book, although some comments are made in places. Questions like these need to be addressed by Christian leaders and aspiring political candidates.

It has been argued that not since the medieval period have the taxpayers had God on their side![13] According to Adams, the medieval view of the meaning of freedom was this: "a man is free only if his name does not appear on a tax roll."[14] The separation of powers between church and state made the church tax exempt. More importantly, since the kings of that period had little of the power or responsibility of the modern monarchs or parliaments, taxation did not need to be at high levels.[15]

12. Lord Acton, *Selected Writings of Lord Action Vol 1: Essays in the History of Liberty*, J. Rufus Fears, ed., (Indianapolis, IN: Liberty Press, 1984), p. 36.
13. Charles Adams, *For Good and Evil: The Impact of Taxes on the Course of Civilization* (New York: Madison Books, 1993), pp. 137ff.
14. *Ibid.*, p. 140.
15. Joseph R. Strayer, *On the Medieval Origins of the Modern State* (Princeton, NJ: Princeton University Press, 1970). According to Strayer, it was not until the thirteenth century that the foundations of the sovereign state were finally established. Thus God was no longer sovereign, and the individual now found his identity in the political state rather than the

Anyway, the people would often revolt against new or increased taxes.[16] This hostility to taxation was based on the concept of private ownership of property, hence a large effort was made to limit the power to tax. In our own day, the establishment of the soveriegnty of the political order has meant higher taxes.

Unfortunately, socialism does not confine itself to high taxes and the control and regulation of the individual. Igor Shafarevich, in his comprehensive study, *The Socialist Phenomenon,* concluded that the ultimate goal of socialism is the destruction of the human race.

> *The death of mankind is not only a conceivable result of the triumph of socialism — it constitutes the goal of socialism.*[17]

Any tyrannical system of government, whether it is the Roman or Soviet Empire, or the central planning of the modern democratic socialist states, ends in the death of a culture. This is because it opposes the freedom that comes as a result of a social order based on God's laws. The eighth commandment, "Thou shalt not steal" (Ex. 20:15), establishes individual ownership of property, the necessary basis for any system of economic freedom for the individual.[18] In Scripture, not even the king could take property without the consent of the owner, as the story of Naboth and his vineyard demonstrates (I Kings 21:1ff).[19]

God has ordained that the world should work in accordance with His moral requirements, the Ten Commandments. Therefore it should not

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church or God. Only for a short period, and with a limited jurisdiction, did the medieval concept of the absolute sovereignty of God (as opposed to the sovereignty of church or state) find its defenders in the Protestant Reformation.

16. Taxation, like politics, was eventually accepted provided it had the consent of the taxpayer. Thus, taxes were no longer linked to theological implications but to whatever the taxpayer was willing to accept. The voice of the consenting taxpayer was the voice of the new god, and rulers soon learned to manipulate the people for selfish benefit. The lawfulness of certain taxes could also be determined by its expenditure. This, the argument of pragmatism, breaks the moral and ethical arguments for the concept of the just tax. (Democracy in taxpaying works about as well as it does in politics.) In England, once the sovereignty of the Parliament was established in 1688 (in opposition to the idea of sovereignty of church or state), the people were no longer protected by the older practice that the king could spend but not tax, while the Parliament could tax but not spend. In Australia, the British Monarch assents to Acts of Parliament through the Governor-General, but this has provided the taxpayer with little protection against the demands of the Parliament.
17. Igor Shafarevich, *The Socialist Phenomenon* (New York: Harper and Row, 1980), p. 285, emphasis in original.
18. See Carl F.H. Henry, "Christian Perspective on Private Property," in Samuel L. Blumenfeld, ed., *Property in a Humane Economy* (LaSalle, IL: Open Court, 1974), pp. 23-45. This neglected essay provides a biblical perspective on property rights, correctly contrasted against "natural rights" theory.
19. The story of Naboth is interesting from a number of aspects. First, there is no indication that Ahab was trying to obtain Naboth's property without paying a fair price. Secondly, however, it seems Naboth was not willing to disinherit himself or his offspring from the land. This indicates that property (or at least real estate) was family based, not individualistic.

surprise us to find that whenever a society has abandoned God's Commandments in favor of another moral code the social order eventually disintegrates. God has made this world to operate in terms of His ethical standards, and no matter how much people might revolt against God's social order, the ultimate result is failure. This should not surprise us, since throughout Scripture the inevitable failure of ungodliness is foretold. See Deuteronomy chapter 28 or Psalm 1, for example.

Christians have not always agreed about what the Bible says concerning property rights. At the time of the Reformation there was a difference of opinion between the conservative Reformers on the one hand and some Anabaptists on the other. The debate was over ownership of property. In various creedal formulations, such as the Thirty-Nine Articles or the Belgic Confession, the framers of these documents upheld the right of private ownership of goods over against the Anabaptist notion of the community ownership of property. The view expressed in the creeds was not new. It had a very long history, evidence of which can be found in the *Magna Charta.*

Not surprisingly, people are more productive when they work for themselves on their own property. Recent evidence from the former Soviet Union, for example, has shown that when people own their land and goods they work harder to reap the direct benefits which ownership brings to the individual. Thus, the greatest economic benefits have flowed to mankind when the eighth commandment has been upheld.

Envy

It's possible to look back in history and see that ancient civilizations were not unlike some aspects of the world today. Older societies too left the God of the Bible out of their considerations. Consequently, the centralization of power was common place and the individual became a slave to the ruling power of the day.

It is only in the modern world, however, that we see the socialist ideals motivated by a different force: envy. While ancient civilizations denied God and eventually denied the individual his freedom, it is in the modern world that the political systems have based their activities on "the virtue of envy."[20] Envy introduces a thoroughly different dimension into the political debate because the envious are not intent on creating a better world. Their idea is one of destruction.

Sometimes it is easy to confuse envy and covetousness. The Bible condemns covetousness in the tenth commandment. Yet envy goes beyond covetousness. The covetous person says, in effect, "I want what you have," and when he gets it he is satisfied. The envious person, on the other hand, says, "I want what you have. And if I can't have it then no one else can have it." Consequently, the envious person works to destroy things that he cannot have himself.

20. Helmut Schoek, *Envy: A Theory of Social Behavior* (New York: Harcourt, Brace & World, 1966) p. 252.

A couple of illustrations of envy should help distinguish it. In 1983, when I commenced working in the investment industry, I was speaking with a teacher from a leading private school. The school was proud of its reputation and fine academic record, its students achieving some of the highest marks in the state examinations. Its pupils came from wealthier families who could afford what were, at the time, possibly the highest fees of any school in the state. The school was highly successful, despite its price tag, with a long waiting list of students seeking entrance into the school. Naturally, the school sought to hire the best teachers available. This particular teacher and I were discussing my work in investment. I explained that many parts of an investment program are designed to minimize taxes as far as possible legally. We discussed the advantages accruing to those who were able to limit taxes by self-employment, then contracting their services out to various firms. The self-employed person can obtain tax deductions for expenditures such as telephone, electricity and running expenses for a vehicle. These deductions are not generally available to workers on wages or salaries. On this occasion, however, the teacher objected to the fact that some could get a tax advantage that was not available to him. "Self-employment should be banned," he claimed. When I asked why, his reply was that since he could not get these advantages, they should be denied to others as well. This is envy.

Another example of envy, although the author does not identify it as such, is given by John Smith in his book, *Advance Australia Where?*[21] Vandals had entered a private school in Adelaide a few years ago, causing thousands of dollars of damage to library and video equipment. They left behind a note which read: "We're not vandals. We just can't stand seeing others have what we haven't got. Please forgive us." This is envy in action.

Envy manifests itself in other ways. I was told by a senior person in the tax office that those who avoid taxes are most likely to be "dobbed in" by relatives. Family and friends, those who know our intimate details, are often envious that brothers, sisters, relatives or friends can get away with things that they are either incapable of doing themselves or do not have the opportunity to do.

Envy is a consequence of abandoning biblical faith. The alternative to envy is the biblical view of helping our fellow man to get ahead, even if he gets further ahead than we do. This is practical Christianity and the basis for social development. The politics of envy, on the other hand, governs most non-Christian societies and is the root cause of their stagnant social system. No one can rise above the crowd in the envious society. Yet Western capitalism, based on the Christian values of charity and the private ownership of property, has helped more individuals rise above the crowd than any other social system in history. That fact is indisputable.

In an age of envy anything that the individual does to take precautions to preserve his own wealth will be frowned upon. Helmut Schoek, in his

21. John Smith, *Advance Australia Where?* (Sydney, NSW: Anzea Publishers, 1988), p. 53.

very important study of envy, found that it was considered "unsocial" to take steps to look after oneself. "Thus, if someone provides against a possible catastrophe in a really original and thoroughgoing way, he will arouse the ill-will of his potential comrades in misfortune, who are partly angered by his foresight and partly fear unconsciously that his precaution will attract disaster."[22]

A progressive tax system, for example, is based on envy. Whereas any taxes (or tithes) in the Bible are fixed either at the same amount or the same percentage (i.e. proportion), many people today find this unacceptable. They argue that true justice demands the rich pay a higher proportion than the poor. Yet God says that all should pay a tithe (tithe = tenth). Underlying the assumption of a progressive tax system, where the rich pay more than the poor, is the idea that there should be no wealthy class. If all cannot be rich, confiscate the wealth from those who have it and redistribute it in some fashion.

Several social commentators have pointed to the habit Australians have of pulling down those who have been successful. Euphemistically referred to as "the Tall Poppy Syndrome," it is motivated by envy. The successful are often despised merely for their success. Compassion, however, is required at all levels of the corporate chain. Few Australians, I suspect, have shed tears for what appears to be the demise of Alan Bond.[23] While it is easy to criticize his use of debt to build an economic empire and his inability to gauge the depth of the economic collapse since the 1987 stock market fall, there are too many who seem to dismiss his woes with a casual "serves him right!"

Envy, however, must come into our consideration as investors. There are people who would love to get their hands on our money. Any program of wealth accumulation or wealth preservation that we might adopt which fails to recognize the evils of socialism and envy will most probably fail in its objective. This is why any investment program must not only increase wealth, but also protect wealth from the envious who are willing to use the state as an instrument to put envy into practice.

Salvation

I want to add something here about salvation — Christian salvation. There are two things that have relevance to an investment strategy that will come from our view of salvation.

First, men and women everywhere today are looking for salvation. Salvation, in its biblical framework, means health. It means the total health of the person who is saved. Not only do people wish to avoid death and

22. Schoek, *Envy*, p. 320.

23. Alan Bond, an Australian businessman who built a multi-billion dollar empire in the 1970s and 1980s using other people's money. The pinnacle of his success was winning the America's Cup in 1983 using a new, and at that time radical, design of the keel which improved the speed of the racing yacht.

whatever comes after it, they also wish to overcome the evils they see in society. Now we can approach these problems from only two possible perspectives. On the one hand, we have the promises of God, that faith in His Son Jesus Christ will not only save us from sin for the next life, but it can also help us to overcome sin and its effects while we're still on earth. On the other hand, if we reject this biblical offer of salvation, then people begin to turn to themselves as the means of saving the world in this life. Most people don't admit that life continues after death. Meanwhile, their hope of curing the world's economic problems lies in either the world's greatest treasurer, the greatest prime minister, the greatest president, the king, queen, parliament, or anyone else who promises deliverance from the present human condition. A recent offering in Australia is the new people's republic — the transfer of the Australian political system from a constitutional monarchy to an atheistic and centralized republic — as if a change in the political structure will somehow eliminate the problems in the nation.

Second, in order to be a savior, all power and authority are required to reside in the one offering deliverance. To depend on a savior who has neither the power nor the authority to succeed is a risk many seem willing to take. With God, all power and authority are wielded with justice, equity, righteousness and love. Sinful man, however, cannot match this, since he is born in sin and suffers himself from the problems he is trying to overcome. Thus, it's ludicrous to place our hopes for the salvation of the world in other sinful human beings. Yet many prefer this to the biblical offer of salvation. In the Bible, salvation is offered through Christ alone and His finished work on the cross. The individual, remade by the Spirit of God, becomes a "new" man, one who delights in obeying the commandments of God. These affect every area of his life.

Salvation is too often, and too easily, confined to justification alone. Redemption, however, covers every aspect of life. We cannot properly speak about salvation without referring to what the theologians call "sanctification." This refers to the ongoing life of the Christian as he grows in knowledge and maturity. When we understand that salvation not only refers to our justification but also our sanctification, we can easily understand the Epistle of James. It appears to contradict the idea of salvation by faith alone. James is adamant that we are saved by works as well as faith. This can only be so if we hold that salvation involves more than simply the idea of justification. It's perfectly true that we are saved because of Christ's atoning work on the cross. But the practical outworking of that salvation involves every moment of life until we are placed in the grave.

This is what the Apostle Paul meant when he stated that "the just shall live by faith" (Romans 1:17). This phrase is a quotation from Habakkuk 2:4 in the Old Testament. Unfortunately, it is too often confined to mean that the just person will be saved by faith. While this is a very important truth taught elsewhere in Scripture, this is not what God is telling us in this passage in Romans. The Greek word for salvation, *sozo,* (pronounced SODE-zo) is not used in this verse. Instead we have the word *zao* (pronounced

dZAH-o), which means life, or to live. The righteous person shall live by faith. He is to have a lifetime of faith. Put another way, the just person is to live in active trust and obedience to God throughout his whole life.

Salvation is health and involves the whole man. The health of society, too, is dependent upon God's deliverance just as the individual's hope is also in God's plan of redemption. Similarly, the economic health of society is dependent upon man's faith in God and his obedience to God's commandments. When Christianity has been ascendant in any culture, people have tended to prosper economically. Too many people think that the creation of wealth occurs by getting economic and technological problems resolved. In the Bible, however, everything is connected to man's moral condition and his relationship with Jesus Christ. The moral condition of a nation, based on the religious beliefs of the people, influences the economic condition of the people far more than technology, for without right morals economic and technological development cannot last.

The alternative to God's blueprint for redemption is man's plan of salvation. When men deny God as their Lord and Savior, they enthrone themselves and devise their own plans of redemption. According to Scripture, all problems in this life are caused by man's ethical revolt against God, his desire to be his own god, determining for himself what is right and wrong, good and evil, true and false (Gen. 3:5). Therefore, man's solutions to these problems are usually the opposite to God's plan.

People have a guilty conscience that requires atonement when they have envy in their hearts. When they refuse to find atonement for their sins in Jesus Christ, people turn to the state as the first means of salvation. This is why we have so much legislation today. It is man's attempts to save himself from sin and the effects of sin. It is his own attempt at appeasing his troubled conscience.

But man's attempts at self-salvation make things worse. Socialism, for example, extols the virtues of state control of property. Many people rightly see the problems that exist in the world. There are many in poverty, some due to circumstances of their own making and others due to the incidents of life. These circumstances could be alleviated somewhat with the proper use of wealth. Too often, however, it is claimed that individuals won't use their wealth charitably to help ameliorate the circumstances that many face. Thus they call for state action to force people to do what they might not do voluntarily.

Wealth distribution based on coercion, however, eventually creates another set of problems. The poverty that exists in so many countries today is the result of socialism — some form of denying people private ownership of property. Socialism has brought starvation and poverty wherever it has manifested itself. This is undeniable proof that enforced wealth distribution is not the solution to poverty.[24]

24. See Marvin Olasky, *The Tragedy of American Compassion* (Washington, DC: Regnery Gateway, 1992).

Unless we see all the problems of life as spiritual in origin, we can too readily seek answers to problems in the wrong place. By spiritual I do not mean in the sense of other-worldly as opposed to this-worldly. The other-world concept is Greek in origin, not biblical. In the Bible, God's kingdom is spiritual; that is, it is ethical in its manifestation on earth. Spiritual problems are thus ethical problems, and they need an ethical solution to them. That solution can only be found in God's redeeming work in Jesus Christ.

To transfer spiritual problems to the political sphere, as if the politicians with appropriate legislation can "save" society from a particular evil, is an incorrect view of both the nature of the problem and the role of the state. Rather, we should seek salvation in terms of God's plan of salvation: regeneration of the individual so that he will freely obey God's commandments. Because the laws of God are all-encompassing, these commandments govern the proper use of wealth.

Socialism — state planning to solve the problems of life — is not an option for those who believe that salvation is available only through Jesus Christ. In the past, when nations have been obedient to the Scriptures, the state has not been seen as man's savior, but rather as having a limited role in the administration of public justice. This is the origin of the freedoms we enjoy in Australia and other parts of the Western world, though we find ourselves far more enslaved to the state than were our forebears.

How Does This Influence Investment?

Theory is not much good without practical application. An investment program should assist in providing the kind of social conditions that are conducive to the expression of Christian faith and the proclamation of the Gospel. Any investment program that works to encourage immorality, directly or indirectly, fails to pass the test. Also, those who fail, for whatever reason, to plan and work diligently in their calling, determining instead to live off the largesse of those who do work, are contributing to the kind of social conditions that are inimical to Christian faith and character.

We can fail in our investment program by neglecting the social conditions that work against our accumulation of wealth and its godly use. Therefore, we must determine what kind of social conditions we want now and in the future, then ensure that our wealth contributes positively to the development of these conditions. Simultaneously, we must shield ourselves against the forces that mitigate against this goal.

Failing to take these things into consideration means we rob our children and our grandchildren of their inheritance. We can leave this world a better place for our heirs by working for improvements in various areas, or we can sit by and do nothing. We can do our best to build a better world based on Christian faith and character, or we can do less than our best. The choice is ours. Our investment strategy can tell us a lot about our attitude to these issues.

Conclusion

The evils of socialism and envy are key ingredients in any investment strategy and should color the way in which we make our investment decisions. They will color and determine which strategies we should use. Unless we recognize these evils and the effect they have on our investments, especially our long term goals, then we could find ourselves making decisions that do not permit us to achieve our objectives.

CHAPTER 3

A Biblical View of Wealth

WE TAKE MANY THINGS FOR GRANTED. When we have a headache, we reach for the aspirin. When we're sick, we pay a visit to the doctor. If we're hungry we go down to the supermarket and buy food or visit a fast food store. Once the car is low on fuel we pull into the bowser and "fill 'er up." When we wish to have a holiday, we think little of hopping into the car for a 1,000-mile journey, and maybe no more about jumping aboard an airplane for a favored destination. We accept these things as just being "there." Yet it is evident that a few centuries ago, and even only a few decades ago, many things we take for granted were not available. How, then, is it possible for us to have this attitude about a whole range of economic goods and services?

For an understanding of this we must start in the Bible, at the book of Genesis, and the very first chapter. Here we discover several things pertinent to a study of wealth.

First, it tells us that God, our Creator, is a creative being. He works in the act of creation, and continues to work, personally governing and supervising all that occurs in His creation.[1]

Second, we are informed that man is made in God's image. While theologians are careful to distinguish between what they term the communicable and incommunicable attributes of God, it is evident that in some sense man is in the image of God. We are not, for example, the image of God in the sense that we have God's attributes of omnipotence (all powerful) or omniscience (all knowledge). On the other hand, we have been made as God's image in that we have personality, we think, we talk and, most importantly, we make choices. This explains why we are *moral* beings, since we are made in the image of a moral being, God. And it is because we are

1. See Stephen Charnock, *The Existence and Attributes of God* (Minneapolis, Minnesota: Kloch & Kloch, [1797] 1977).

"like God" that our choices are governed by standards of right and wrong. To be sure, as sinful people in revolt against God's ideas of right and wrong, we don't always apply His standards. But we certainly do act as moral beings and apply *some* moral standard.[2]

Third, the Bible indicates that man, being made in God's image as a fully functioning human being, is not to play God with his own life but is to live in obedience to his Creator. Thus, Adam and Eve were forbidden to eat of the tree of the knowledge of good and evil. Their actions were limited, circumscribed by the law of God. They were not free to do whatever they wanted to do, but were expected to live within the limitations that God had imposed upon them. There is a scene at the end of the movie, *Magnum Force,* where Clint Eastwood manages to blow the bad guy (his own police chief) apart with a bomb. As the car disintegrates from the explosion, the camera returns to Clint Eastwood who, as Dirty Harry makes the statement, "A man's gotta know his limitations." That one-liner has enormous implications in every area of life and thought for each of us. We must learn the limitations that God has imposed upon us through His commandments.[3]

Fourth, especially important for this study, we find that man is given further instructions as to the nature of what he was to do on planet earth once he had been created. Man was to "be fruitful and multiply." He was to "fill the earth and subdue it; have dominion over the fish of the sea, over the birds of the air, and over every living thing that moves on the earth" (Gen. 1:28). Man's duty to work, to be fruitful, to multiply, to have dominion began at his inception. He was instructed to work. Made in God's image, man finds his sense of self-fulfilment as he works. It matters little whether the work is that of caretaker, miner or entrepreneur. God was the original Creator; man, made in God's image, is the *re*-creator, and refashions the world that God has made.

The deep desire men and women have to work is thus a very deep part of human nature. Psychologists have found, interestingly, that people find it hard to take extended leave from their work. Some people find that after a short break to rest, they're ready to put the harness back on and return to their labors. In reality, many don't have holidays as such, but simply change occupations for a short period, thus providing relief from the usual vocation. Many people, while groaning on the way to the office or factory, find it fulfilling once the day's work begins. In short, we love work and love to work.

The Production of Wealth

When man was created to work he was created to produce wealth. Put on this earth, man was given what we term raw resources. With the addition

2. See Rousas John Rushdoony, *Revolt Against Maturity* (Fairfax, VA: Thoburn Press, 1977).
3. Cornelius Van Til, *A Christian Theory of Knowledge* (Phillipsburg, PA: Presbyterian & Reformed Publishing Co., 1969); Cornelius Van Til, *The Defense of the Faith* (3rd ed., Phillipsburg, PA: Presbyterian & Reformed Publishing Co., 1967).

of man's labor and ingenuity, it would produce a multitude of goods for people to use in various circumstances in life. While man, made in the image of the Creator God, cannot create ex nihilo (out of nothing) as God can, he is able to refashion the things God has made in a way that will benefit himself and his neighbor. The benefits that accrue to both him and his neighbor, when measured by God's standards, are what is rightly called wealth.

Wealth is the product of labor applied to God's basic creation. Economists have long recognized the basic ingredients to wealth: land and labor plus time.[4] While some add capital to this formula, it should be obvious that capital itself is a product of previous generations who have applied the formula of land and labor. Wealth thus has its origins in the creation mandate, and as such is not something to be despised, but something we cannot escape. Wealth and its creation are fundamental to our essential humanity. We cannot ignore it.

While it is relatively easy to say that wealth is the product of human labor, what is not so easy is to create the social conditions for that to occur. It is even more difficult to provide a social climate for wealth to be accumulated. In the first two chapters I indicated the change in conditions as Christianity replaced the old Roman Empire. But there was another change over 1,000 years after the collapse of Rome.

The Reformation

The Christian church had separated in about the year 1034 as the East and West divisions of the church found they could no longer work together. This led to the Eastern Church on the one hand, and what became known as Western church on the other. There are many comparisons that could be made, but for our purpose there is one difference between the churches that is noticeable when we look back on the development of the two strands of Christianity. The Eastern Church is resplendent in its historical origins. While it has variations, the Eastern Church prides itself on its long history. It can trace its origins back to the first century and claims to be the true representation of the first century church. Many of its liturgical practices are traced through the centuries as evidence of this claim.

A similar claim is made by the Western Church. It too has its roots in the first century church. But what is noticeable between these two strands of the Christian church are the differences in social conditions that have appeared where the two threads have unraveled themselves. The Eastern church, in keeping with its unchanging liturgical tradition, has tended to maintain the status quo in society as well as in the church. Cantor noted that "while the Byzantines continued to enjoy an active urban and commercial life, they made no substantial advance in the technology of industry and trade developed by the cities of the ancient world."[5]

4. Ludwig von Mises, *Human Action* (3rd ed., Chicago, IL: Henry Regnery, 1966); Mark Skousen, *The Structure of Production* (New York: New York University Press, 1990).
5. Norman F. Cantor, *The Civilization of the Middle Ages*, pp. 226-227.

In the West, on the other hand, the church was not bound by the same traditions, or at least not bound as strongly. It appears to have been more willing to reconsider its practices in the light of Biblical teaching and alter accordingly. Theological growth and development was the result. And this, in turn, resulted in cultural growth and progress because of the people's willingness to adopt and adapt existing technology.[6]

There is an example of this willingness to change which split the Western church in the sixteenth century. The church had become infected with non-biblical ideas and practices. But God raised men and women who, with the Bible as their guide, were able to see better alternatives. Martin Luther's attack on the church's authority, which he carefully opposed with the authority of the Scriptures, held back the revival of humanism, man-centered thinking, that arose during the previous four centuries. This humanism had unfortunately entered many practices of the Church, and Luther recognized they did not belong there.

One cannot read the writings of the Reformers without recognizing the great emphasis they placed on man as prophet, priest and king under God. To them, Christ was the Great High Priest who now interceded on behalf of His people; Jesus was also the great Prophet, God's ultimate representative on earth; and since all power and authority belonged to Christ, He was the King of the whole universe, before Whom every creature should bow.

The idea of man as prophet, priest and king under Christ, freed mankind in a manner that has rarely been witnessed in history before this time. No longer were men to be slaves to another human master. Neither Caesar nor the Pope could bind a man's conscience further than the Scriptures allowed. The individual was thus free, under God, to approach God directly and live his life according to the dictates of conscience. While conscience needed to be guided by divine revelation, this teaching freed the human spirit with its challenge that a person's highest calling was to serve God in everything he did.

It is not surprising to find that the greatest periods of man's progress have been when he has been free from political and ecclesiastical tyranny. When the political and ecclesiastical realms realize they have limited jurisdiction, that they are not totalitarian in nature, then the individual is free to pursue what the Reformers termed his "calling."[7]

Not only did it free the individual, but the Reformation also brought about a revival in optimism in the Christian church. The Reformation would transform not only Germany, but the world. Not only Switzerland, England, Holland or Scotland, but the whole world was perceived as the kingdom of

6. Neoplatonism had infected the Church both East and West (see Rushdoony, *Foundations of Social Order;* Tarnas, *The Passion of the Western Mind,* pp. 98ff). However, the Western branch of the Church providentially grew theologically and economically.

7. Richard Steele, *The Religious Tradesman* (Harrisonburg, VA: Sprinkle Publishers, 1989). Originally published in the seventeenth century under the title, *The Tradesman's Calling.*

Christ. This Mighty Ruler would eventually subdue all His enemies until every knee would bow before the King of kings.[8] This was real "possibility thinking" and the Christians were excited.

Optimism of this kind, however, leads to a vision of the future which is unique to Christianity, although the idea is often seen in other religions that borrow heavily from Christianity, such as Islam or communism.[9] When people believe that what they do now will be of benefit to future generations, they plan, work, and think differently to those who have no vision for the future.[10]

In economic terms this vision manifests itself in programs designed for the future. This involves what we call saving, or investment. If the world is about to end, few people will put aside the time, the resources and the effort needed on a project that might take ten or fifteen years — perhaps longer — before it comes to fruition. Mining is an example, where many years can elapse between the time of the initial geological survey to the time when the mine comes into fruitful production.

The Reformation, with its revival impetus, challenged men and women to labor for the extension of God's kingdom in their work and home as well as at church. Sermons on the family, on vocation and on various aspects of life were a regular event. Christians discussed, in the light of Scripture, perplexing questions about profit, how much to charge, and under what conditions they could raise prices. The political circumstances of the time also caused them to search the Bible for principles they could apply to the development of a uniquely Christian political theory. In the words of historian Alden T. Vaughan,

> Puritanism had political, economic and social manifestations as well, for it required of its adherents a number of convictions about the role of government, about the nature of work, and about family relationships which in both tangible and intangible ways reshaped their lives. Subscription to Puritan theology imposed upon the believer an obligation to live all parts of his life in accordance with Holy Writ, and Holy Writ, if carefully searched, would be found sufficient for most occasions. And what was true for the individual Puritan was assumed to be true of a Puritan (they would have said "Christian") society.[11]

It is no wonder that the second Industrial Revolution occurred in those nations most affected by the Reformation and its return to biblical

8. William Symington, *Messiah the Prince* (Edmonton, AB: Still Waters Revival Books, [1884] 990).

9. See Douglas Hyde, *Dedication and Leadership* (Notre Dame, IN: University of Notre Dame Press, 1966). Hyde was a communist for 20 years before converting to Roman Catholicism. This book is an outline of the communists recruiting and training methods and the philosophies they used to motivate their recruits. Most Christians would find this book very helpful.

10. $FEdward C. Banfield, *The Unheavenly City* (Boston, MA: Little, Brown and Company, 1968), pp. 48ff.

11. A.T. Vaughan, ed., *The Puritan Tradition in America 1620-1730* (New York: Harper and Row, 1972), p. 129.

Christianity. Nor does it surprise us to find that the modern Technological Revolution is occurring in those nations similarly influenced.[12]

Profits

Stewardship of resources and activities that benefit our fellow man, are Christian in origin. Saving and investment for long term projects also reflect a Christian attitude of building for the future. According to Proverbs, "A good man leaves an inheritance to his children's children" (Prov. 13:22a). This legacy dies hard, and still today, in what many would call a post-Christian culture, we find many remnants of activities that have their origin in biblical faith.

Saving implies that there is something left over after we have taken what is necessary for living in the present. This left-over amount is what the accountants call "profit." It is not possible to have economic advancement without what are loosely called profits. Most of us understand profit as being that portion of money that is left over after all expenses are deducted. This is an accountant's definition rather than an economist's one, and the two are not necessarily the same.[13] For example, a farmer who produces more potatoes than he can eat has produced what we term a surplus. But a portion, if not all, of that surplus must be used for the next season's crops. So even this "surplus" is not true profit. In this sense, profit is the "price" of staying in business. It is putting aside from the current crop so there can be future crops.

Without surplus (i.e. profits), however, there can be no economic advancement. In the words of Drucker, "economic advance . . . depends on the ability of an economy to form capital, that is, to generate a surplus of current production over the costs of the past and present."[14] Adam and Eve, once they were banished from Eden, needed to provide food and shelter for themselves. If this took them all day, it is certain they could not have had the time to develop economically. If they had to work all day every day to provide food for themselves, they would not have been able to free themselves to develop tools to help them. It is the phenomenon of surplus, something left over after present needs have been met, that means people don't have to work so hard tomorrow at the same task. They are freed to pursue other activities. The fact that many people do not grow their own

12. Japan is an interesting case. Christianity is not widely embraced in Japan. But the business principles of Total Quality Management that are said to have transformed Japanese business after World War II can be seen to have a basis in the moral principles of the Bible. This is not to say that TQM principles are self-consciously taken from the Bible, but their origin is unmistakable. See W. Edwards Deming, *Out of the Crisis* (Cambridge, MA: Massachusetts Institute of Technology, 1982); cf. Rafael Aguayo, *Dr. Deming: The American Who Taught the Japanese About Quality* (New York: Simon & Schuster, 1990).
13. Economists use a different definition. See von Mises, *Human Action,* pp. 289-294.
14. Peter F. Drucker, *Managing in Turbulent Times* (Oxford: Butterworth-Heinemann, [1980] 1993), p. 29. "'Profit,' it cannot be said often enough, is an accounting illusion. . . . [T]here are no profits; there are only the deferred costs of staying in business" (*idem.*).

food today indicates that economic progress comes when people can free themselves from present activities by increased productivity. This provides the opportunity to devote themselves to new endeavors, and new endeavors mean economic growth and expansion.

Profit, far from being the result of greed and exploitation, is the necessary ingredient that permits economic activity and economic advancement. We should be doing all that we can to further profits, for without profits there can be no saving; and without saving we lose the process of capital formation which is vital to a healthy economic system.

Rather than frowning upon profits, Christians should be concerned about the manner in which profits are acquired and used. In the Bible this is called stewardship, and is the proper attitude given the fact that we are God's creatures, living in His universe, using the things He has created.[15]

Wealth as such, is not the goal of the Christian. It is, however, the direct outcome of his obedience to God's commands. Man was made to work, and as he works in the universe where God has placed him, he progresses economically. In short, he creates wealth. "And you shall remember the LORD your God, for it is He who gives you power to get wealth, that He may establish His covenant which He swore to your fathers, as it is this day" (Deut. 8:18).

It has been the severance of wealth from its proper purpose that has provided the environment for many to become critics of wealth. In the 1970s a popular book entitled *Rich Christians in an Age of Hunger* by Ronald Sider, implored all Christians to abandon their wealth for what the author thought was a more moderate life-style. Other writers, building on faulty economic theory and bad theology, reflected a misunderstanding of wealth from the biblical perspective. But these attitudes fail to answer certain fundamental questions both in terms of biblical teaching and practical common sense. Not surprisingly, they have faded from view, not because people have lost interest in the subject, but precisely because there is a recognition that many of the ideas don't fit with the whole of the biblical record.

The modern hostility to profits comes from a wrong view about God and about wealth. Too often it also leads to animosity towards our fellow man because of his success. The distinguishing mark of modern society is its atheism and belief that life can be lived without the God who made us. It is characterized by the mistaken notion that wealth is created merely by knowing the right words to say, having the right contacts or being smarter than other people. The divisions in society between rich and poor too often originate with this kind of faulty reasoning. It sets some men apart as being superior to others, while those omitted from the superior group harbor resentment and animosity towards those who are successful.

15. For a secularized view of stewardship and its practical outworking, see Peter Block, *Stewardship: Choosing Service Over Self-Interest* (San Francisco, CA: Berrett-Koehler Publishers, 1993).

The creation and use of wealth for ongoing development, however, are encouraged in the Scriptures.[16] Not surprisingly, since we are created to work, we find our self-fulfilment most of all in our labor and vocation. This is why when people are successful at what they are doing, they can often create enormous wealth for themselves and their children. Their sense of achievement can spur them on to even greater achievements. It is the purpose for which they were put on earth, and to stifle man's imagination with faulty views about the creation of wealth is an unnecessary limitation upon man's personality and his ability to be truly human.

Unfortunately, the history of wealth indicates that as people are blessed by God with material possessions they tend to forget Him. We see this in ancient Israel; as the people were blessed by God, they forgot that He was the source of the wealth. They failed to use wealth for His glory, and worshipped mammon rather than God. Truly, the love of money is the root of all evil (I Tim. 6:10).

This, however, is not an argument against wealth, but a reminder why we must guard against complacency and the false notion that the wealth we have at our disposal is the result of our own activities and does not have its ultimate origin in God. Unless we see God's providential handiwork at the back of all that we do, we soon begin to think we are capable of doing things on our own. And there is no more destructive attitude to life than the mistaken notion that man can make his own way in life apart from God. This is the foolishness of which the Bible speaks when it declares, "The fool hath said in his heart, There is no God" (Psalm 53:1).

While we can easily think that we are the ultimate source of wealth and not God, we can also fall into another mistake and think that the purpose of wealth is our own selfish desires. The Epistle from James dispels any doubts about this (James 4:2-3). We do not get the things we want because we do not ask, and when we do ask we ask for wrong reasons and with incorrect motives. Our ambitions are self-centered rather than God-centered. This fact, more than any other, tells us why so many of us don't have the amount of wealth we would like to have.

Conclusion

Man was created to work. He was created to achieve economic progress. To suppress this basic drive in man's nature is to hold back the spirit that animates him. Work is basic to human nature, and anything that helps him to work helps him to be the creature that God wants him to be.

Our greatest calling in life is therefore to help our fellow man in his work. This is what business is all about. We can do it, however, either to God's glory and for the extension of His kingdom, or we can do it for self-gratification. It goes without saying that we fulfil our purpose here on earth to the extent that we deny ourselves and work in the long run not for our own benefit but for the extension of God's kingdom on earth.

16. See, for example, Deut. 9:18; Prov. 8:21; Prov. 13:11; Eccl. 5:19; Isa. 60:5.

The modern revolt against work and effort is thus a revolt against God and against what He has ordained. For the Christian, work provides the most satisfying opportunities to serve God and his fellow man.

Our investments, therefore, should be in terms of this calling to work. This is why the best investments are not those that are placed in paper certificates of various kinds, such as government bonds or annuities, but those that are centered on productive activities, where the capital can be used effectively in true economic growth and development.

For these reasons, the humble lawn-mower is a better investment than a government guaranteed treasury bill. Let's move on to the next chapter so that I can explain why this is so.

CHAPTER 4

The Humble Lawn-Mower

MANY PEOPLE SEEK HELP WITH INVESTMENT and money management. In Australia in the past, advice was often obtained from an accountant, stockbroker or, perhaps, a solicitor. More recently, and by more recently I mean in the past 10-15 years, people have sought advice from the specialists in the investment advisory industry. A 1993 survey indicated that 32% of Australians seek financial advice from an accountant. The next largest group (29%) seek help from a financial planner. This is the first time the financial planners have scored so highly, and indicates a move away from stockbrokers and solicitors as a source of financial advice.

Yet, if one is seeking advice on investment as a Christian, it should be obvious that our basic investment advice should come from the Bible, not from investment counselors who make little reference to the Scriptures. This is not to say that many advisers give bad advice, or even wrong advice. But we need some standard by which to test the advice that is given to us. What standard will that be? Our standard must be the Bible. It is the right standard to have, for this is where God tells us what He wants us to do.

The idea that the Bible should provide us with financial advice raises a problem for many Christians. They do not believe that the Bible offers specific investment advice. That's why I've spent the first three chapters of this book looking at the necessary social climate for wealth and at the biblical basis for wealth and profits. If the principles that I've outlined so far are valid, then these can become governing precepts in any investment strategy.

The average investment adviser will offer a range of products: property trusts, equity trusts, bank bills, cash management accounts, annuities, insurance bonds, and the like.[1] Yet there are many investment opportunities

1. A unit trust company in Australia is the counterpart to a mutual fund in the United States.

available that he will never tell you about. There are several reasons for this silence. One reason is that the adviser is ignorant of certain opportunities available in the marketplace. Another reason he may not recommend something is that he believes it is a poor investment. As a result of this evaluation he is unwilling to offer it to his clients.

A third reason, however, may be simply because he makes no commission on the sale of a particular investment. When salespeople are remunerated by commission, rather than fee for service, it is very difficult for them not to be tempted by the size of the commissions that they earn from certain products. Advisers will tell you they do not sell by the size of the commission, that their advice is "impartial" and they want only the best for your welfare. You should treat comments like these with some caution.

If there is a change that needs to come to the investment industry that could help investors, it is in the way in which advisers are remunerated. Investment advisers are often too limiting in their advice because as salespeople they tend to sell those items that make them a living. This is understandable, but not helpful to the investor. Since the advisers are paid commissions from the products they sell, they may, and often do, omit from their advice other opportunities that exist in the marketplace. The omissions are the ones that pay little or no commission. This problem should gradually be reduced when the investing public is willing to pay fees for service, just as they do when they visit their accountant or solicitor. Unfortunately, there is still a large number of investors reluctant to pay a fee each time they visit an investment adviser.

There are reasons for this. Historically, it has been easy to visit several investment advisory firms to gain advice before making a commitment. Then, once the commitment is made the commissions accrue to the company selected for its advice. This means, for example, that a person could visit five different advisers and pay nothing at all until an investment is made. When the adviser is eventually paid, he is paid a commission by the fund manager. So it is a relatively painless way for the investor to pay for the services he has received.

The difficulty is that the payment of a commission to the adviser by those who receive the funds, rather than a fee being paid by the person receiving the advice, establishes the wrong financial relationship between all those involved.[2] Payment of fees to a financial adviser is no guarantee that the investor will get good advice (just as fees to solicitors are no guarantee of good legal advice). However, it puts the investor in the best possible position to avoid situations where the adviser might be tempted to advise according to the size of the commission rather than giving impartial and professional judgment. This is not to say that commission advisers

2. Although it is true that the investor ultimately pays the fees from his investment funds, while it is paid as a commission from the fund manager the investor has no control over the payment. At all times an investor should be in the driving seat when managing his wealth.

don't give good advice, for the majority of them do. But a fee for service certainly removes the temptation that some find hard to resist.

I've developed a small test, however, that illustrates just how impartial an investment adviser can be. I call it the Lawn-Mower Test. I'll introduce you to it through this true story.

One day I was speaking with a director of a large financial advisory firm by which I was employed at the time. We were chatting over investment strategies, and I asked him this question: "How would you advise someone to invest $500 if that were all the money he had currently for investment purposes?" He replied that he would get the person to borrow another $500, then invest the $1,000 in an equity trust where they could earn up to 20% per annum at that time. In three or four years the loan could be repaid, and after deducting interest charges on the loan, the remainder would be available to the investor. The amount available at the end of four years would be about $2,073. Deduct the loan repayment, $500, and the amount left is $1,573. Interest charges, at the time of around 15% per annum, would amount to about $300 over the period, leaving the investor with $1,273. (I'm ignoring taxes in this illustration. Taxes in Australia range from 0—47%, not counting the Medicare levy, which at the time of writing is 1½%. They do, however, need to be considered when making an investment decision. So, too, does the fact that the stock markets in Australia went backwards after the director offered this advice. Thus, the strategy would have produced even lower returns than I've estimated or maybe even negative returns.)

Many investment advisers won't talk to you if you have only $500. This is especially true if they're working on a commission. It is not worth their time, since they would lose financially in advising someone with such a small sum of money. Yet the story is illustrative of how one major investment firm made its fortunes during the 1980s. Investors were encouraged to borrow, hoping that the percentage return on the investment would be higher than the interest charges on the borrowed amount. This firm made money not only on the investments placed but also as brokers on the loans they arranged. During most of the 1980s, when it was possible to invest at higher returns than interest charges on borrowings, many people made substantial profits. The stock market crash of 1987 changed that.

The response from the company director was typical of the advice available from those in the industry. Yet there are other and far more profitable alternatives available for the wise investor. For $500 he could buy a lawn-mower, and push it for two hours every Saturday afternoon mowing other peoples' lawns. Even if he did this for only 40 Saturdays through the year and charged $25 an hour, a reasonable rate in today's marketplace, he would have a gross annual return on his investment of $2,000. Over four years that amounts to $8,000.

There are, naturally, costs to be deducted. Fuel and maintenance expenses need to be counted. Lets assume 50% of the income goes in costs. Our lawn-mower investor is left with $4,000 at the end of four years. Even

if the costs were higher, say 75% of revenue, he still has $2,000, about $800 more than the person who borrowed. Not only would he have a better financial reward, but he would have some healthy exercise each week as he pushed the mower for other people. In short, the person with the lawn-mower would be way ahead of the investor who followed the advice of the company director.

What can we learn from this lawn-mower test? It is clear that both strategies constituted "investment" advice. Yet the kind of advice I've suggested here is rarely, if ever, mentioned by the investment industry. The point I'm making here is not that everyone should get into the lawn-mowing business. What I am suggesting, though, is that putting your money into a revenue-generating profitable business can produce better results than passive type investments such as banks, mutual funds and insurance companies.

It is not my purpose to find fault with the investment industry. By and large the advisory firms do a fine job, have a very professional approach to their work and help people as much as they can. I use this example to illustrate that the traditional investment adviser may not always tell you *all* the options that might be suitable for you. Investment advisers often tend to be specialists within a *narrow* range of investment products.

It is imperative for the wise investor to look wider than this range of investment vehicles in order to manage his resources as best he can.

I can give another example of an alternative investment. Our investor with the $500 might instead purchase a course in business management at a local college, or some other program of further education. Maybe he could attend a seminar or two. If he chooses wisely, he might find that after a few months of study he can get another $2,000 per year salary increase because of his improved abilities. This beats even the lawn-mower example, since after four years he has an additional $8,000 in hand (again, not counting taxes). It clearly beats almost every other kind of investment available.

In other words, education can give you the effect of compound interest on your salary — for the rest of your working life! Education is, unfortunately, an often neglected investment opportunity. But in nearly every instance it will provide returns far higher than one can get from any fund manager.

Here's another opportunity that you will not hear about from a traditional investment adviser. Steinway grand pianos are known for the quality craftsmanship that goes into each instrument. A Steinway piano will maintain its richness and beauty in tone quality for many, many years. It will also keep the traditional evenness in sound throughout the registers, provided it has not been mistreated. This reputation for quality has permitted Steinway to sell their products at premium prices. In 1980 it would have been

possible to buy a medium size Steinway grand piano for around $20,000. Ten years later the selling price had risen to $70,000.[3]

This, however, is not the way we should judge the increased value of an item such as this. To gauge its growth in value, we should take the *second hand* price in 1990 to see what the piano would have been worth. In 1990, this piano would have fetched around $45,000 on the second hand market. From 1980 to 1990, the piano appreciated from $19,600 to $45,000, or about 15% per annum *compound* return. Very few investments of any kind have provided that level of return for the investor. And few investment items can be enjoyed, as can a grand piano, while it is increasing in value. (You could even run small concerts in your home, charging an admission fee, and inviting pianists, singers or instrumentalists to give recitals. In the 1970s I helped organize such home concerts. They were a roaring success and we always sold out well in advance.)

Now I raise this example of the grand piano not because I think everyone should invest in grand pianos, although I believe a home is incomplete without fine quality musical instruments of some kind. I raise this example to illustrate that when it comes to an investment strategy, there are options available that an investor will not be told about by the traditional adviser. Yet the investment *philosophy* that I'm using is so elementary, it's a wonder more people don't use it.

My concern in this chapter, however, is with the example of the lawn-mower. What I am illustrating is something so obvious you may rightly query why it's overlooked by so many investors. When it comes to wealth and using wealth wisely, it is better to put one's assets into productive work enterprises. This is in keeping with the biblical mandate to work, to be productive and to be good stewards of the wealth we have already accumulated through the providence of God.

An investment strategy, however, can have more than one objective. It may have several objectives at the same time, but these goals need to be kept in mind when investment decisions are made. The first objective is the *creation* of wealth. The lawn-mower, offering the opportunity of service to our fellow man, provides a most effective form of wealth creation. Another objective is wealth *preservation.* Once we have created the wealth we must somehow keep and maintain it, especially if we wish to hand it down generation after generation. This is where the wise selection of assets is crucial to the success of this aspect of our investment strategy.

Because the lawn-mower can be a valid (and excellent) investment, it illustrates the reason why the investing public should eliminate commissions and replace them with fees. It makes the adviser financially "neutral" with respect to investment opportunities. Each time you visit an adviser you should pay for his time and effort as well as the quality of the service provided. This is as it should be, and the investor will be better off for it.

3. Prices are in Australian dollars.

Once the adviser is being paid fees by his clients, the commissions will disappear and he can advise on a much larger selection of opportunities available in the marketplace, even the ones that don't pay him a commission. While commissions exist, the temptation to offer advice due to the size of the commission will color the advice and the range of opportunities offered to the investing public. The elimination of commissions would help to abolish this temptation, but this termination will not occur until the investing public demands it. No act of parliament is required; just market pressure through the normal channels of supply and demand.

Fees also permit a better way of managing reward for effort on the part of the buyer. Under the commission basis, if each investor sees five advisers but pays only once through commissions, then the advisers are paid by only 20% of the people they see. Therefore, payment from the 20% must cover activities for the other 80% who do not pay.

The introduction of fees, on the other hand, would permit each investor to pay only for those services he uses, and for the time involved in their preparation. As an investor, it can be an advantage to seek out advisers that charge fees only and refund *all* commissions. Alternatively, negotiate a fee for service with the adviser who does accept commissions. Be prepared, however, to pay $500 or more just to get some advice that you might choose to ignore if you found better advice elsewhere.

Of course, we probably won't visit several advisers if we have to pay fees. We'll do what we do with accountants and solicitors: get a referral from friends, neighbors and relatives so that we need pay only once for advice. The reputation of the adviser may then become even more important than it is at the present.

Risk and Reward

Rates of return vary greatly on the different options. The variance has a logical explanation. There are no free lunches and there are no free higher returns. Everything has its price. In business and investment that higher return comes to those who are willing to take bigger risks. The higher the risk the higher the potential rewards to compensate those who are willing to take it on.

Illustrations of this occur daily. We read that BHP[4] has made a few hundred million dollars in profit for the year. It's easy to forget that these profits have come about after the company (i.e. the shareholders) has been willing to spend substantial amounts of capital in research and development, exploratory drilling and mining in an attempt to establish new mines and oil-drilling rigs. The company did this without any guaranteed return at the end of the day. Their searching may have proved totally fruitless, as much of it has done. Yet, the occasional successes have resulted in substantial profits being generated by the company. Naturally, BHP will take some of these profits for a further round of research, development and explora-

4. Broken Hill Proprietary is Australia's largest public company.

tion. Hopefully, in a few years, after success at these activities, the shareholders will reap a return on their investment dollars.

This is why there is no better investment opportunity than investing in a business of one kind or another. In the words of entrepreneur James Cook, "nothing spins off money like a proprietary enterprise. There is no finer asset."[5] While there is a place for other investments, they tend to have a much lower return precisely because they offer less risk to the investor. A person buys a property and all he needs is a tenant who pays the rent on time. But the return on property is lower than on a business not only because of the apparent risk involved, but because of the effort required to make the investment successful. This is where the true nature of risk needs to be understood.

What is Risk?

Driving along a road is risky. People get killed in road accidents. Climbing Mount Everest is also risky, since people get killed climbing mountains. Starting a business is risky, but not the same kind of risk as driving on mountain roads. People don't always get killed starting a business, unless the work is risky (like cleaning windows on high-rise buildings).

Business has another kind of risk: the risk of financial loss. People make wrong judgments. They think there's a market for their goods, but they find out too late that such is not the case. Maybe they price their goods incorrectly and the stock doesn't sell. But, like all forms of risk, these difficulties can be minimized, if not overcome completely. Market research, management training, and a range of other options can help the aspiring business person to be successful.

As with anything in life there is a cost involved. People often associate business with risk and prefer to have the "security" of working for someone else. Why someone else's business should be more secure than their own is an admission about their own abilities, not a criticism of business as such. The real risks associated with business are ignorance and lack of finance. All businesses need capital. But they also need knowledge of the particular business as well as general management experience. If the business is a garage, it needs a mechanic to know how to fix cars, and it needs someone with sales and marketing skills to help find customers.

Often it is the failure of people to be willing to learn new things that is the real threat to business. It is a well-known statistic that approximately 80% of new businesses fail in the first five years.[6] What is not so well-known is the fact that of the remaining 20% a further 80% fail in the second five years. The high failure rate is attributable to the two factors mentioned above: money and knowledge.[7]

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5. James R. Cook, *The Start-up Entrepreneur* (New York: E.P. Dutton, 1986), p. 260.
6. Michael E. Gerber, *The E-Myth Revisited: Why Most Small Businesses Don't Work and What to Do About It* (New York: HarperCollins, 1995), p. 2.
7. *Ibid.* See also Thomas Sowell, *Knowledge and Decisions* (New York, Basic Books, 1980).

Yet there are ways to overcome these problems. Franchise operations are a prime example, where people who don't have the knowledge can buy other people's knowledge of how to operate a particular business. The results are usually remarkable, and the failure statistics are reversed. It has been claimed that new businesses can get up to a 96% chance of success by adopting proven methods of running a particular business. A franchise operation, such as McDonalds, works on the basis that a successful business can be used as a prototype to be copied by others. In the prototype model procedures are adopted for all aspects of the business: how to buy the raw materials, how to prepare goods for sale, how to display and market them, how to manage the cash flow of the business. All these are necessary ingredients for a successful business, and the franchise vendor is the person who has solved these problems to such a degree that he has a successful business operation. Once the tried and tested procedures are established, all he needs to do is sell copies of his procedures manuals to others who want to run similar businesses elsewhere. If a person follows the procedures manuals faithfully, he is assured of greater success.

Security

On the security issue, Christian businessman, entrepreneur and investment analyst, R.E. McMaster, once commented that the best job security of all is self-employment, since you're the first one hired and the last one fired. Of course, you will also be the last person to get paid. But the principle remains, that a proprietary business is the best investment of all — provided you can master the skills essential to making the enterprise successful.

Too often we have a wrong sense of security when it comes to work. Women, who can tend to be a little more conservative than men when it comes to business ventures, can falsely believe that working for someone else offers greater job security than working for yourself. But it should be evident that all jobs depend ultimately on someone being able to deliver goods to market at the right time and place so that buyers actually purchase the goods. Without this activity, no job is secure, no matter how large the corporation. (Security also depends on the financial management of the company, even though it is delivering goods. This factor alone has been the downfall of many large companies in recent years. An employer with huge debts may not offer security of employment.)

What is risky is this: if we are not personally willing to take the responsibility to make sure the goods are delivered when and how the buyers' demand, then we should not be in the forefront of any business enterprise. It will fail without this commitment. Someone has to take the risks associated with business. If no one was to take these risks, we'd have no business development. We'd still be living without electricity, jet travel, the motor car and penicillin.

On the other hand, for Christians the apparent dangers of risk in business are severely diminished. In the Sermon on the Mount, Jesus said that

we should take no thought for tomorrow, since our Heavenly Father knows our every need. He feeds the birds and the flowers, and He will care for us much more. For the Christian, this means that entrepreneurship, when undertaken in faith, has substantially reduced risk. Armed with the knowledge that the One who controls the future is not out to bring about our downfall but has created the world so that our efforts will have success for the building up of His kingdom, Christians can move ahead in quiet confidence.

This does not mean that all our business ventures will be roaring successes. There will be failures, since it is through failed business enterprises we discover our mistakes in judgment. Business mistakes, like successes, can be managed so they do not cripple us, but instead strengthen us, give us great wisdom and insight into the needs of our fellow man, and, of course, cause us to rely much more on Jesus Christ for strength and wisdom.

The secret of any business or investment strategy is to "know thyself." We must learn to understand and manage our own abilities. We must also recognize our limitations. It is when we get beyond our abilities into areas where we lack the skills or the motivation that we are most likely to bring ourselves undone. Be aware of the Peter Principle, that "every employee tends to rise to his level of incompetence," since it applies not only to employment but many other things we attempt to do.[8] Or to put this another way, we must be certain that we are in the calling that God has placed on our lives, for He is certain to provide us with the necessary skills to complete the task.

In summary, the way to wealth is through service to our fellow man in practical business enterprises. This is exactly what we saw in chapter three as the biblical view of wealth, and the fulfilment of the cultural mandate of Genesis 1:28.

Savings and investment, as I argued in chapter three, are the necessary ingredients for economic progress. They alone permit us to carry out research and development. Without them the economy will stagnate. Zero growth is not an option: businesses either grow or decline. This principle applies to every business venture (and, by the way, to every church.) It applies equally to the individual. It's a principle apparently enshrined in the universe that we either grow or decline. The choice, at the human level, is ours.

Business enterprises are thus the best form of investment, and especially if we can afford to finance them totally ourselves. This way we obtain the full share of the profits from our enterprise. If we don't have enough capital to start a successful enterprise, then we have the option of shared

8. Laurence J. Peter and Raymond Hill, *The Peter Principle* (London: Pan Books, 1970). The Peter Principle is not necessarily an inevitable consequence. It can be the result of a person's laziness, or the consequence of taking on more than can be handled without first preparing for the task at hand.

enterprises, where we sell shares in our own enterprise. An alternative to starting our own business is to buy shares in the enterprises of others.

Purchasing or selling shares in a business also helps to overcome another aspect of money management that the Bible speaks about: debt. Debt is such a major problem in the world today that no investment book would be complete without a discussion on it. In a later chapter, I'll have more to say about the biblical view of debt. At this point, however, I would like to say that I believe that debt should be avoided at all costs. The alternative to debt financing is equity financing, which offers a better way for an enterprise to raise finances.

Shared ownership implies, of course, shared risk. This is what so many people are afraid of. They think that if they lend the money to a business, rather than buying a share and participating in the rise or fall of the enterprise, that they have somehow reduced the risk to themselves. If any belief has been shattered in recent years, at least since the stock market crash of 1987, it is this notion that the lender is more secure than the shareholder. Thousands of lenders in Australia, those who have placed their funds in banks, building societies or managed funds have had their life savings wiped out.

Debt offers no more security to the lender than does ownership. In fact, it probably offers more risk. At least if the lenders had been part owners they might have taken prudent steps to prevent the problem from growing until bankruptcy was unavoidable. But as mere lenders, they had no participation in the business practices of the firm. Also, as owners they might also have been able to preserve some of the assets for themselves, and have minimized any losses. Under limited liability laws, however, lenders can be left with nothing when the business they have financed finally collapses.

Based on the biblical view of wealth, each person should be attempting to build a business of his own, or should become involved in a business as an equity participant. This might be a part-time business, maybe selling cosmetics, jewellery, kitchenware, soap and detergents, or something similar. For others, it might be offering consulting services or practical skills of some kind. Fortunately, modern business management is viewing the employee, if not as a partner, at least as a colleague in "partnership" for the purposes of satisfying customers' demands. The "them-us" attitude of management is making way for a more equitable and agreeable relationship between business owners and management on the one hand and employees on the other.

If you have not developed business skills, then a part-time operation is the place to develop those skills. It can and should be done over several years, since the experience and knowledge necessary for success are gained over time. This way the risk is reduced to manageable levels. After a few years of part-time experience, it should be possible to move into this business on a full-time basis.

There is another reason here for building a part-time business operation. Almost every business needs multiple customers to ensure its ongoing

operation. A business that is dependent upon one or two customers for the majority of its revenue is vulnerable. If the substantial customer decides to take his business elsewhere, the operation is no longer viable. The more customers a business has, the less it is affected when a customer begins to shop elsewhere.

Yet most people working for someone else violate this principle. Their income is dependent upon one employer. Should he decide that your presence is no longer required, your income drops to zero — instantly. Multiple sources of income are mandatory for income security.

The development of the personal computer, and the decentralization of business that this tool allows, provides opportunity for many people to move into small, service-oriented businesses. In the changing economic climate, middle and upper management are being severely cut down in many organizations.[9] Those caught in this change can find themselves not only out of work but unable to find another employer. Their alternative is to offer their skills out on a part-time basis to various employers. In short, they become consultants in their area of expertise.

If you're contemplating starting a home business and you're not sure what to do, I recommend *Making Money at Home: 100 Good Ideas for Starting a Business at Home* by Eric Smith.[10] In this list you are bound to find something of interest that you might be able to do. The challenge is to find something where you have at least some expertise, then market your abilities to the buying public.

Some people reading this are perhaps wondering about the alternatives. What are the alternatives to investing in a business in some form? There is only one: it is investing in something that isn't a business enterprise at all. Those who seek apparent safety for their funds will often invest in government bonds and securities of various kinds. These investments, however, are not productive investments in that they do not contribute to the increase of wealth in the nation. They are investments in debt, especially when the government itself is in debt.

Government enterprises, because they are based on political requirements rather than market forces, are generally not productive enterprises. When it comes to business and entrepreneurship, government is the most inefficient business enterprise known to man, and almost everything it attempts in the business realm is a financial disaster. Costs are higher, charges are higher and inefficiency is rampant. This should not surprise us, since a government enterprise is usually protected from normal market forces that elicit efficiency from all suppliers. In effect, the market says: "be efficient in all that you do or I'll take my business elsewhere." A government enterprise funded by taxes rather than the sale of goods and services and

9. See, for example, Tom Peters, *Liberation Management* (London: Macmillan, 1992), p. 9. This book was published in the United States in 1992 by Alfred A. Knopf Inc., New York.
10. Eric Smith, *Making Money at Home: 100 Good Ideas for Starting a Business at Home* (Melbourne, VIC: Schwartz and Wilkinson, 1991).

with a legislated monopoly is not subject to market forces in the same manner as the private business, thereby losing those influences that would drive it to greater efficiency. This is what consumers demand: better quality goods and increasingly lower prices.

Conclusion

The implementation of the Christian work ethic, serving our fellow man with goods and services that help him to fulfill his calling under God, is the basis for any investment program. Building successful businesses or financing business opportunities are the essential ingredients of a flourishing investment program. They are, in origin, uniquely Christian, which is why the Western world, under the influence of Christianity, has prospered while the rest of the world, steeped in atheism and unbelief, has produced nothing but stagnant economic systems. This is why the future distinctively belongs to the Christians, who, under God, are faithful to their high and noble calling to work.

CHAPTER 5

Death, Taxes . . .

SOMEONE HAS SAID that when it comes to certainties in life there are none — except death, taxes and inflation. To be sure, these three events are inescapable, at least in the modern era. While death is clearly unavoidable, taxes and inflation are something that could be minimized to a far greater extent than they are presently.

For example, we forget — or were never told — that our grandparents paid little or no income taxes. Pay as you earn (PAYE) taxes are a relatively modern phenomenon in parts of the world.[1] For example, direct income tax in Australia commenced as recently as the 1930s; in the United States, it was introduced in 1913. Tax deductions at the source of income, the employer, was a later invention, apparently by economist Milton Friedman during the Second World War — an invention he allegedly since regrets.

Furthermore, few of us would be aware that during the nineteenth century the price level was declining at a small but steady rate. In England, prices at the end of the last century were about 10% lower than at the beginning. Whereas the purchasing power of money today is declining as prices rise, last century the value of money was *increasing* as prices fell steadily.[2]

Fascinating, isn't it? Imagine a world without taxes! What would we do with the extra money? Spend it on ourselves? Highly likely, if the truth were told. We must recognize that taxes are paid to provide many social welfare programs. So, if our income taxes were reduced or abolished, we'd be left with the problem of social welfare.[3] Would we voluntarily put up the funds

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1. See Carolyn Webber and Aaron Wildavsky, *A History of Taxation and Expenditure in the Western World* (New York: Simon and Schuster, 1986); Charles Adams, *For Good and Evil: The Impact of Taxes on the Course of Civilization* (New York: Madison Books, 1993).
2. Over the longer haul, prices in England in 1933 had still not reached their 1660 level. See Roy Harrod, *Economic Dynamics* (London: Macmillan Press, 1973), p. 83.
3. See P.A. McGavin, *Wages and Welfare: The Failing Symbiosis* (St Leonards, NSW: Centre for Independent Studies, 1992); Alan Tapper, *The Family in the Welfare State* (North Sydney, NSW: Allen & Unwin, 1990).

for these programs, or would we spend our total income on personal fancies?

It would be even more fascinating to live in a world where the value of money was steadily increasing, or at least remained unchanged. The mad scramble after funds each year would become less a necessity. What would we do with our spare time?[4] Lie on the beach is a possibility, a favorite pastime for many Australians. Use it to become better educated? Finance church and mission programs? In this imaginary world the money saved today would be steadily increasing in value, not so much by interest being paid as it is lent out, but by the *increasing value* of the monetary unit caused by a stable money supply and increasing goods and services.

Death, taxes and inflation affect our wealth. In this chapter we'll look at death and taxes, while inflation requires a chapter of its own. Our purpose will be to understand each one in the light of biblical teaching. Not only do we need to discern what the Bible teaches about them, we also need to ensure that our investment program takes these three items into consideration. I think this will become clear when we understand the impact they have not only on wealth, but our attitude to it.

Unfortunately, the modern world of finance has a way of looking at these three items that is not necessarily biblical. For example, many investment programs are tax-driven, that is, people are encouraged to invest in them because of their tax advantages, and not necessarily because of the value of the enterprise itself. "Negative gearing" is a term often tossed around in investment programs. This is an investment where the income is lower than the expenditures so that the loss can be deducted against other income. The program is supposed to come out in the investor's favor eventually, when he ultimately disposes of the asset and makes capital gains.

Negative gearing, however, holds potential double trouble for the investor. While it is used to get tax deductions for the investor, it is intended that the item can be sold at a higher price some time in the future. Prices, however, can rise from several causes. It might be because there has been a shortage of that particular item. On the other hand, prices can also increase because of monetary inflation. In the case of inflation, price increases give the illusion of profits when, in fact, it is no more than a lowering of the purchasing power of money. This kind of investment program is dependent upon both taxes and inflation in order to succeed. Since both taxes and inflation are the outcome of government policy, any changes in legislation or practice by government or the bureaucracy can hurt the investor severely.

The average person, however, does not understand inflation and its underlying causes. Most economics textbooks today define inflation as increased prices, but they fail to give a rational explanation of how *all* prices

4. Leland Ryken, *Work and Leisure in Christian Perspective* (Portland, OR: Multnomah Press, 1987).

can rise over the same period.[5] Ignorance of these matters can easily lead to investment programs that, in the long run, see wealth diminish rather than grow.

More importantly, it may be possible that we'll adopt the wrong strategy for our financial well-being unless we understand the biblical perspective on these three events.

Death

We don't have to read very far in the Bible to find the origin of death and its implications. When Adam and Eve disobeyed God in the Garden of Eden, God cursed them and their posterity to death and to a life of toil and labor that Adam and Eve had not known previously.

The remainder of the biblical record carries, among other things, God's program to overcome man's death. He sent Himself, the Second Person of the Trinity, to die as man in man's place. God's program of substitution is the gospel, the good news that God has not only maintained His justice in condemning all men to death for disobedience, but has also provided a plan of salvation for His people. By offering Himself to be punished on behalf of sinful men, God maintained His integrity towards the abiding validity of His moral commandments and the punishment applicable for disobedience to them.

While Christ's life, death, and resurrection almost 2,000 years ago in Palestine is the basis for salvation, that redemption is worked out historically in time and space, and will continue until the Lord Jesus Christ returns sometime in the future. Legally, we are justified because of what Christ has done. But we are to work out our own salvation with fear and trembling (Phil. 2:12). Theologians call this the doctrine of sanctification. Other passages of Scripture encourage people to become "mature." That is, over time we grow into people who are more conformed to God's standards, the way He wants each of us to live. This is what St Paul meant when he encouraged the Corinthians to be mature in their knowledge: "Brethren, do not be children in understanding; however, in malice be babes, but in understanding be mature" (1 Cor 14:20).

In the early chapters of this book, I outlined the biblical basis for cultural and economic advancement. This means economic progress and involves a systematic program of accumulation of resources not only for immediate use, but for use in the future as well. We commonly refer to this program as "savings" or "investment." Whatever we call it, it is the distinguishing mark of an economic system that is vibrant, healthy and growing.

Not surprisingly, the Bible encourages savings and the godly stewardship of resources. The book of Proverbs is renowned for its practical advice on many things, including wealth. Thus, "a good man leaves an inheritance

5. Ludwig von Mises, *Human Action* (3rd ed., Chicago, IL: Henry Regnery, 1966), Ch. XVI, "Prices," pp. 327-397.

to his children's children" (Prov. 13:22a). Perhaps no other verse in the whole of Scripture gives us a clearer motivation for economic progress.

The idea of an inheritance, of course, cannot be confined to material possessions only. An inheritance can be left in many forms that are not necessarily physical substances. There are items that we don't normally think of as being associated with work and wealth but which, nevertheless, enrich our lives in many ways. Bach's *St Matthew Passion* or Handel's *Messiah,* for example. Perhaps it might be a painting by Renoir or Van Gogh or a book such as Augustine's *City of God.* These things can be just as important an inheritance as $50,000 in cash. In other words, life is more than just money and "things," and our heritage is not just in economic goods. We have a total cultural heritage, perhaps likened to a bank account full of ideas, expressions and techniques developed over centuries, upon which we can make deposits and withdrawals.

We could also consider the Christian church throughout the ages, and how it has battled over many theological controversies. These disagreements have led to the situation where men attempted to clarify what it is that the Bible teaches. They have left us an inheritance, or a legacy, in the many statements of doctrine that we in the twentieth century accept without too much debate. In former times, the doctrine of Christ, for example, and His two natures, one divine, one human, was a matter of great controversy. The Christian Church today accepts the statement from the Council of Chalcedon as the orthodox teaching. Those who don't follow the teachings of the early Church Councils are considered outside mainstream Christianity.[6] We popularly refer to them as "sects."

Here is an opportune time to remember that while this book is an examination of material wealth primarily, Christian teaching should not be seen in monetary and economic terms only. Life is much more than material wealth. Unfortunately, there are those who have adopted an incorrect view of wealth, and they despise many attempts to discover a truly biblical approach to the topic. They prefer to deny all wealth, thinking that poverty is the way to true spirituality. The legacy these people desire to leave their children and grandchildren would only be thought of in terms of a very narrow definition of "inheritance."

It is not possible, however, to confine Christianity to some parts of the world or some aspects of man's being while we hold to a literal interpretation of the first chapter of Genesis. God made everything. The true understanding of this world and all that there is must be in terms of what God tells us about it. Christian philosopher Cornelius Van Til expressed this idea better than most in his efforts to show that only a truly Christian interpretation of the world is possible. Man alone and without God, he argued, cannot interpret the world because he has no reference point from which

6. Rousas John Rushdoony, *The Foundations of Social Order: Studies in the Creeds and Councils of the Early Church* (Phillipsburg, PA: Presbyterian & Reformed Publishing Company, 1972); Louis Berkhof, *The History of Christian Doctrines* (Edinburgh: Banner of Truth, [1937] 1969).

to begin. Man must either begin with his own finite being, or else begin with the infinite One, God.[7]

The Bible is God's revelation to man on how he should interpret the universe. In it we find no condemnation of "things." What is condemned repeatedly is the wrong use of things. The Bible denounces the incorrect choices men and women make. Here we are back to the basic revolt of man against God. Man's sin was, and continues to be, his ethical revolt against God, his desire to be his own god, determining for himself what is right and wrong, what is good and evil (Gen. 3:5).

We must also make choices about wealth, and our choices must be based on what the Scriptures teach us at this point. The man who wishes to pursue godliness will leave an inheritance to his children, and the passage in Proverbs is not an attempt to limit this inheritance to the next generation only. Multi-generation inheritance is what has produced the enormous economic blessing that we have received in the twentieth century.

Thus, we may not adopt any investment program that will disinherit future generations. While it is not easy to understand just how to apply this in every small detail, the principle is clear. Naboth, for example, could not sell his land to Ahab because it belonged not only to him but to his future offspring as well. He would not disinherit them.[8]

From a Christian perspective, death is not seen as the final reference point for man. Only some activities come to an end. We should not look at life in terms of our own limited life span only but in terms of God's purposes for His creation. Wealth and a godly inheritance have their place in His scheme of things.

The idea of some, that "we'll spend it all before we go," is clearly a wrong approach to wealth and its proper stewardship. To decapitalize the future leaves the next generation that much further behind than they could have been. Our diligence in following the biblical principle of inheritance will have an impact not only now, but for years into the future. This is the proper use of wealth.

Death, rather than being seen as the end of our investment program, should be seen, perhaps, as the inauguration of the next phase. At the time of our departure from this life, our children and maybe our grandchildren will be left with the task of developing the next phase of our investment program — if we have planned our investments wisely. To be sure, it will be out of our personal control by then. But the manner in which we've trained our children to accept their responsibilities under God, to be good

7. See Cornelius Van Til, *A Christian Theory of Knowledge* (Phillipsburg, PA: Presbyterian & Reformed Publishing Co., 1975). Van Til was for many years Professor of Apologetics at Westminster Theological Seminary. See also Van Til, *In Defense of the Faith* (Phillipsburg, PA: Presbyterian & Reformed Publishing Co., 1976); *In Defense of the Faith: The Doctrine of Scripture*, Volume 1 of his classroom syllabus (Den Dulk Foundation, 1967).
8. See I Kings 21:1ff.

stewards of the resources that are their inheritance, will have repercussions now and into the future.

Taxes

I know of no better way to get people's attention than by saying the word "taxes." It seems to work better than calling out "fire" in a crowded room. No one, it seems, likes taxes, unless they're on the receiving end. People complain about the taxes they pay, but rarely disapprove when they receive their family supplement allowance or their pension in old age. But we need to understand taxes and their purpose if we are to make intelligent investment decisions. There are several things that can be said from the Bible concerning taxes.

Any discussion concerning taxes must attempt to answer the following questions: How much tax should we pay? What is the legitimate amount of tax the government may demand? What services is it legitimate for the government to supply with taxed money? What standard will be used to determine how much tax is just? These questions are moral rather than practical. Unfortunately, few people seem to ask them. They complain about present levels of taxation, do many things to get out of paying taxes, but make little attempt to address the issues. Yet taxation is a crucial question in any investment program. We are warned in Scripture not to steal, the eighth commandment. What is stealing? Taking that which morally belongs to someone else, or even refusing to give someone what rightfully is owed to them. Thus, we rob God when we refuse to pay our tithes and offerings (Mal. 3:5). By the same token, we can also rob Caesar if we refuse to pay him what is rightfully his. On the other hand, it may also be possible for Caesar to be a thief by exacting more than he is morally entitled to.

Since man is God's creation and is to live under the laws of God in every area of life, it is necessary to search the Scriptures to find out what is the legitimate rate of tax that people should pay. How much tax is the civil government authorized by God to take? Can the government take any amount it likes?

Limited Jurisdiction

When it comes to taxes we cannot understand either the history of our taxation system, or our hostility to present levels of taxation, unless we recognize what the Bible has to say about civil government and its limitations.

Let's put this another way to help understand the question. Most Christians believe there is a time to disobey the government. While they don't all agree on the timing, that is, at what point we should disobey, they do believe that only God has total sovereignty. Only God can command total allegiance from His subjects. All earthly authorities, whether in the home, the church or the state, may be disobeyed at some point. For some, this disobedience might occur, as it did for many under the Nazis in Germany

or the Communists in the former Soviet Union, when they were no longer permitted to worship God openly. Still others would disobey the civil government if they were instructed to kill someone without a substantial reason, such as a defensive war. Some have even accepted a prison cell rather than receive a license to preach from the civil authorities.

The point here is that all Christians believe there is a time when the ordinary citizen, with the Bible in his hand, might have to tell the civil authorities they have gone beyond their God-ordained jurisdiction. If God, for example, has set no limits on taxation, then we have no moral grounds to complain about the tax rates, no matter how high they are. Taxes could rise to 90% and more and we would have no legitimate grounds to complain. As Christians, we recognize that we are to obey the civil authorities (Rom. 13:1-4). But we need to know where to draw the line, at which point we can say, with the Bible in our hand, "Thus far and no further!"

Every Christian, therefore, believes in the limited jurisdiction of all earthly authorities.[9] Since we're discussing taxes, our thinking will be confined to the political or civil authorities who legislate taxation.

How Much Tax Should We Pay?

Earlier in this chapter, I pointed out that our immediate ancestors paid no direct income tax. They paid other forms of taxes such as customs duty, but not income tax. I believe there is a very good reason for this: the Bible does not authorize civil authorities to tax income in any form. The basic tax in Scripture is the tithe, or multiple tithes amounting to somewhere between 15%-20%. Scholars are divided over this, but at the very least we can say that the minimum tax in Scripture is 10%, a tithe.[10]

Tithes, however, did not belong to the civil authorities. The basic tithe was to God, and was for the maintenance of His work. Tithes were also used for welfare and there was what has become known as the rejoicing tithe. Because of the ignorance many have concerning the Old Testament, it often comes as a surprise to find that there is a legitimate place for using our wealth for the purpose of rejoicing in God's goodness and bountiful blessings to us.

The misery that often exists among the wealthy today is because this principle of rejoicing is ignored. We are commanded in Psalm 33 to "Rejoice!" Too often that rejoicing is confined to what we do in the church building on occasions during the week. But one very practical way to rejoice is given to us in the rejoicing tithe. There is a place for using wealth on ourselves, not in terms of selfishness, but in terms of rejoicing for the way

9. Ian Hodge, ed., *Is This the End of Religious Liberty?* (Homebush, NSW: Anzea Publishers, 1993).
10. The case for multiple tithes is argued from Deut. 14:22-27, the rejoicing tithe, and Deut 14:28-29, where every third year the tithe was used for social welfare purposes. These, together with the tithe in Num. 18:21, the Levitical tithe, constitute what some writers argue is a triple tithe. See Edward A. Powell and R.J. Rushdoony, *Tithing and Dominion* (Vallecito, CA: Ross House Books, 1979).

in which God has blessed us. Many people today don't believe that wealth is a gift from God, thus any rejoicing they do is in their own abilities rather than in God's generosity.

The only other tax in Scripture was the head, or poll, tax (Ex. 30:11-16). This was an amount payable equally by all males, twenty years of age and older. Some scholars have argued that this is a tax that can be collected by the civil authorities. Others have disagreed. While there is obviously some difficulty in determining who may receive the poll tax, the use for this money is not so unclear. It was to be used in the tabernacle as an atonement. It was not given to civil authorities for public welfare programs, public schools, or for most purposes we currently identify with civil government. This much seems clear.

In Scripture, all tithes and taxes belong to God and are for His purposes. The basic tithe went to the Levites who provided many of the social functions necessary for society. The Levites had no inheritance in the land of Israel, but were to be maintained through the tithes. They, in turn, provided social services such as education and courts for the administration of justice. The Levites also provided the workforce for the Tabernacle, and they too were to be provided for from the tithes of the people. In addition, they received the benefits of the offerings that the Israelite was expected to bring from time to time.

Curiously, while the basic tithe went to the Levites, it seems they had no legal power to enforce the payment. The basic enforcer of the tithe was God Himself. There is no prescribed penalty to be inflicted by human authorities for non-payment of tithes, and history records some disastrous results when tithing has been made compulsory and enforced by the state or church.

If these are the biblical limitations on taxation we can make the following conclusion. Since the civil authorities are confined to providing a very limited range of services we can say that any amount of tax they might be entitled to is also limited. If the authorities are confined to the activities that are authorized by God, then any taxes they may take to provide services over and above these must be wrongly collected. Consider the case where the authorities might set up a department for control of church ministries, determining hours of worship, sermon content, and who could attend. This would be a clear example of being outside their legitimate jurisdiction, and any taxes collected to pay for this activity would be wrong.

Many functions of the modern state are clearly outside its God-ordained jurisdiction. There are no grounds, for example, for the state to be involved in controlling education, or in providing services such as police or health-care. Education, police and health-care are the responsibility of the family, not the state. Neither is there any need for the government to legislate many of its regulations controlling business. The taxes they are entitled to should be identified along with the legitimate use of these funds. On this basis we'd soon achieve a fairer and more equitable taxation system.

The Meaning of Taxation

The Mark of Sovereignty

There are several points to recognize about taxation. *First,* taxes are a mark of sovereignty. This is why foreign embassies do not pay taxes to the host government. Foreign governments consider themselves the equal of each other; each nation is independent and not under the jurisdiction of its neighbor. Therefore, governments do not pay taxes to foreign governments. In times of military conquest, however, taxes, or tributes, are usually demanded from the defeated party as a mark of their subservience to the victor.

Here we also have the reason why churches do not pay taxes to the state. Neither church nor state may claim sovereignty (or jurisdiction) over the other. Only God is sovereign, and He is sovereign over both church and state. Since God alone is sovereign, no human agency may claim that prerogative. Thus it was seen that human institutions, such as the family, the church and the state, were equal institutions but confined to their respective God-ordained spheres. This is also another reason why the family did not pay huge taxes to the state. High taxes indicate that the state is sovereign over the family. Historically, however, not even the political state could claim sovereignty over the family, at least in those countries influenced most by Christianity. Thus, in 1215, those opposing King John could insist that property could not be confiscated without proper compensation and the due process of law. And money, it should be added, is one form of property.

Perhaps no other idea from Christian thought has contributed so greatly to the development of human freedom. The idea that the various human institutions (family, church and state) were free from oppression by each other has provided the individual and the family the most freedom to pursue their own destiny under God. The aim of each of us is to raise our children and, to the best of our ability, live our lives fulfilling the tasks that God has given to us. This will be achieved best when the family is free from controls by both church and state. Similarly, the state has functioned best, offering justice to all, when it has not been controlled by families or the church.

While this understanding of sovereignty may not tell us exactly how much tax the state may demand, it does at least provide an upper limit on tax levels. Since taxation is a sign of sovereignty, if the civil authorities demand more than 10% of a person's income, they are declaring they are more important than God, and deserve a larger portion of a person's wealth than God does. If they demand the same amount as the tithe, they are saying that they are at least equal with God and deserve the same taxes from individuals. This is undoubtedly wrong on the part of the civil authorities.

Proportional or Progressive Taxes?

Second, in the Scriptures taxes were proportional, not progressive. Everyone paid the same percentage. In the case of the poll tax, all paid the same amount. This clearly cuts against the modern view that the rich should pay a higher percentage than poorer members of society. While the motivation for progressive taxes may be noble — the more equitable distribution of wealth — there is simply no basis in Scripture to support the notion that this distribution is to be achieved by the state confiscating wealth from one group and handing it to another. Rather, the biblical program for wealth distribution is diligence in our work and labor and a life of moral propriety, which results in the blessing of God. These blessings include material wealth. This is the clear message of Deuteronomy chapter 28.

Third, progressive taxation indicates that the purpose of modern taxation is misplaced. In the Bible, taxes were not levied as a means of redistributing wealth from the rich to the poor. Creating new wealth is God's plan for wealth redistribution. According to the Bible, taxes were primarily a means of recognizing the sovereignty of God over all things, and the taxes of various kinds were used to reinforce this through the events in the Tabernacle and in daily life, such as the rejoicing tithe. Modern taxation, on the other hand, glorifies man rather than God. It finances man's efforts at self-salvation, the ultimate purpose of most modern legislative and political programs.[11]

Taxation as Coercion

Fourth, the coercive nature of modern taxation is also against the evidence of Scripture. While tithes are commanded by God, He gave no human agency the authority to enforce payment. This He reserves for Himself. This makes a lot of sense in the light of the teaching about man's nature and his propensity to sin after the fall. To give the tax-receiving agency the power to enforce it is clearly opening the way for many kinds of corruption and tyranny — as we are witnessing in Australia and many countries around the world today.

It is an obvious conclusion that much of the modern taxation system is clearly wrong. When society was governed more by biblical principles than it is today the authorities followed the principles set forth in the eighth commandment, "Thou shalt not steal," and thought it beyond their jurisdiction to take people's property. Taxes as we know them, and at the very high levels we experience, are a mark of those nations that have not been strongly influenced by biblical morality. When societies have departed from God, they deify the political state which extracts taxes at a far higher level than God does.

11. See Rousas J. Rushdoony, *Politics of Guilty and Pity* (Fairfax, VA: Thoburn Press, 1978), Part IV, ch. 2, "The Modern Priestly State: The Sociology of Justification by Law," pp. 291-299.

This alone explains why our forebears paid little or no income tax. It also explains why the civil authorities were severely restricted in their activities. For well over 1,000 years in the English world, at least since Alfred the Great assisted in developing British common law largely from the Scriptures, and far earlier, our political and legal heritage has been Christian in origin and character. It is explicitly biblical in terms of the legal framework of society. While it is easy to recognize that the implementation of the Bible has never been perfect and the Bible was often used to introduce ungodly practices, the mark of the Bible on English society is clear.

There was no income tax at one time because our forefathers, who understood far better than we do biblical issues such as taxation, did not believe they had the moral right to be the recipient of other people's money — even (or especially) when it was taken through the taxation system. When the civil authorities in England were biblical in character, they left Englishmen alone to live free of state control and regulation in many areas.[12]

English society thus developed according to biblical principles in many areas. Two examples come to mind. First, at least until 1839 in England, a majority of police services were not provided by the state. They were local in origin, and for the purposes of local law enforcement.[13] Second, education was not in the control of the state. Private schools were built, often associated with local churches, and most English children had a basic education. The involvement of the state in schooling was never necessary and would have been impossible if the government had confined itself to collecting its legitimate taxes.[14]

Tax Avoidance and Evasion

I have gone into the tax issue at some length because there are some who believe that we should pay the taxing authorities whatever taxes they demand. They do little to minimize their taxes, and often, to their own financial detriment, pay whatever taxes are demanded. Or, if they do engage in tax minimization, they often feel guilty for doing it, as if they are cheating the tax collector.

12. On the issue of taxation, Lord Acton argued that in the Middle Ages "the principle that no tax was lawful that was not granted by the class that paid it — that is, that taxation was inseparable from representation — was recognized, not as the privilege of certain countries, but as the right of all." According to Acton, wherever Christianity had established itself in the early centuries, representative government, and therefore limited taxation, was almost universal. See Lord Acton, *Selected Writings of Lord Acton: Essays in the History of Liberty* (Indianapolis, IN: Liberty Press, 1985), Vol. I, pp. 29-53.

13. Stephen Davies, "Edwin Chadwick and the Genesis of the English Welfare State," in *Critical Review*, Vol. 4, No. 4, Fall 1990, p. 532.

14. For the British background, see E.G. West, *Education and the State* (2nd ed., London: Institute of Economic Affairs, 1970). For American background in education, see Samuel L. Blumenfeld, *Is Public Education Necessary?* (Boise, ID: Paradigm Press, 1981).

If, on the other hand, we see that the state has no moral entitlement to many of its taxes, even though it may legislate the legal obligation to pay them, we can conclude that the state has gone beyond its God-ordained jurisdiction and is asking something it is not entitled to. In short, when the state is a thief we have no more moral obligation to pay it than we have to pay the mafia, or any local gangster.

Thus, an investment program if it is to preserve assets, must also maintain them against the many taxes and charges levied by civil government at various levels. We do not need to feel guilty about any steps taken to reduce taxes, especially if they are legal options. (I want to be careful here, for I'm not advocating a tax revolt. But there are opportunities which we can use that would minimize our taxes. We do not need to feel guilty about using these opportunities to reduce tax liabilities.)

On the other hand, if we are to minimize our taxes we must ensure that we do pay for the many social services that are presently provided by the state. Private charity must replace government welfare programs. There is a principle we could apply here to help us understand if we should pay all the taxes demanded. If we are receiving the benefits of the government taxation system, then we should pay the taxes. It is only fair that "the user pays" principle is applied. If we believe taxes are too high (which they clearly are) and we wish to see a more godly taxation system develop, this can only occur when the recipients of the tax money have found an alternative source of financing for their needs.

Alternatives to the government welfare system must be provided. To keep money for personal use is a misuse of wealth, since we are encouraged repeatedly to help the poor and those in need. While this help should not necessarily be in the form of simple handouts, we're encouraged to use our resources in some manner to help those less fortunate than ourselves.

Solving the Welfare Problem

One of the great myths of our age is the idea that welfare can solve the poverty problem.[15] This is simply not true. While it may offer temporary relief to some people it cannot provide security for everyone.[16] Someone

15. Marvin Olasky, *The Tragedy of American Compassion* (Washington, DC: Regnery Gateway, 1992); Alan Tapper, *The Family in the Welfare State* (North Sydney, NSW: Allen & Unwin, 1990). According to one study in New Zealand, while "the single elderly pensioner" by 1986 "had 40 percent more after-tax purchasing power than had an identical person in 1971, or 60 percent more than a comparable pensioner in the 1950s," the real incomes of male workers had fallen. See David Thomas, *Selfish Generations? The Ageing of New Zealand's Welfare State* (Wellington: Bridget Williams Books, 1991), Ch. 4, "The New Poor." Rather than solving the poverty problem, welfare is merely transferring the poverty problem from one class of citizens (the elderly) to another (the workers).

16. According to Dr Alan Tapper in *The Family in the Welfare State*, "the welfare state in Australia (and probably elsewhere) has been unbalanced in three ways: against families with children (and more generally against people with dependents), and in favor of independent individuals; against intact families, and in favor of families which break up; and (probably but not provably) against the young, and in favor of the elderly" (p. 263).

has to work. Wealth redistribution through the taxation system that does not, at the same time, address the longer term issue of wealth creation is bound to bankrupt itself sooner or later. This is the position of most countries in the world today: insolvent.

Christianity, however, while providing a limited role for charity, sees the basic form of social welfare being wealth creation. In other words, people should work. "If anyone will not work, neither shall he eat" (2 Thess. 3:10b). When we pray "Give us this day our daily bread," we should not expect handouts. This prayer has meaning insofar as it is a petition to God to bless our work and our efforts in productive activities.

Productive business enterprises, which not only create goods and services but provide employment, are the means by which the West has lifted its economic standards to previously unknown heights. This must also be our most efficient means of social welfare and the means of abolishing poverty. Consequently, social welfare is put into a very different perspective from that which exists at present in countries around the world.

Conclusion

Death and taxes are two major concerns that have a direct and powerful influence on any investment strategy. In the case of death we can develop a multi-generation view of wealth and extend our influence beyond our own lifetime through our children and their children.

Taxes, on the other hand, present us with the challenge of building a biblical alternative to the present system. Growing unemployment and expanding debt are just two indicators of the problem with the existing state of affairs. Increasing taxes is another indicator.

But we still need information on a third force in the economy today that can ruin many investment programs if we do not properly diagnose and understand it. This is inflation, and I've reserved this topic for a chapter all its own.

CHAPTER 6

. . . and Inflation

WHEN WE STUDY ECONOMICS, we try to isolate particular aspects of the economy to draw inferences or make conclusions. When some aspect of economic life occurs with regularity we often refer to it as a "law." Thus we get, for example, the laws of supply and demand. This approach to the economic system is the necessary *theoretical* approach to understanding how human action works in the real world. Once we've understood the small section under view, we then add in other elements that also need comprehension. They need to be understood not only in isolation but also in relation to other factors. This is the study of economics.

Economics — derived from the Greek words *oikos,* house, and *nomos,* law — is unfortunately known as the "dismal science," although it really does not deserve this pejorative term. Economics is no more than the study of human stewardship. It is the observation of the actions people — ordinary people like you and me — take to enhance their welfare. Modern economic theory, the legacy of John Maynard Keynes, on the other hand, is truly a dismal science. It is divorced from the study of human beings and is instead involved with mathematics and the building of models which may, or may not, have anything to do with the way people act.

In the sense I've defined economics here, each of us is an economist. We are all involved with "house law" or house management. Each of us makes decisions that we think will enhance our welfare. This is the economics of Adam Smith and what is often referred to as the free market approach to economics.

The study of economics includes phenomena such as inflation. In this chapter, I'm going to explain why inflation is one of the key factors in any investment decision. An understanding of inflation, what it is and what causes it, is essential for any investment program. Many plans come unstuck at this point simply because people don't understand inflation. This is why this chapter is one of the most important in the whole book. At all costs, you need to understand the ideas presented in this chapter. Other sections can be glossed over, even ignored, and they won't necessarily ruin an

investment program. But inflation can not only ruin an investment program, it can lead to total poverty.

What is Inflation?

Inflation, it appears, is inevitable. At least, that is what we are led to believe by the politicians. They do their best to fight inflation. The Reserve Bank, for example, will raise or lower its discount rate from time to time. This is the rate it lends to other banks in the country and has an effect on the interest rates charged to consumers. Monetary and fiscal policy, the politicians and professional economists call it, and it is necessary to counteract the inflationary tendencies in the economy. When they fail, it is because inflation is apparently beyond their control. But what is this economic phenomenon that has plagued all countries around the world for the better part of this century?

Most people are aware of what is called the "business cycle." Sometimes business is booming, other times it is in decline. We know that it is wise to buy when the market is low, and sell when the market has reached higher levels. Hopefully, we can sell before there is another fall. But what causes these rises and falls in business activity? If we have the correct tool to tell us *why* the market rises and falls, we will have a very powerful weapon to help us maximize returns and limit losses.

To many, inflation is a rise in prices. This definition, while popularly understood, is not precise enough if we are to understand inflation correctly and its effect on the economy. If we do not make a correct diagnosis of a problem — in this instance, inflation — then we leave ourselves open to the possibility that the cure we propose will not solve the problem, and perhaps make it worse. This can be similar to prescribing aspirin as a cure for a headache when the headache is caused by a brain tumor. What is needed is not aspirin but radical brain surgery. Correctly diagnosing illnesses in medicine has its parallel in the economy. It is critical that we make a correct diagnosis in order to prescribe the correct method for solving the problem.

Defining inflation simply as rising prices is inadequate. This definition too easily permits us to overlook the underlying *causes* of these rising prices. Therefore, rising prices, can be more accurately called *price inflation.*

There is, on the other hand, an older and more accurate definition of inflation. At one time any expansion in the money supply was referred to as inflation. By the term money supply, we refer to that which can be used to purchase goods and services. This includes all notes and coins that are in circulation. But the banks also provide purchasing power in the form of credit. People can buy goods on time payment, so our definition of money supply includes the amount of credit available in the economy.[1]

1. Ian Hodge, *Baptized Inflation: A Critique of "Christian" Keynesianism* (Tyler, TX: Institute for Christian Economics, 1986), chapter 10.

For our purposes, it is enough to recognize that inflation is *any* addition to the existing money supply (no matter how it is measured). As we inflate a balloon by adding more air to it, so we inflate the money supply by adding more money (or credit) to it. Because of the shift in understanding that has occurred over the meaning of inflation, however, I'll call this *monetary inflation.* Monetary inflation is thus an inflation (increase) in the quantity of money.[2]

This distinction between price inflation and monetary inflation is essential. At one time inflation referred to an increase in the money supply, while price inflation was simply called price increases. To define price inflation as merely inflation unfortunately helps to sever the link between monetary inflation and price increases. The connection between these two phenomena must be kept in place for a proper understanding of what is happening in the economy and why it occurs.

The Consumer Price Index

Having defined inflation as an expansion of the money supply, we should not confuse inflation with the Consumer Price Index. This is the current method of determining the so-called inflation rate. What it attempts to do, however, is record price inflation. On the other hand, we are more interested in determining the rate of monetary expansion. To be sure, monetary inflation will eventually be reflected in price inflation. But since there is a time lag of up to several months between an expansion of the money supply and when this is reflected in a rise in the general price level, a powerful advantage is gained if we know what the monetary expansion rate is, rather than knowing what is happening to prices.

There is another reason we're not particularly interested in CPI figures. They are historical figures that could be days, weeks or months old. Since they tell us what happened yesterday, they are of little value in telling us what is likely to happen tomorrow.

The future is what we look at in any investment program, not the past nor the present. We make predictions about what we think will happen tomorrow, next week, next month or a few years ahead. On the basis of our predictions (or we might prefer to call them projections), we make certain investment decisions.

Knowing that price inflation is caused by monetary inflation provides us with the predictive tool necessary to tell what is going to happen to the economy over the next few weeks or months. Our knowledge will be approximate, not necessarily exact. But it will be good enough to allow us to make decisions that will help us maintain our wealth. This is why

2. Ludwig von Mises, *The Theory of Money and Credit* (Irvington-on-Hudson, NY: Foundation for Economic Education, [1934] 1971); Henry Hazlitt, *The Inflation Crisis, and How to Resolve It* (New Rochelle, NY: Arlington House, 1978); Percy L. Greaves, *Understanding the Dollar Crisis* (Boston, MA: Western Islands, 1973); Ernest J. Oppenheimer, *The Inflation Swindle* (Englewood Cliffs, NJ: Prentice-Hall, 1977).

knowing money supply figures is vastly more important than knowing the CPI figures.

What is essential for any investor to grasp is the cause and effect relationship between money supply and prices. What I am arguing here is that price inflation is caused by monetary inflation. Without this relationship between money supply and prices, it is impossible to explain why it is that over time, the general price level in an economy can rise. Imagine that there were 10 items for sale, each one selling for $1. If the first item was increased to $1.50, while the tenth decreased to 50 cents, the general price level remains the same. This is what I mean by general price level. In a moment, I'll explain why there is only one way the general price level can be increased.

What Inflation Does to Your Money

Before proceeding with an explanation of inflation, it won't hurt to emphasize again the necessity for every investor to come to grips with inflation. It is important that you understand what inflation does to your money over time. Most people don't realize that inflation is the opposite to compound interest. Whereas compound interest multiplies the return to an investor by giving interest on top of interest, inflation is a compound negative return on capital. This is why inflation is so devastating.

Look at the two columns in the chart on the next page. In the first column I have shown what happens to $1 as it is depreciated by inflation. In column two, I've shown what happens to $100,000 when its value is eroded by the falling value of money. To reinforce the effect, I've added a column showing the same effect upon a $500,000 capital base.

If you're having some difficulty comprehending the effect of inflation, don't worry, you're not alone. To say the very least, the effect of inflation, even at a modest and steady rate of 5% is devastating. It takes only a little over eight years to wipe out a third of the value of your money. Look at the second column. It shows you what happens to the value of $1 when the inflation rate is 5%. By the eighth year, the purchasing power of $1 has been reduced to 67 cents. If you look at the third column, you'll see that $100,000 is reduced to only $67,684 by the eighth year. Of course, if the inflation rate doubles to 10%, as it did in Australia in the 1980s, then it would take 7.2 years to halve the value of money.

A handy tool here is the "rule of 72." This rule tells you quickly how long it will take to halve the value of money. Divide the number 72 by the inflation rate and the answer is the number of years it takes to cut the value of money in half. If the inflation rate is 10%, then the answer is 7.2 years. As you can see in the chart on the next page, it takes 14.4 years to halve the value of money when the inflation rate is 5%. And when the inflation rate reaches rates of 18% or higher as they did in Australia in the 1980s, you can begin to realize the incredible upheavals people face, especially those on fixed incomes. Prices rose constantly as people tried to maintain

YEAR	Value of $1.0000	Value of $100.000	Value of $500.000
1	$0.9524	$95,238	$476,190
2	$0.9070	$90,703	$453,515
3	$0.8638	$86,384	$431,919
4	$0.8227	$82,270	$411,351
5	$0.7835	$78,353	$391,763
6	$0.7462	$74,622	$373,108
7	$0.7107	$71,068	$355,341
8	$0.6768	$67,684	$338,420
9	$0.6446	$64,461	$322,304
10	$0.6139	$61,391	$306,957
11	$0.5847	$58,468	$292,340
12	$0.5568	$55,684	$278,419
13	$0.5303	$53,032	$265,161
14	$0.5051	$50,507	$252,534
15	$0.4810	$48,102	$240,509
16	$0.4581	$45,811	$229,056
17	$0.4363	$43,630	$218,148
18	$0.4155	$41,552	$207,760
19	$0.3957	$39,573	$197,867
20	$0.3769	$37,689	$188,445
21	$0.3589	$35,894	$179,471
22	$0.3418	$34,185	$170,925
23	$0.3256	$32,557	$162,786
24	$0.3101	$31,007	$155,034
25	$0.2953	$29,530	$147,651
30	$0.2314	$23,138	$115,689
35	$0.1813	$18,129	$90,645
40	$0.1420	$14,205	$71,023
45	$0.1113	$11,130	$55,648

Table 1. The changing value of money when the inflation rate is 5.0% p.a.

their standard of living. But the price rises only served to erode the purchasing power of money, which halved in value in just four years.

As a "house manager" or a wealth manager, or a steward of the resources God has given to each of us, you must come to grips with price inflation, understand it, and ensure it does not wipe you out financially. Without this knowledge about inflation, you will not know how to protect yourself against it. And protection against price inflation, which is nothing more than the erosion of the purchasing power of money, is an absolute necessity for anyone who wishes to keep his wealth intact.

Understanding inflation is not an option. It has such a devastating effect on our wealth that the sooner we understand it, the better chance we have of protecting ourselves against it. According to Oppenheimer, "inflation represents a breakdown of the normal rules of the game of the monetary

system."[3] Almost instinctively, we recognize that those "normal rules" include keeping the value of money relatively intact. Understanding inflation and learning how to protect ourselves against its insidious effects is not an option, it's a necessity.

Causes of Price Inflation

Imagine a closed room with four walls and no doors or windows. This represents what we might call a "closed" economy. Such an economy does not exist in the real world, but we need this imaginary system in order to analyze certain occurrences. These "imaginary constructs" are used by all economists as well as by other professions. They permit us to analyze what might happen under certain conditions, if they were to exist. Our analysis is then modified when we come back to the real world of time and change.

Imagine that the only economic goods for sale in this closed economic system are ten apples. There are, however, ten one dollar coins which can be used to buy these apples. What will be the "price" of the apples? Assuming that the people in this economy actually want to buy and sell the apples, the theoretical average price is $1 per apple. In reality, of course, the better quality apples will fetch a higher price and the poorer quality ones will probably have a lower price. But the average is $1 per apple. If you have understood this much you're well on the way to becoming a competent economist, or "house manager."

Ask another question: In this closed economy, how can the average price be increased to, say, $1.50 each apple? You don't need a Ph.D. in economics to answer this. It is a simple mathematical problem. The only way the average price can increase is if the ratio of goods and coins is altered, by either eliminating some of the apples or by increasing the number of coins. Assuming the number of apples remains constant, however, the average price of the apples can increase to $1.50 only if there are fifteen coins, instead of ten, to buy the ten apples. Only under this condition, where the money supply is increased while the quantity of goods remains constant (or at least doesn't increase as fast as the money supply), can the average price level for all the apples be increased.

Let me state the conclusion here a different way. The only way you can have a general price inflation (i.e. the price of all goods and services increasing) is if you have monetary inflation (again assuming the quantity of goods remains relatively stable). Simple, isn't it? As money is pumped into the economy, prices tend to increase. The inflation of the money supply (i.e. increasing the amount of money) causes an increase in prices. This is the cause and effect relationship between prices and the money supply.

Without monetary inflation, it would not be possible for the average price of the apples to increase. While it might be possible for some apples to get a higher proportion of the ten coins allocated to them, it's not

3. Oppenheimer, *ibid.*, p. 141.

possible for all the apples to get an extra share of the money. This higher allocation will be at the expense of some of the other apples. The price of some apples will rise while the price of others will fall. Sales will still total $10, or an average price of $1 per apple. But the only way for the average price to increase, or what economists refer to as a rise in the general price level, is for the money supply to expand so that the new money is allocated to goods and services.

How does expansion of the money supply cause price inflation? When the new money is created, it is not distributed uniformly throughout the economy. We do not wake up one morning to find our bank account or wallet suddenly augmented with additional funds. When new money is created it is given to some people who can buy goods and services today that they could not buy yesterday. This increased demand for goods tends to push up their price. Slowly, as the new money circulates through the economy, it has an ever-expanding effect on prices.

Let's pause here to verify this claim, that an increased volume of money pushes up the price of goods. Think of some item you wish to buy right now for which you don't have enough money. Perhaps it's a new washing machine. For some of us, a computer upgrade with the latest Super VGA screen, CD-ROM drive and software would be more than welcome. Maybe it's a new car or renovations on the home. But we don't buy these things now because we have insufficient funds. Our refusal to buy is a signal that prices are too high for us right at this moment. If the price were lowered we would buy — and given the information of a good bargain being offered, many of us would snap up the opportunity to get the item we want.

What will happen, however, if you were to wake up tomorrow with an additional $10,000 at your disposal? Would you now buy that item at its present price? And if you don't buy it with the extra money, are there other buyers who will make that purchase if they wake up with the extra cash? If so, it is evident that, if nothing else, additional money alleviates the downward pressure on prices, and permits sellers to get higher prices than they would otherwise. It may even permit them to raise their prices and still get enough sales to keep them happy.

Boom and Bust — The Business Cycle

I have shown here what causes prices to rise. An increase in money stimulates the economy to extra activity. With increased demand for goods made possible by the additional money, producers are given signals that buyers are demanding more of their product. They expand their businesses, employ more people, buy more machines, and generally increase productivity.

Meanwhile, consumers have become used to the new money. They know that they are getting, say, 10% extra money in their pockets every year through monetary inflation. Suppliers pace their production activities on this fact, just as consumers anticipate to have the increase next year.

Then, all of a sudden, maybe without explanation, the money expansion machine is cut off. Instead of an extra 10% people get only 2% extra money. How do they react? They cut their spending to accommodate the new and lower inflation rate. That is, they respond *rationally* to the changed economic environment in which they find themselves.

How do businessmen react now? With the decrease in demand for their goods, they cut back production, employ fewer people, and buy less equipment. Unemployment rises, which in turn lowers demand for some goods and services, and the economy is in a decline. This is called a recession, and if it gets bad enough, it's called a depression. (Or, as someone humorously said, if it happens to someone else, it's a recession; when it happens to you, it's a depression.)

Now that we understand what causes price inflation, we have at our disposal a powerful analytical tool to help us as an investor. If we know that prices will increase because of an expansion of the money supply, all we need to do is look at the money supply and make some intelligent investment decisions.

For example, if the money supply increases by 10%, we can say that the average price level will increase by 10% also. (I am again assuming here that the number of goods and services remains the same.) Of course we don't know exactly how long it will take for the new prices to become effective, since the new money does not appear uniformly at the same point in time. But we can see a tendency here that will help us.

How might intelligent investors make use of this information? If, for example, we were about to embark on a business program, we might wish to borrow funds (something I don't recommend, but I'll have more to say on debt in a later chapter). If all prices are to rise by 10% due to the expansion of the money supply, then we know interest rates are about to increase too, since interest rates are merely the price we pay to borrow money. If we were planning to borrow funds, we would therefore be wiser to borrow today and attempt to lock in a fixed interest rate.

On the other hand, if we were saving for the future, it would be preferable to wait until the interest rates get higher before we locked in our investment funds. It is these funds, of course, which will be made available to the borrower at the higher rate. Here we see that if the borrower is able to lock in his borrowings at a low interest rate, the lenders will suffer when the rates rise. When something happens in one place, it is offset by something else in the economy.[4]

A similar effect can be seen when we analyze how the new money comes into existence and causes price inflation. Once the money is created it is given to some people. Not everyone gets the new money in the first instance. Those who get it first can purchase things today they could not buy yesterday. With this new wealth, they will tend to push prices up as

4. See Henry Hazlitt, *Economics in One Lesson* (Westport, CT: Arlington House, 1979).

they create new demand for goods and services. They are willing to pay these prices because they have just received the new money.

But what about those who have not received any of the money? They will find that the recipients of the money are out there buying goods and services, and this increased demand tends to push up prices. Those without the money find themselves paying the higher prices that those with the new money can now afford. They lose because the purchasing power of their money is less than it was yesterday.

In this we see that when monetary inflation occurs and causes price inflation, there is one group of citizens who get an advantage, but only at the expense of other citizens. There are no free lunches! If you remember nothing else in this chapter, remember this: TANSTAAFL ("there ain't no such thing as a free lunch"). By this is meant the idea that someone can not get something without someone else paying for it. It is simply impossible to have monetary inflation, where some people get a benefit, without there being a loser somewhere else in the system.

Testing the Theory

Theories, no matter how well they are presented, are only good if they accurately reflect the real world. Is there real world evidence that the analysis offered here is an explanation of how a real economic system actually works? There are many illustrations that could be used to prove this thesis. But only one is needed in this instance to show that this explanation is an accurate one.

Before the 1987 stock market crash, from about 1985, the money supply in Australia was expanding at rates between 15-20 per cent. These rates were higher than had existed in the early 1980s. In fact, rates this high had not been in evidence since 1974. When the market crash occurred on that fateful day, October 20, 1987, the Federal government's first reaction was to boost monetary expansion to help the economy. By 1989, monetary expansion rates climbed to between 25%-30% per annum. Then, in early 1990, the rate was cut drastically, and the monetary inflation rate stayed around 1-2% per annum until early 1993, when the money faucet was turned on again.

By any measuring standard, such a drop in the monetary inflation rate is dramatic. But what has been the result of this cut in monetary inflation? The recession "we had to have," in the words of Prime Minister Keating, was the result. The worst recession, in fact, since the Great Depression.

Those of us who knew the causes of the boom-bust cycle, however, predicted the recession long before it appeared in most economic statistics. A cut in monetary inflation of this kind produces an almost immediate change in interest rates. A phenomenon known as the "inverted yield curve" appears, when long term interest rates are lower than short term rates. Normally, longer term interest rates are higher than short term rates, but a cut in the money supply of this magnitude reverses the trend temporarily

by making money less available. In the scramble for the diminished supply of funds short term rates are driven higher, as potential borrowers try to outbid each other for the available funds. An inverted yield curve is a significant indicator of an impending recession. On this occasion the indicator did not let us down.

Money supply figures for 1992 indicated an expansionary phase, although slight. Broad money (referred to as M6) increased at about 1.8%, while M3 growth was about 7.7%. Long term interest rates were above short term rates, indicating the economy was being stimulated again by monetary inflation. By the third quarter of 1993, the M3 rate had reached 11% again. By mid-1994 prices were on the rise again following the expansion of money, and on August 17, 1994, the Reserve Bank of Australia finally announced an increase of ¾ percent in its discount rate, claiming this was necessary to "halt inflation."

Any cut in the expansion of money will have the reverse effect to that outlined above. Prices will decline in an economy which has a money supply that is either getting smaller, or is growing at a much slower rate. This is because people, who have been managing their affairs on the higher monetary inflation rate, must now adjust their actions to accommodate the lower rate. This is what we commonly call a recession or a depression.

When money is scarce (in short supply), the suppliers of goods and services respond by reducing their prices. Without the drop in prices the higher price levels will only be maintained by sustained or increased unemployment. In the current recession in Australia, there was very little downward price movement until about mid-1992. At this time the bargains were really evident in the major stores, leading to the post-Christmas 1992 sales that made headlines everywhere. Shoppers were injured in the rush on specials when stores opened after the Christmas break. Because prices were so slow to drop, unemployment climbed dramatically. The fact that many were unwilling to drop prices but amenable to accepting unemployment indicates that many Australians expected the government to use monetary inflation yet again as a tool to attempt to buy its way out of the recession. This expectation has proved to be an accurate one, as the Labor Party's "One Nation" policy has shown.

Those who had this knowledge about the relationship between money supply and prices, knew there was a crunch coming. Financial advisers who understood this were able to lock their clients into interest rates at, say, fourteen per cent very early in 1990, but could only get seven or eight per cent (or lower) in 1992. Retirees and others dependent on investments for income have been hurt badly.

This is why interest rates were around 20% per annum in 1989 and why they are less than half this rate at the end of 1994. The government has seriously cut the rate of expansion of the money supply.

But what will happen if the government increases the money supply at a higher rate again in the future? For a start, interest rates (the price for

money) will rise. Investors who lock in their savings just before this expansion occurs will find themselves behind the market.

Inflation and Morality

Before leaving the subject of inflation, it would be wrong not to comment on the morality of inflation. Price inflation, I have argued, is caused by monetary inflation. While money consists of notes and coins manufactured by the government, monetary inflation is a deliberate act of those controlling the money supply.

But price inflation erodes the purchasing power of money. Just as a thief erodes your purchasing power when he demands you hand over your money, so the purchasing power of money is eroded when the monetary unit is devalued through inflation. Both are theft when they are a deliberate act.

When nations have been strongly influenced by Christianity, their approach to money management has maintained a monetary unit which could not be inflated so easily. The British Parliament in the nineteenth century under the leadership of Sir Robert Peel, made some attempts to provide a stable currency. Money was primarily silver, and the government found it difficult to increase (i.e. inflate) its supply. Consequently, the country had a steadily falling price level. In this generation, we are not used to the idea of a falling price level. Yet, price levels have not always risen as they have since the Great Depression. Writing in 1973, Sir Roy Harrod made this observation:

> Recently people have settled down into thinking that some degree of annual inflation, moderate, it is to be hoped, will continue to be with us as far as the eye can see. This is a rather lamentable defeatism. One might almost regard it as a symptom of decadence. It (sic) we take a backward look we do not find that inflation was endemic in England. For nearly a century after the Restoration (1660) the general trend of prices was downward, subject to transitory wartime interruptions. In the eighteenth century there was a moderate upward movement, doubtless connected with wars, but at the time of the war against the French revolution, prices were still not far from the 1660 level. Then came the great inflation, including suspensions of convertibility. After the war the downward movement, again subject to interruptions, was resumed, and by 1850 prices were below the pre-war level. There was a flattening out in the middle of the century, probably due to the Californian and Australian gold discoveries . . . after which a strong downturn was resumed, bringing prices in 1896 way below their 1660 level. Then came the South African gold discoveries and also the South African war. These events were accompanied and followed by an upward trend of prices. *But even in 1933 prices were not above the 1660 level.*[5]

5. Roy Harrod, *Economic Dynamics* (London: Macmillan Press, 1973), p . 83, emphasis in original. Note that Sir Roy sees the connection between the money supply (i.e. gold) and prices, just as I've argued in this book.

As the Industrial Revolution brought on more goods and services than the existing money supply could buy, the price level tended to fall as the new goods competed for the available money. Everyone wins when this happens. A real growth in goods and services leads to lower prices. The value of money increases and everyone benefits. Appropriately, the poorer classes benefit more than the wealthy, since they have so little money to go around. Any drop in prices has a greater impact on the poor than it does on those with greater wealth.

Monetary inflation on the other hand, because it defrauds people of the purchasing power of their money, is immoral. It is a method whereby the value of money is diluted. Just as it is immoral to dilute wine with water and continue to sell it as undiluted wine, so it is immoral to steal from people by lowering the value of their money. This is the argument that Isaiah brings against the people of Israel (1:22). The prophet accuses the people of diluting their silver with dross. He equates it with diluting wine with water. In former times, when money was gold, it was diluted by adding cheap metals, then endeavoring to pass it off as pure gold. Today, in an age where money is pieces of paper (or merely bank credits), its purchasing power is diluted simply by creating more of it. No matter how it is done, though, it is still an act of dishonesty concerning the purchasing power of money. And dishonesty is condemned in the Scriptures.

Fractional Reserve Banking

Moral issues over inflation are also involved when we consider another method of increasing the money supply. Known as fractional reserve banking, it is a mechanism whereby the banks can create purchasing power through credit without physically creating money of any kind.

Consider this scene. You deposit $100 in First Security Bank. It is the only money the bank has in its vault. Later, Mr White comes to the bank to borrow $90 so he can buy some new plumbing equipment for his home. The bank decides it will keep 10% of the money in reserve, but it is willing to lend out the remainder. The bank will not give Mr White the money, but it will permit him to write out a check for this amount, and provide him with an overdraft facility to enable him to do it. Mr White gives a $90 check to the plumber, who promptly banks it in your bank, where he also has an account.

When you placed your funds in the bank, you received a receipt or a stamp in your deposit book, which says you are entitled to withdraw $100 whenever you like. The plumber has deposited $90 into his account, and the bank has given him a receipt to say that he can withdraw this sum any time he likes. Mr White, meanwhile, has an obligation to repay the bank the sum of $90.

Now, how much money does the bank have in its vault at this point in time? Go to the top of the class if you said only $100. While it is true that Mr White must find $90 from somewhere to repay to the bank in the future,

plus interest, until that loan is repaid the bank cannot meet all its current obligations. If both you and the plumber turn up tomorrow to withdraw all the funds shown in your respective deposit books, the bank clearly cannot cover the amount. It does not hold the funds in reserve. There is a complete mismatch between the bank's borrowing on one hand (i.e. your savings), and its lending on the other. It borrows short term but lends long term. (In real life, the banks depend on new depositors and loan repayments to cover demands for cash from depositors. This is why they get into real trouble if they do not continue to receive new deposits.)

In this process, the bank has provided "purchasing power" in the form of a bank loan to Mr White. This is why the money supply correctly includes the amount of credit in the financial system, as well as the physical stock of money. The credit facility is just as much "buying power" as is the real money itself.

But if inflating the money supply causes price inflation whereby the purchasing power of money is diluted, surely this practice of fractional reserve banking needs to be reconsidered in the light of the moral guidelines found in the Word of God.

Economic Calculation

Once inflation starts, it is hard to stop. Part of the reason for this is that people begin to have a financial interest in inflation. Imagine buying a home with a 25-year mortgage. By the time the final payment is made, total payments may have been over three times the purchase price of the house. If there were no increase in the price of the home, a substantial financial loss would be incurred by the owner when he sold it.

It can be easy to become dependent upon inflation as a means of driving up the price of the house while at the same time depreciating the value of the currency. This way the mortgage is paid off in depreciating currency while at the same time the price of the home is rising. With a little providential "luck," by the time the mortgage is paid out, the price of the home will be at least equal to the amount paid over the duration of the mortgage. This is why debt and inflation go hand in hand. Debt does not necessarily have to lead to inflation but it usually does. This is because, as Rushdoony points out, "all inflation is a form of dishonest debt."[6]

There is, however, only one thing wrong with this type of thinking. It assumes that proper economic calculation is possible under inflation. Unfortunately, this is not so. In the words of Solomon Fabricant, former Professor of Economics at New York University,

> The variety of ways in which inflation disturbs the calculations and affairs of business is enormous. It is enough to say that inflation acts on prices and costs, and on profits and taxes. It undermines the basis on which past commitments were made, creates current and urgent pressures, and it clouds

6. Rousas John Rushdoony, *The Roots of Inflation* (Vallecito, CA: Ross House Books, 1982), p. 51.

> expectations about the future. It disturbs relations with customers, labor, suppliers, financial institutions, and governmental agencies, and internal relations within firms. And the particular impact of inflation in each of these respects, whether favorable or not, differs widely among firms, depending as it does on the nature of a firm's business; the age, size and form of its organization; its location; and the way it customarily does its business. . . .[7]

In other words, in an age of inflation our economic judgment becomes distorted and unreliable. Given that this is the effect of inflation on our ability to make sound economic judgment, there is every reason for us to do everything we can to ensure inflation is kept to a minimum, if it is not within our power completely to prevent inflation from occurring.

A word of warning, however, is required. Not everyone can protect himself or herself against inflation. According to Henry Hazlitt, "in hedging against inflation, each of us can protect himself only at the expense of someone else. Every time we buy some commodity as a hedge, we tend to raise the price for the next buyer. It is possible successfully to practice inflation hedging individually, but never generally."[8] In other words, there is no guarantee that you can successfully protect yourself against inflation by adopting certain investment strategies. This should not stop us from attempting to do it, but we need a realistic mindset when dealing with the problem. To ensure that inflation is halted is the only secure protection against it.[9]

Inflation and Liberty

In the first chapter, I raised the question of personal liberty and freedom in order for us to pursue our God-given callings. Liberty, however, is tied up with the current propensity of governments around the world to control money and their use of inflation to pay for their profligate spending. We need to see that there is a direct relationship between inflation, government control, and personal liberty.

While the government continues to use fallacious arguments that they are controlling inflation, in reality they are merely making things worse. And each time they make it worse, this becomes another excuse for more government intervention. The cycle needs to be broken. This is why Oppenheimer has argued that "inflation contravenes all principles of sound finance and provides the government with the incentive to move ever deeper into a morass of higher deficits, larger debts, and greater irresponsibility."[10] The foundations of liberty are intimately connected with the individual's ability to look after his own affairs with minimum interference from the political rulers. This is the "secret" of the development of the West

7. Solomon Fabricant, "Economic Calculation Under Inflation: The Problem in Perspective," in *Economic Calculation Under Inflation* (Indianapolis, IN: Liberty Press, 1976), pp. 51ff.
8. Hazlitt, *The Inflation Crisis, and How to Resolve It*, p. 153.
9. *Ibid.*, p. 154.
10. Oppenheimer, *The Inflation Swindle*, p. 140.

and its creation of wealth.[11] Inflation will continue to undo all that has been achieved in the past. This is why it must be halted. But inflation will not be halted by politicians who have the power: it will be halted by citizens who have the moral will and determination to put an end to financial immorality.

Conclusion

Now you know why you cannot afford to be complacent on this topic of inflation. Understanding the true cause of price inflation is crucial for the person who seriously wishes to be a good steward of his wealth.

At the very least, we can see why timing can be critical in any investment program. While monetary inflation is controlled by governments, and the rates of change in the money supply vary by government whim, we can suddenly find ourselves locked into investment programs that could prove to be a financial loss to us for a period.

On the other hand, knowing what is happening to the money supply permits us to make projections about what will happen in the future. To be sure, our expectations are never perfect. No one knows the future with perfect certainty. But it is not necessary to be absolutely correct to make profitable investment decisions.

What is imperative, however, is that we have the correct predictive tools, the proper instruments that will let us achieve our goal of preserving and increasing our wealth. This is why the correct understanding of inflation is one of the most powerful instruments in an investor's tool box.

11. Adam Smith, *The Wealth of Nations,* Edwin Cannan, ed., (Chicago, IL: University of Chicago Press, 1976).

CHAPTER 7

A Biblical View of Debt

NO BOOK ON FINANCE IS COMPLETE without a discussion of debt. Many people are in debt now or have been in debt in the past. It is the preferred way for most Australians to buy a home. A clergyman once told me that it would not be possible for the young people in his church to buy a home unless they borrowed for the purpose. Unfortunately, it is also the preferred option for a lot of Australians to buy many things. And Australians are not the only people in the world to take advantage of easy credit.

It is easy to have sympathy for those who encourage the use of debt. There is a sense of freedom, a feeling of security, that comes with owning your own home. A man's home is his castle, as it is for his wife and children also. Buying a home with borrowed money, however, cannot provide the security of true ownership since it is owned by the lender until the borrowed funds are repaid in full. Many people have discovered this in the recent economic climate in Australia. Their home, which they thought offered some security, was often the first object to be sold in order to repay loans of one kind or another.

Is going into debt, however, the *only* way in which most people can buy a home? And what does the Bible teach us about debt? As Bible-believing Christians our aim is to follow the teaching of our God on this matter. The alternative to following biblical principles is to argue pragmatically, to say that the end justifies the means, to move away from biblical guidelines. Yet even the pragmatic argument is misplaced.

It's said that "rent money is dead money." Not surprisingly, this is most often said by real estate salespeople. What they mean by this statement is that you pay rent and own nothing at the end of the period. You can pay money for rent for a house and at the end of the period own no physical asset that has come from the expenditure of the money. That's true. But by the same logic, "interest money is dead money" too. Many people accept

interest charges because they see house prices rising, so they expect that at the end of the period the resale value of their home will cover the interest cost. If someone pays a total of $350,000 including interest charges for a house that had a purchase price of $200,000, and it sells at the same price at the end of the payment period, then he has paid $150,000 that can never be recovered in the price of the house. That's "dead" money, in that it would not be covered by the value of the asset. The original purchase price is covered, but not the interest component. Our judgment on this is distorted when home prices increase because of inflation or other factors. Thus, it is difficult to determine at the end of the day what increase is due to inflation and what might be a genuine increase in *real* value.[1]

There is a cost of debt that many ignore. For many people, borrowing seems the only way to get ahead in life. But as one study in Australia has shown recently, there is a real cost in borrowing that may never be recovered by many. According to Queensland University of Technology lecturer, George Earl, "even if you occupy a house for life, it will take 30 years to reach the point where you are better off than traditional renting."[2] Earl brings substantial industry background to the issue, with over 25 years in the building industry, and only lately as a lecturer. City dwellers are often the worst off, since such huge mortgages, relative to income, are necessary in order for people to buy a home. This "huge financial stress," (Earl's phrase) could be substantially reduced if people understood better the real cost of borrowing. There are many, however, who do not wish the real costs of borrowing to be known. Added to this is the inability of many to undertake the necessary calculations to determine at the practical level the real costs of borrowing.

In this chapter, I'll present arguments why I believe Christians should do everything in their power to avoid debt. It is common in the modern world to think of debt only in economic terms. There is another view of debt, however, and that is a moral and religious one. It is on moral and religious grounds, then, that I'll argue against debt. While it may be possible for debtors to gain in the short term, just as it is often possible for a thief to become wealthy for a while, the future of all immoral conduct is short-lived. Economics cannot be divorced from religion any more than can sexuality. Actions in all areas of life reflect a commitment to a religious faith, and a debt society indicates a society committed to anything but biblical faith.

Any argument against debt, however, must also carry with it *alternative* solutions to the predicaments that provoke people to borrow. In addition to the arguments for Christians avoiding debt, I'll offer a positive biblical alternative to debt. With firm, workable alternatives available to all, the

1. Solomon Fabricant, "Economic Calculation Under Inflation: The Problem in Perspective," in *Economic Calculation Under Inflation* (Indianapolis, IN: Liberty Press, 1976), pp. 51ff.
2. See the article by Geoffrey Maslen, "The Great Australian Illusion," *The Bulletin*, November 22, 1994, p. 36.

biblical arguments can be shown to stand firmly in favor of a life without debt.

I mentioned above the clergyman who saw no solution for his young people's aspirations to home ownership except borrowing. His comment was intended as a reason why people, especially young people, needed to go into debt. On reflection, though, it is a better indication of the clergyman's own lack of knowledge of the alternatives available to *every* person than it is a reason why people should go into debt.

This clergyman is not alone in being willing to advocate debt as a means for getting ahead financially. But there are few Christians who use the Bible to argue that we should actively use debt as a means of economic management. Some may not be against debt in principle, but they recognize the difficulties associated with it and generally discourage too much debt (whatever the phrase "too much" might mean).[3]

Eight Arguments Against Debt

Our concern is what the Word of God says on this often perplexing topic. Since we can agree that the Bible is to be our guide for life on this issue, there are eight arguments against debt, any one of which is sufficient reason for people to avoid debt as far as possible. Here are the eight arguments in condensed form. Appendix A contains the arguments in detail and the justifications for them.

1. Debt is discouraged by the simple command to "owe no one anything except to love one another" (Rom. 13:8a). The context of this verse clearly indicates that this prohibition against debt includes money. The only exception to the command is love. We are to owe no man anything except love. Financial debts must be avoided, but the requirement to love is an obligation without end.

2. Our basic definitions should be taken from the Bible, not other sources. A form of slavery identified in the Bible occurs when we become borrowers (Prov. 22:7). Scripture, however, forbids us to become slaves to anyone except Christ (1 Cor. 7:23). This is known as debt slavery and we may not enslave ourselves to others by becoming borrowers. As Douglas Anderson has put it: "God put limitations on debt because He knows that it is a form of slavery and bondage. Debt limits our freedom to use the dollars we earn and seriously limits use of the property held as collateral."[4]

3. There is a general prohibition in Scripture against becoming surety for another's debts.

> My son, if you become surety for your friend, If you have shaken hands in pledge for a stranger, You are snared by the words of your mouth; You are taken by the words of your mouth. So do this, my son, and deliver yourself;

3. See Larry Burkett, *Debt-Free Living: How to Get Out of Debt (And Stay Out)* (Chicago, IL: Moody Press, 1989), chapter 8.
4. Douglas Anderson, *Owe No Man Anything* (Hampshire, TN: Light & Salt, 1980), p. 88.

> For you have come into the hand of your friend: Go and humble yourself; Plead with your friend (Prov. 6:1-3; cf. Prov. 17:18, 22:26).

Without surety of some kind, it is difficult to borrow. Therefore, I conclude that this prohibition against surety is a sign that people should not be asking people to guarantee their debts. This, in turn, makes it difficult to borrow, which is the possible reason behind the prohibition on surety. It does not make sense to place a prohibition on guarantors if debt is something that is to be positively encouraged and sought after as a means of legitimate financing.

4. In chapter six, I discussed inflation and its causes. I argued that monetary inflation, an expansion of the money supply, causes price inflation. Monetary inflation, I also argued, was immoral, since it devalues the purchasing power of money. I identified credit as a major means of expanding the money supply. Since debt, when it is connected with fractional reserve banking, causes inflation and inflation itself is wrong, then it is not too difficult to conclude that debt should be avoided as a means of money management.

5. In the first three chapters, I described the wealth creation process. Economists increasingly recognize that it is saving that contributes to economic advancement. Debt, however, is the antithesis to saving. Therefore, the accumulation of savings is the proper mechanism for financing expansion, not debt. Debt reverses the process of capital accumulation, which is why those civilizations that have relied on debt have become relics of the past.

6. Debt is easily connected to the sinful heart of man. A major manifestation of this sinfulness is described in the Bible as greed. This is the desire to accumulate wealth for wrong reasons, for selfish purposes rather than the purposes which will assist the kingdom of God. Debt permits sellers to raise their prices higher than they could if buyers avoided debt. Selling should not give rise to greed, and debt is an easy mechanism for this to occur. It is better, therefore, to avoid debt *and* avoid greed.

7. The other side of borrowing is lending, and the Bible provides some guidelines here. Deuteronomy 15:1-11 is clear on two things. *First,* that there is to be a willingness to lend to those in need (v. 8). *Second,* in the seventh year, whatever has not been repaid was to be canceled. Debt collecting ceased in the seventh year (vv. 1-2). And just because the seventh year was approaching was no reason to hold out on the brother in need (v. 9). The debt, however, could be collected from a foreigner, but not a fellow Israelite. There is a clear economic encouragement here for foreigners to become "brothers" so they could participate in the debt cancellation.

The point remains, however, that this limitation on lending indicates that there was some limitation on debt and its use. If nothing else, the idea of a 10-year or 25-year mortgage is eliminated in the case of a brother.

8. Modern practices of debt are forcing people to take on loans for longer and longer periods. In Japan this has extended to the 100-year mortgage. To take on a debt, even for a more modest period of 25 years, is to make predictions about the future and our ability to act in the future. We cannot even be certain about tomorrow, let alone 25 years from now. To sign up on debt is presuming knowledge about the future which is known only to God. Debt, when it did occur, was limited to seven years (Deut. 15:1ff). Here, God places a limitation on lenders: no debt is to last longer than seven years. Because the debt was to be canceled, this also indicates that the release from debt was primarily a mechanism to help those who found themselves in debt in involuntary circumstances. Thus, debt in this instance seems more a charitable act than one for commercial profit.

Each of these arguments is a powerful statement against the use of debt. Therefore it should be avoided. These are the theological arguments against it, but there are also pragmatic considerations that show that something is not right with it. We have seen many instances in recent years where people from all walks of life have found they cannot meet the repayment of loans. This has meant the loss of home, job, a breakdown in family life, and in many cases a breakup of the family. More importantly, people have had their most valuable item, their reputation, ruined by their inability to repay their obligations. People have thought, with the best of intentions, that they could continue meeting their promises on into the future. But circumstances changed and they lost everything they owned.

How easy it can be to fall into a position where we find ourselves asking God to bless our work so we can keep up the mortgage repayments. This is a prayer God does not always answer the way people would like. This should not surprise us, given God's stated position about debt. God cannot be manipulated. It is surely presumptuous on the part of His creatures to ask Him to bail them out of consequences of the decisions they made because they did not take into consideration what He has revealed in the Bible.

I mentioned above that there are some people who find it difficult to accept the view that in the Bible the use of debt is discouraged. There appear to be two reasons for this. *First,* they are unwilling to accept the simple words of Scripture literally. When this happens they will say that under certain circumstances (never explained) debt is acceptable, so long as it is managed properly. There is a certain vagueness in this proposition, however, that does nothing to help us understand what the Bible says on the matter. *Second,* those who recommend debt are often trained in the economic theories of the modern university. The theories have their origin in the ideas of John Maynard Keynes. Keynes, who lived in the first half of the twentieth century, argued that debt may be necessary to maintain higher employment levels in the economy. This means, however, that they are often poorly trained economists. No one has yet been able to show that

debt is the way to provide for economic progress, even though many argue this way.

Our interest in this matter (pun intended), however, is not in what Keynes or other economists may have said. Rather, it is to determine what the Bible says about it. And the Bible is very clear on the topic, "owe no one anything." This statement is so clear that it seems to be ignored not because of its alleged obscurity, but because people don't wish to recognize it.

In an age when the influence of Christianity is minimal, debt provides an interesting barometer of people's adherence to biblical faith and morality. As Rushdoony has observed, "because debt is so deeply rooted in sin and idolatry, debt, and its consequence, inflation, are especially morally and religiously destructive. An inflationary society is an immoral and a degenerate society, and it will see, as its natural concomitant, every other kind of depravity flourish. No more than we can restrict a raging forest fire to bad trees, or to certain areas, can we restrict the scope of inflation and limit its influence to economics. Inflation affects more than economics, because debt has its roots in far more than economics."[5]

The biblical condemnation of debt, however, raises serious questions for those who want to adhere to God's principles in their lives. Very few people today are living debt free. A home is a person's castle, it is claimed, and there is strong pressure in society for people to own their own homes.

To be quite honest, it is necessary to recognize that home prices today are as high as they are because of debt. If debt was reduced, or even limited to six years, prices would need to fall, since the 30-year mortgage, and even the 10-year mortgage, would disappear. Without debt, buyers would not pay the prices that are currently being asked.

I realize the very great pressure upon most people to go into debt, even if it is only to obtain the family home. If the arguments presented here, however, are valid, then even home buyers will need to evaluate their priorities. There are ways to get homes and other items without debt. This is not to say that these ways are the easiest. There are few things easier than lining up at the bank to get a loan. After all, that's what banks sell, and they will do their best to make it easy for people to buy the product they offer: debt. The question each one of us needs to ask himself is whether we are willing to exhibit that patience and diligence in our obedience to the truths of Scripture so that God might bless us in ways that we can hardly imagine. Perhaps even more significantly, it will be a challenge to us to put aside our individual hopes in these matters, for God's blessing may not flow fully until the next generation. This is the kind of long term view that is needed to avoid debt and obtain God's blessing for our faithfulness to His way of managing our finances.

5. Rousas John Rushdoony, *Roots of Inflation* (Vallecito, CA: Ross House Books, 1982), p. 51.

Conclusion

In summary, debt, if not forthrightly prohibited, should be avoided by Christians. If the passage in Romans 13 is not thought to be an outright command to avoid debt, the remaining arguments are powerful enough to cause us to seriously rethink debt and its effects not only upon ourselves, but our neighbor as well. Debt is a form of slavery and should be avoided because Christians may not voluntarily enslave themselves to any person. They are the slaves (or bondservants) of Christ alone.

In addition, we need to think seriously about the future. The growing use of debt over the past three decades — where the 7-year mortgage has become the 25-year mortgage and in some places, such as Japan, it has become the 100-year mortgage — must be halted. The stage has been reached already where some will leave their children not an inheritance, but obligations, their economic debts. This is very clearly contrary to what the Bible teaches about wealth and inheritance (Prov. 13:22).

If this is the biblical pattern for financial management, then what are the alternatives to debt as a way of financing business and other activities? This question is the subject of the next chapter.

CHAPTER 8

Alternatives to Debt

NO ARGUMENT AGAINST DEBT CAN BE OF HELP to the reader unless there are valid alternatives to debt. "You can't beat something with nothing," is an old maxim. In this instance, there are some positive alternatives to going into debt.

In order to avoid debt, two things should be considered. *First,* there must be a restraint on our passions and our desire to accumulate wealth. "You ask and do not receive," says the apostle James, "because you ask amiss, that you may spend it on your pleasures" (James 4:3). We don't have enough money to buy the things we want primarily because we have not learnt how to manage wealth properly. We want things for our own pleasure and purpose, rather than the extension of His kingdom. We want things for our benefit, rather than the benefit of our neighbour. Consequently, God withholds it from us. Our motives for wanting increased wealth must be seriously considered, for if our motives are wrong we clearly do not deserve God's blessings in material wealth.

Second, the alternative to going into debt is to learn to live debt free. In order to achieve this, people must either increase their income or curb their appetites. Some want a home in the better part of town, when they only have the money to buy one in the lower part — or maybe they only have the cash for a tent.

I have mixed feelings about sales motivation and those who travel the globe telling people how to become wealthy. Many peddle dreams that will be unrealizable for most of their listeners. But there is one motivator who stands above many of his colleagues in this field. Zig Ziglar is not afraid to bring his Christian convictions into the sales meeting and corporate boardroom. In his book, *Secrets of Closing the Sale,* Mr. Ziglar makes this point: "You can get everything in life you want, if you will just help enough other people get what they want."[1] This idea needs to be treated with some caution, not because it's an incorrect statement but because it cannot be made an absolute. Any wealth obtained through honest means is ultimately

1. Zig Ziglar, *Secrets of Closing the Sale (* Old Tappan, NJ: Fleming H. Revell, 1984).

the blessing of God, and God's blessings are covenantally bestowed (see Deuteronomy chapter 28). God's covenant is a package deal. Since we live in an imperfect world this is not an infallible guarantee that we'll be wealthy simply because we apply the formula. On the other hand, it expresses an important reason why many people can't afford to pay cash for their possessions.

We don't have enough money because we haven't helped enough other people get what they want. Or maybe our assistance has been halfhearted, and we've been paid accordingly. But at least we know the alternative to debt: serving our neighbor, providing him with the goods and services he needs. When we do this to his satisfaction wealth will flow to us. It might not flow as fast as we would like and we may not get the quantity we think we deserve, but it will certainly come to us in varying degrees as God blesses our work.

There are alternatives to debt, but they come at a price. We need to learn how to be of service to others, to help them on their journey through life. This is not necessarily easy to do, but it is the way God wants us to obtain our wealth. For if we truly learn the secret of service we have learnt the art of stewardship. Then God can bless us according to His purposes for our lives.

It is worth noting that Ziglar's statement does not necessarily have to be read in terms of money only. There are many, many ways that we can help people, and helping people builds relationships and friendships that ultimately provide a rich reward in so many ways. Sometimes that reward is financial, but often it is not.

Creating Wealth

There are, then, four things that can be suggested as alternatives to debt. *First,* if we are going to live debt free we are going to have to put a rein on our appetites until we have learned how to *create* wealth. I know of no school that offers a course in wealth creation. Yet, if we are to grow and prosper, not only individually, but as a country blessed with abundant resources, we must all learn to become better wealth creators. We have little difficulty with being consumers of wealth; it seems to come naturally. Wealth creation, on the other hand, is something many of us find very difficult because we have never been taught the principles of wealth creation and how to use them.

In order to create wealth, however, we must first learn what it is. This is not too difficult, since wealth consists of the myriad of "things" that we have at our disposal. We find examples in the department stores throughout the country. We use items of wealth daily. Again, it is easy to confuse wealth with money, but this is a truncated view of wealth. Wealth consists of all those things that make life richer. Money is the means by which we most often purchase them, but money by itself is not the sum of wealth.

A person may have worked hard and saved $50,000. He needs a home for his family and he also needs continued employment. He could put the $50,000 as a down payment on a house. Alternatively, he could buy a business with the money and work to increase the business so that in the future he can buy his house without debt. A home, not being an income producing asset, is a consumption good. And while there is a place for consumption goods, the investor has the potential to solve both his home and his income problem and stay out of debt at the same time by creating wealth.

There are reasons why people don't buy into their own business. They don't know how to do it; they might be afraid; or perhaps they don't want the responsibility of building their own business enterprise. None of these reasons, however, is sustainable from the Scriptures. They can all be overcome with effort

To be wealth creators, we need to be imaginative and thoughtful in providing goods and services in the community. Our labor skills constitute a part of the idea of wealth, and the more we develop our skills the more skilful we become at creating wealth. Some people become inventors of new goods and services, while others develop innovative methods of bringing other peoples' inventions to the market, ensuring they are on display when we take our stroll through the stores. All these activities constitute wealth, and increased wealth, in the long run, makes all of us that much better off. (I explore the options for wealth creation in chapter nine.)

Equity Financing

Second, when entering into a business enterprise people often seek to borrow funds to help get started. So often the ability to bring an idea to market, to build a manufacturing plant, or to expand a business, requires huge amounts of capital. In the modern world, where prices are inflated because of debt, the need for extra capital is exacerbated. Thus business people, and others, often borrow as a means of obtaining the required capital.

But there is an alternative. It is equity financing. That is, instead of borrowing, the business takes in partners who will put up the cash as their contribution to the enterprise. Unfortunately, this is often unpalatable because some people wish to own and control the business on their own. They don't want to be accountable to their partners. Lenders do not usually make the tough demands that partners do. This, however, is insufficient cause to take on debt, especially in the light of the biblical teaching that debt should be avoided. It is because the heart of man is evil that God has given us a book of instructions, the Bible. And it is because of man's propensity to do evil that God has included some instructions on money, finance and the use of debt.

Saving

Third, debt is, in effect, spending. The opposite to spending is not to spend — at least until we've managed to save the entire amount needed to make a purchase debt free. Saving, however, means going without in the present so that future purchases can be made. In a world that encourages instant gratification, the idea of foregoing present consumption is not popular.

Yet saving is the simple alternative to debt. This statement could be put another way: waiting is the alternative to impatience. In effect, this means putting aside some money each pay day until there are sufficient funds to buy the required item. The concept of lay-by is a practical outworking of this principle, where the seller of the goods maintains physical possession of the goods until the final instalment is paid.

Saving, however, is the activity of a future-oriented society. People save because they are willing to forego present consumption in order to purchase at some time in the future. Many people, however, have little or no concept of the future beyond worrying about what they will do this evening, or how they will spend the coming weekend. This is a society that has lost its vision, and it has become a society marked by the activity of instant gratification. And a society so marked is one that is destined for poverty. Banfield, in distinguishing between lower-class and normal-class forms of the poverty of cities, together with the attendant problems of vice and crime, declared that these boiled down to a single problem: "the existence of an outlook and style of life which is radically present-oriented and which therefore attaches no value to work, sacrifice, self-improvment, or service to family, friends, or community."[2] He saw a clear connection between wealth and poverty on the one hand with the concept of present satisfaction on the other. A present-oriented society is one that is poor: it is a mark of the lower class. To be future-oriented, however, is a mark of the wealthier classes, and explains why some people have wealth and others don't.

In our age, the lines are not so clearly seen. Debt allows some people to prosper in the short term, but it cannot help everyone over the long term. The twentieth century has seen a massive transfer of wealth from the thrifty in society to the debtors. Thus, there is a place for debt in the relationship between long-term vision and poverty, and debt is on the side of poverty. It helps explain why debt has replaced capital accumulation (saving) as the means for economic advancement.[3] People have lost their vision for the future. So it's "eat, drink and be merry — and let's not worry about the debt for tomorrow we might die. Anyway, we can leave the debts to our children on the pretext that it is an inheritance."

2. Edward C. Banfield, *The Unheavenly City,* (Boston, MA: Little, Brown and Company, 1968), p. 211.
3. See Murray Rothbard, *Man, Economy and State* (Los Angeles, CA: Nash Publishing, 1970), pp. 463-501 for an explanation of the economic effects of saving and investment.

It is the combined effects of private ownership of property and the willingness of people to save for the future that has given the Western world its great economic advantage. These phenomena, as explained earlier, are religiously motivated ideals. This is why a return to the Bible in terms of wealth management will mean an abandonment of debt and a return to capital investment through saving as the primary means of financing economic growth at both the personal and national level.

Increase Income

Fourth, if we are going to buy with cash all the things that we'd like to own, it is evident most of us will have to increase our incomes substantially. For many, this is the great obstacle to living debt free. Many people are locked in to a mentality that hinders their personal economic advancement. Some people just "want a job." To them, this represents financial security. To just "want a job," however, is to limit our thinking about our callings under God and the responsibilities that God has placed upon us.

Now there is nothing wrong with having a job. For most people, this is how they earn an income. But too often having a job becomes an excuse for laziness. It can become the mark of the slave, who just "wants a job" — any job — in order to provide a means of putting food in his stomach and clothing on his body. Naturally, the slave would prefer to be free, but his personal habits force him into slavery rather than living as a free man. The free person takes responsibility for his own life. Yes, the free person may have a job, but to him it is not a job: it is a means of serving his fellow man. He does not feel bound to the job and is always knocking at the door of opportunity seeking advancement. To the free man, a job is not "just a job." It's a tool he uses to fulfil his calling and becomes a stepping stone as he gains economic advancement throughout life.

When a job is not just a job, a person will use all the tools available to him to achieve economic advancement. This will involve, among other things, education, one of the best investment options available. Retraining permits people to move into occupations that have higher remuneration. They can become better equipped in their current job so that they can legitimately seek a higher salary because of increased worth to their employer. Part-time or full-time self-operated businesses can be started, where the risk-reward ratio is increased so that success brings higher remuneration.

Conclusion

There are valid alternatives to debt, such as equity financing or learning to wait until the required capital is saved. The Bible not only prohibits debt but provides practical alternatives to it. These we should follow because they are the right way to manage our financial affairs. The Bible tells us so.

It is evident that the current economic system based on a high use of debt is failing. If we really believe Christianity is the answer to the world's problems, then it is time that Christians stepped forward with a specific plan from the Bible to rectify a known catastrophe. Someone has to bring forth change in society. If Christians, aided by the Holy Scriptures, are unwilling to find better alternatives to debt, then who will find an answer and bring a serious economic dilemma to an end? That is the challenge we all face at the close of the twentieth century.

CHAPTER 9

Faith and Insurance

INSURANCE CAN BE A PERPLEXING SUBJECT for many Christians. Should Christians insure? Is purchasing an insurance policy an indication of a lack of trust in God? Questions like these frequently result in an incorrect attitude towards insurance. Many Christians refuse to buy insurance because they think that to do so would display a lack of faith in God. After all, He has promised to supply *all* our needs.

Some won't purchase life insurance of any kind. Others refuse to insure the automobile, their home or its contents. One man I know not only refused to purchase insurance of any kind, he also declined to lock the door of his home and garage whenever he and his wife were absent. All this is done in the name of "faith," for one of the great promises of comfort to God's people is this: "And my God shall supply all your need according to His riches in glory by Christ Jesus" (Phil. 4:19).

Not only do we have this promise, but we also have the words of our Lord Jesus Christ Himself, who said: "Therefore do not worry about tomorrow, for tomorrow will worry about its own things. Sufficient for the day is its own trouble" (Mat. 6:34). We are not to worry, not to despair, about tomorrow. As creatures we are limited in all that we do and know. Although we *think* we know what will happen tomorrow, we cannot be absolutely certain about it. Just because we don't have fully accurate knowledge about tomorrow does not mean we should worry or become despondent and fearful about the future. God *is* our heavenly Father and He will not let His creatures go without food and drink. He tends the flowers and feeds the birds, neither of which find it necessary to put in 40-50 hours each week at the factory or office in order to obtain bodily sustenance. In the light of this, argues Jesus, God's people have no cause for concern.

The question is, however, does this mean we should not purchase insurance policies? Before I attempt to respond to this question, it is necessary to spend time considering what faith is. I want to show that the view that says we should not purchase insurance represents an incorrect view about the nature of biblical faith.

What is Faith?

This section may appear to be a digression from the topic of this chapter. But I hope you will persevere through this portion because it is the basis for my argument concerning insurance. By the end of the chapter, I hope you will understand the connection between faith and insurance.

The late Dr Francis Schaeffer, in his many books and writings, drew attention to the development of a false notion of spirituality that has developed in the Christian Church over the past two or three centuries or more. False ideas about spirituality, originating in philosophies developed by men who were hostile to Christianity, have resulted in a false view of faith and its true biblical perspective. This false notion of spirituality creates a world divided into two realms, the spiritual and the physical domains. Under this scheme, to become a Christian is to escape, as far as possible, from the physical arena into the spiritual realm. It is a dualistic notion about reality.[1] Its origin, however, is in ancient Greek thought, and its revival in the church is a revival of Greek thought insofar as Christians adopt it. This has been called neoplatonism.[2]

In its extreme outworking, this view results in attempts to escape from the real world of physical reality. This false duality manifests itself in the attitude many have towards prayer as a spiritual exercise. The life of prayer can become a higher way of Christian living than working at the office or on the job. It also shows itself in the attitude many have towards what is euphemistically called "the full-time ministry," in that being a pastor, a missionary or some kind of "full-time worker" for the Lord is a "more spiritual" calling than being a builder, a plumber, a handy-man, an office manager, a secretary, an accountant or a housewife. It is almost universally thought to be a far superior vocation to building a multi-million dollar business empire.

In the past, this dual conception of spirituality has led to comical situations where men and women have indulged in various forms of self-flagellation in order to live the "higher" life of asceticism. For example, for washing his hands and feet after a tiring journey in the heat, Jovinus was rebuked by Melania with these words:

> Melania approached him like a wise mother approaching her own son, and she scoffed at his weakness, saying: "How can a warm-blooded young man like you dare to pamper your flesh in that way? Do you not know that this is the source of much harm? Look, I am sixty years old and neither my feet nor my face nor any of my members, except for the tips of my fingers, has touched water, although I am afflicted with many ailments and my doctors urge me.

1. As Schaeffer rightly observes, true spirituality is not other worldly, but *inward.* It is the inward living of the absolute law of God that manifests itself in the outward world as conformity to the law of God. True spirituality is thus obedience to the whole of the Word of God. See Francis Schaeffer, *True Spirituality* (London: Hodder & Stoughton, 1972).
2. Rousas John Rushdoony, *Foundations of Social Order: Studies in the Creeds and the Councils* (Phillipsburg, PA: Presbyterian & Reformed Publishing Co., 1968), p. 148f.

I have not yet made concessions to my bodily desires, nor have I used a couch for resting, nor have I ever made a journey on a litter."[3]

Asceticism of this kind, together with its relative, Stoicism, has its roots in Greek philosophy. Hence, the return of these forms of false spirituality constitutes a rise of neoplatonism in Christian thought. These ideas incorrectly assume that sin is metaphysical; that is, that sin is not something people *do* but what they *are*. They presume that sin is the substance of which the world is made, rather than what the Bible says, that sin is *disobedience* to the law of God (I John 3:4).

It is somewhat obvious that there are two realms: the realm of created matter and the realm of the uncreated. If we think that which exists in the created realm can move into the uncreated, then we assume that what is created can take on the attributes of divinity. This, the Bible is adamant, is impossible. Man cannot move into the uncreated spiritual realm unless he loses his finiteness. To do this he would have to assume an attribute of God. Some people believe that in order to be spiritual we must move ourselves out of the created realm into the uncreated one, the spiritual realm. Since the Bible does not ask as to do the impossible, we should look for another explanation of what the Bible means by the idea of spirituality.

It is thus a more accurate reading of Scripture not to view spirituality in the sense of two realms, one of which we are to escape in favor of the other, but in the sense of two *origins*. God is Spirit, and He created the physical world for man to live in, to work in, to develop for His glory and for His purposes. Thus, when Jesus said, "My kingdom is not of this world" (John 18:36), He was not suggesting that there were two realms, His spiritual kingdom which He ruled over and the physical kingdom of this world over which He did not rule. Rather, he was suggesting that His kingdom does not *originate* in this world, but originates outside the physical universe. This is exactly what Genesis 1:1 teaches, that in the *beginning* God created all things out of nothing.

Creation does tell us of two realms: the spiritual realm of the eternal God, where He has reigned and ruled for all eternity, and the kingdom or universe that God has created. These, however, are contrasted against each other not in terms of substance, but in terms of origin: one finite, the other infinite; one temporal, the other eternal; one created, the other uncreated.

There is another passage of Scripture that supports this idea. In I Corinthians 15:47 we are told "The first man was of the earth, made of dust; the second Man is the Lord from heaven." Here we have the two *origins* of the world contrasted: one is of the earth, the other from heaven.

The great themes of Scripture are the fact of God's creation out of nothing, the creation of man in His image, man's ethical revolt against his

3. Robert T. Meyer, trans., *Palladius: The Lausiac History* (Westminster, MD.: The Newman Press, 1965), p. 136, quoted in Rousas John Rushdoony, *The Flight From Humanity* (Nutley, NJ.: The Craig Press, 1973), p. 2.

Creator, and God's plan to save man from damnation for participating in this revolution. Nowhere is it indicated or implied in Scripture that this physical world is the problem and that we are to escape from it to another, more spiritual, realm. Rather, the problem is ethical and moral, the failure of man to obey his Creator. The dilemma is that man makes his own rules, precepts that originate from the created realm, rather than following the laws that originate from the throne of God Almighty.

This being the case, we can more easily understand certain passages of Scripture. For example, Jesus taught us to pray "Thy kingdom come" (Mat. 6:10) in the Lord's prayer, a specific petition that God might manifest His kingdom on earth, as it is in heaven, by men obeying God's will. We establish God's kingdom on earth, as it is in heaven, insofar as we are obedient to Him in all that we do and say.

The "kingdom now" phrases of the gospels easily fall into place when we remember that God's kingdom is *over* the whole universe. He rules, the psalmist declares frequently, over all His creation (see, for example, Psalm 33). Indeed, God's kingdom is not of this world, for if it was of this world it would originate in created matter and be a world full of limitations. God's kingdom, while including this present world does not originate in the created order, but originates in uncreated eternity. It truly is a spiritual kingdom.

Seen in this light, faith is not the escape route to another world, but man's act of obedience to God. Faith is simply believing God, taking Him at His word.[4]

Practical Faith

Even in saying this much, there is still room to clarify and refine further our understanding of faith. Imagine a farmer who, instead of ploughing the field, planting the seed, nurturing it with water and helping it grow strong by removing the weeds, adopts the attitude that he will simply sit on the verandah reading the Bible with prayer and meditation, letting the soil look after itself or the seed plant and nurture itself and battle alone against the weeds and the elements. This, he assumes, is the life of faith, of letting God do what He has apparently promised. Would this man have exercised true faith?

The answer, naturally, is that this is faith only if God has explicitly told us that this is what He wants us to do. It is only true faith insofar as we can support the concept of abandoning physical labor in order to read the Bible. It is clear from Scripture, however, that man is to work. "If anyone will not work, neither shall he eat" (2 Thess. 3:10). In the account of the

4. To exercise true faith we need to know God's word as He has revealed it to us in the Scriptures. This often involves many years of study and thinking, a difficult but not impossible task. After all, wisdom is available to all God's people for the asking. "If any of you lacks wisdom, let him ask of God, who gives to all liberally and without reproach, and it will be given to him" (James 1:5).

Fall we also find that mankind is to work harder now as a result of sin, and the soil will no longer give up its produce without sweat and labor.

As we read the Bible we see, for example, that David did not sit waiting for God to defeat the Philistines. He stepped forward in faith, confident that God would give him victory over the enemies of God. As he took that step of faith, he selected five smooth stones as he went into battle against Goliath. He also rejected the traditional warrior's weapons because he had not tested them. David used the intelligence God had given him to make certain decisions, *rational* decisions. He established a goal: defeat the giant. David decided which strategy would suit the occasion — smooth stones rather than rough ones — put his plan into action and depended upon God for the outcome.

Similarly, the apostle Paul did not sit in prayer waiting upon God to mysteriously convert the Gentiles. He went from place to place, preaching and teaching. He knew that if he did not go, people would not hear and the spread of the gospel would be hindered. So, he not only prayed but stepped forth in total dependence upon God. This is biblical faith in action.

Faith, then, is not the escape route from this world and the responsibilities that time and circumstance (providence) place upon us. Rather, *faith is steadfast trust in, obedience to, and reliance upon every word that God has spoken to us.*

Now that we know what faith is, we are in a better position to answer the question as to whether Christians should purchase insurance.

What is Insurance?

The superficial answer to this question is that insurance is a policy of some kind which people buy. It might be to insure life or property. Yet this is an inadequate understanding of insurance. There is a much better definition.

Insurance is a method whereby a group of people join together to share the risks that are involved in a particular activity. It is the concept of risk that is crucial to an understanding of the true nature of insurance. Insurance had its origins several centuries ago when businessmen got together to share the risks of potential loss from shipping goods abroad. They shared the losses of any ship that failed to reach its destination and promised to share the profits if the voyage was successful.

If we can accept the nature of risk as being the necessary ingredient to understanding insurance, then we make a rather remarkable discovery: risk is inescapable. It is absolutely impossible to avoid this concept or its consequences. Although God has promised to take care of all our needs, He has not promised a trouble-free life. We still make bad decisions due to a lack of knowledge or due to poor judgment. There are criminals in existence who also add an element of risk to our lives. Nor are we exempt from illnesses and diseases. Many of these things may be reduced and minimized by Christian faith, but they will not be eliminated until the Lord

Jesus returns in glory and splendor sometime in the future. Meanwhile, the only choice available to us is how we manage risk and where we locate its consequences.

Consider life insurance, for example, for a married man with children. If he should die, who will bear the financial consequences of his death? Without an insurance policy it is clear that his wife and children will bear the risk. Perhaps other members of his family will also bear the cost of his early departure from this life. If he's a member of a church, other members may also need to bear the costs of physical support for his wife and children.

An insurance company is an organization where people have voluntarily agreed that they will share the consequences of a certain event. This might be theft or accident in the case of automobile insurance, or death in the case of life insurance. Using statistical information (including mortality tables, length of time people pay premiums, the number of people making claims, and the number of people paying premiums), a life insurance premium is calculated based on the age of the client and number of years he is expected to live. An additional consideration is the amount of funds coming in compared with the amount of money being paid out. It is based on the formula of a large number of people paying contributions, but only a small percentage at any one time collecting benefits.

Seen in this light, we must therefore first address the question of where we wish to locate the risk. Once we've answered that, we can then decide if we want to buy insurance.

Very few people, in fact probably only the very wealthy, can afford to bear the financial risks of life totally by themselves. Whether it is life insurance, car insurance or home and contents insurance, only the very rich can afford to bear totally the consequences of loss. For the remainder of the population the consequences will be borne not by family but by non-family members, either through the church's diaconate fund, through government social welfare schemes, or by private charity.

Health insurance is a good example of this, although not so obvious while the federal government continues to provide compulsory insurance through Medicare and, in America, Medicaid. There are not too many people who can afford the high costs associated with modern medicine. To overcome these costs, the principle of shared risk is put into practice through health insurance companies. Curiously, many who won't buy life insurance are more than happy to buy medical insurance. I don't think there are many Christians who are so against the idea of insurance that they refuse to participate in the Medicare program, in spite of its compulsory status.

The free association of people through a mutual society for purposes of insurance is the means for voluntary acceptance of the financial consequences of loss for other people. The association is one where all paying members have freely agreed to bear the financial burden for all other members on condition that all must contribute the annual premium.

Medicine as Insurance

We can sharpen our understanding of the insurance issue if we see that medicines of various kinds are a form of insurance. Those who refuse to purchase insurance of various kinds don't seem to have difficulty in ensuring the medicine cabinet contains aspirin, bandages and antiseptics. They also ensure that they and their children are inoculated against certain diseases. Some will not take medicines of any kind. The number of people who go to this extreme, however, are few.

Some people argue that insurance is an attempt to relieve the circumstances of life that God has for us as individuals. They mistakenly believe that we are not to respond rationally to the circumstances God has ordained for us. If, for example, God chooses to chastise us through the loss of property of some kind, they believe that we should not ameliorate the circumstances by purchasing insurance.[5]

The government-supplied age pension is yet another example of overcoming the circumstances of life by rational action. How many people, though, are willing to refuse to take it on the grounds that they'd rather live "by faith?"

The understanding of the purpose of insurance as an aid to help through certain circumstances in life is a correct one. Insurance is an attempt to ameliorate the human condition — just as medicines of various kinds are also designed to alleviate the providential occurrences of illness. So, too, is the diaconate fund of the church, or the social welfare programs of the federal and state governments, a means whereby the circumstances of life can be alleviated by providing material help to those who need it.

The circumstances of life are inescapable. The only question available to us is where we wish to locate the risk and how we wish to ameliorate difficulties that occur. If a man refuses to buy life insurance on himself, he has nominated his wife, children, family, church members, or tax payers to bail out the family should he die early (assuming he's not rich enough to bear the cost from his estate).

Should a man refuse to buy life insurance, it seems fair that he should do so only after consulting his wife and children and perhaps other family members, to make sure they are able and willing to bear the cost. If he's a member of a church he should discuss this matter with the deacons and elders to make sure the church is willing to bear the financial burden. If he expects his wife to live off government welfare, he should consult with all other taxpayers (i.e. his neighbors) to ascertain if they are willing to bear the risk. If anyone refuses to contribute to his welfare at this point, the man has a moral problem to overcome: should he force others to bear the risk when they do not wish to take on the burden and, perhaps, cannot afford the liability.

5. I am not necessarily implying that all loss of property is a direct chastisement from God.

Only an insurance policy that people can purchase voluntarily overcomes the coercive alternative. Through the insurance company all those who voluntarily pay the premiums are declaring: "Yes, I'm willing to finance the burden of your loss." The alternative to voluntary sharing is coerced sharing, and coerced sharing of wealth in the Bible is called theft.

This seems to leave the Christian who wishes to obey God very little choice on the matter of purchasing insurance. The purchase of insurance, especially life insurance, is only an option for those who have sufficient wealth to bear the cost themselves. For most of us, insurance is a necessity and a very practical means of displaying our faith in action. It demonstrates that we take our responsibilities seriously, that we do not wish to be a burden on others.

What Kind of Insurance Should I Buy?

I have attempted thus far to establish the fact that buying an insurance policy is not contrary to true biblical faith but is, instead, a very practical means of expressing Christian faith. Since this is a book on practical wealth management, we need to establish some general considerations about the purchase of insurance.

There are several kinds of insurance to purchase. Most are based on the premise that if you contribute annual premiums to the pool of money, you will be paid an agreed sum should certain circumstances occur. This is the basis for all general insurance and for what is called term life cover. I'll have more to say about life insurance shortly.

General Insurance

The main requirement here is a practical one. A good insurance broker is almost essential. Insurance contracts can be lengthy and the fine print tedious. Unless careful, it's possible to end up with a policy that does not provide the protection that is really needed. Some people like to spend a few hours each year ringing around the companies to get a cheaper premium. But if you spend four hours and only save $20 in the process, your hourly rate is $5. You need to have some idea of the value of your own time and labor. If you can work and earn $10 an hour, then to spend four hours to save $20 is an unproductive use of your time. A competent insurance broker, however, should have this information at his fingertips, since he claims to be a specialist in the area.

Unfortunately, insurance brokers who are paid commissions by the insurance companies can be tempted by the size of the commission they receive rather than providing the policy that is best for clients. Buyers should insist that their insurance broker provides them with competitive quotes. Commissions to brokers can be paid not only as a percentage of the premium, the usual method, but can also constitute bonus payments for volume business. Thus, the broker can have a real financial interest in a particular product. Generally, the commission paid to the sales people is

reflected in the charges that are part of any insurance contract. Ultimately, these charges reflect in the annual premium. Competitive quotes will often help detect if an insurance sales person is providing the product that not only provides the protection needed but at a fair market price. Again, follow the biblical advice and get multiple counselors. Obtain guidance from more than one broker, unless you know one who is absolutely reliable and trustworthy.

Life Insurance

The past two decades have seen a major revolution in the life insurance industry. To understand that revolution we need to know the components of an insurance policy.

At one time insurance companies sold whole of life contracts that were made up of two parts. One part was the insurance side of the contract. When you purchased the contract, you were immediately insured for a face value of say $25,000. After a few years, however, the amount to be paid out on death would begin to grow above the $25,000 initial value. This is because there was an investment component in the contract. Over the years, part of the accumulated premiums were invested on your behalf, so that the amount the insured's estate received would grow over time. The thing to remember here is the two components of the contract: insurance and investment.

A variation on the whole of life policy is the endowment policy, where the insured sum is paid out at an agreed date, usually a birthday of the person insured. Whereas in whole of life contracts the beneficiary receives the sum insured, in an endowment policy the insured person could actually receive a lump sum of money at the agreed time. Of course, if he died earlier than expected, the beneficiary receives the value of the policy.

There is, however, a third and most critical ingredient: the size of the commission paid to the salesman. It is not uncommon for up to two year's premiums to be paid to the salesperson as a commission. This means that your investment fund will not get off the ground until all the establishment charges (which include the commission) are paid out of your contributions.

In the 1970s, however, people began to wake up to the fact that if the insurance and investment components were separated into individual contracts it was possible to get better returns for the amount of money paid out. Enter the term life contract, which works the same as any general insurance policy. You pay a premium to provide a fixed amount of payment on death. There is no investment component in this contract.

Unlike the whole of life policy which has a fixed premium, term cover has premiums based on age and the amount of insurance purchased. Term life premiums are expressed as an amount per thousand dollars sum insured and this value varies with the age of the person insured. For example, if the premium is $1.50 per thousand for a 35-year-old male, then it will cost approximately $150 to purchase $100,000 of cover. At age 45, however,

the same person might pay $2.80 per thousand, or $280 for the same amount of protection.

Generally, term life cover is better than a whole of life policy (although there can be a case for whole of life contracts that I describe below). The primary reason is that by separating the components of insurance and investment, it is possible to use premiums advantageously by purchasing the cheapest life cover while maximizing returns on investment.

Here's a real life example to illustrate the advantages of the two types of life policy. Ralph (not his real name) was a 25-year old who had purchased a $25,000 whole of life policy. Eventually, his initial sum would increase due to the investment component. I recommended that Ralph cancel his whole of life policy and purchase term cover, and invest the balance of his premiums in something like insurance bonds.

Before we could undertake a proper evaluation, however, it was necessary to find out what his whole of life policy would be worth if it was converted to an endowment policy so that at age 65 he received a lump sum payout. According to his insurance company, based on conservative investment rates at the time, Ralph could expect to collect around $175,000. To get this, he would have to pay annual premiums of $470 for the next 40 years, or a total of $18,800.

As already mentioned, I suggested he purchase a term life contract as an alternative to his whole of life contract. The minimum premium at the time was $135 p.a. and would provide immediate cover of about $83,000. The difference in premiums between his whole of life contract and the term life policy, amounting to $340 p.a., could be invested for the next 10 years, then the balance left to accumulate to age 65. At the same rates used by the company that issued the whole of life contract, this would have resulted in Ralph accumulating over $400,000 by the time he was 65.

My proposal was that he pay the term life cover for ten years then reassess his need for insurance. As for the investment policy, at the end of ten years Ralph would cease to put any more funds into this account. In other words, for the next ten years, he would spend around $5,000 to get an immediate cover over three times higher than his present policy. At retirement his investments would be worth more than double the amount he was offered under his initial endowment policy. In real life he would want to continue the insurance longer than ten years until his assets had built up to a point where he could perhaps drop the insurance cover. That decision, obviously, should not be made until the ten years have expired and his prevailing circumstances re-evaluated to determine the best course of action. Also, it is probably true that at the end of ten years, he would continue to put money into his savings fund. But it was clearly evident that he would be substantially better off by canceling his whole of life contract and buying the term life policy and commencing a regular savings program.

It is true that Ralph's term life premiums would increase to maintain the same cover as he gets older, especially after age 45. But it is also true that his whole life contract would need to be increased over time in order

to provide him with adequate cover. The idea behind this strategy was to build sufficient assets so that the need for term life cover, if not totally eliminated, would be reduced.

It needs to be stressed that not everyone can obtain the same result by transferring from one kind of policy to another. Ralph had age on his side. A 45-year-old pays higher term rates and therefore would not have the same amount to invest after paying the insurance premiums. Also, being closer to retirement, he has fewer years to increase his retirement funds through compound interest. There are many factors that need to be considered in any insurance and investment decisions before committing to a particular course of action.

Wealth Transfer

The example above illustrates the value that can be obtained when the insurance and investment components of an insurance contract are separated. However, the advantages that can be obtained do not imply that there is no place for a whole of life contract.

There is another purpose for which insurance can be used. If someone wanted to make certain that his children or grandchildren received a financial benefit when he died, a whole of life insurance policy with the children or grandchildren as beneficiaries is one way to do it. Since many term life contracts expire when a certain age is reached, say 70 years of age, a whole-of-life contract may be the better choice.

The secret here is to know what it is that you want to achieve. A term life contract immediately insures your life against death, and it does so at far better rates than a whole of life policy. On the other hand, the whole of life contract, since it never expires because of the insured's age, is the vehicle whereby a sum of money can be left to a wife, children, grandchildren or a favorite charity.

If a person has not saved an inheritance for his children, he can ensure they get something through a whole of life contract. It cannot be canceled, even for non-payment of premiums. It may be worth very little, say, if premiums are paid out of accumulated funds. But while the premiums are current or there is a sufficient amount in the fund for it to be self-funding (i.e. the premiums come out of accumulated savings in the policy), the beneficiary will certainly be paid upon the death of the insured. Recognizing that there is a place for whole of life contracts, it warrants re-stating that term cover will be a better alternative for many people, with added investments to accumulate capital.

Who Should Buy?

Every family needs the protection of some kind of general insurance. House and contents insurance, car insurance and health insurance are just three examples.

When it comes to life cover, however, every breadwinner in the family should be insured as a matter of course. The financial difficulties faced by a family that loses the breadwinner can be dramatic, and it does not cost a fortune to ensure loved ones are protected.

It is an unfortunate fact that many men do not like to buy insurance on their own lives. Too many people postpone the purchase because they do not think their life may end at any moment (just as many people fail to make a will before they die). Death is something many like to ignore. Therefore, as a matter of practical advice, every wife should buy a term life contract on her husband. Since a wife is the one to bear the burden should her husband die prematurely, she has every reason to make sure that her own future, and that of the children, is made financially secure.

Life can also be difficult, however, for the breadwinner if he loses his spouse. There are quite substantial expenses incurred by a family if the wife and mother should die. Therefore, some cover on a wife is appropriate. The amount may not need to be as much as for the breadwinner, but insurance on the life of a wife and mother is not to be ignored.

How Much Insurance?

The answer to this question is relatively simple to explain in general terms, but not so easy to calculate in practical terms. As a general rule, you want the insurance contract to cover you for every part of the risk that you are unable or unwilling to finance yourself. Therefore, with car insurance you cover yourself for the total cost of a replacement vehicle. The same with home and contents insurance.

The same is true for life insurance. Since the idea is protection of the family, then you need to calculate what you're trying to cover. In most instances life cover is to protect a man's wife and family and continue his income (or at least enough to provide for the remaining members of the family). Since raising a young family single handedly while holding down a job is very difficult, the plan should be to insure for enough funds for the wife to invest so that she does not have to work. How much should that be?

To make this calculation, you need three pieces of information. First, you need to work out how much income is needed each year. Second, you need to have a very good idea what average yield can be expected from invested funds. Third, you need to know the anticipated inflation rate over the next few years. While it is not possible to be totally accurate on the second and third items, you must use them intelligently to make the calculation.

Let's take an example and assume that we can earn, on average, a nine percent per annum yield on invested funds, and inflation is expected to run at five percent. This amounts to four percent net yield, per annum. Let's say you're trying to produce an income, including all expenses and taxes,

amounting to $30,000 this year. How much money do you need? You need enough money so that when it's invested at the 4% net yield figure, the return equals the amount of income you need. In this instance, you will need $750,000 ($30,000 x 100/4) of insurance cover.

$$\frac{\$30{,}000 \times 100}{4} = \$750{,}000$$

Fig. 1. The amount of insurance to provide $30,000 p.a. income.

Staggering, isn't it? Frightening, too, since $30,000 would be a modest income in today's economic climate. If you were to purchase less than $750,000 of life cover today, you would be under-insured. That means many people reading this book don't have adequate insurance for their family to maintain their present lifestyle. People don't usually buy half a million dollar insurance contracts. At $1.50 per thousand, that's $1,125.00 per annum, and for someone older, say 45-years of age, at $3.00 per thousand, it amounts to an annual premium of approximately $2,250. Smokers could pay even more.

Furthermore, since protection against inflation is essential, ensure the policy is indexed each year by the inflation rate, otherwise you'll find that you're increasingly lagging behind in adequate cover. The $750,000 cover must increase to $787,500 in the second year, and so too the premium will increase accordingly.

You can use the same formula to calculate how much to insure a wife. If you only wanted $20,000 per annum to cover incidental expenses of a housekeeper should the loss of a wife and mother occur, the sum insured would be $20,000 x 100/4, a total of $500,000.

$$\frac{\$20{,}000 \times 100}{4} = \$500{,}000$$

Fig. 2. The amount of insurance to provide $20,000 p.a. income.

Conclusion

In this chapter we've seen that many Christians have a false notion about what insurance really is. This often leads them to avoid some kinds of insurance while readily accepting other types. Health insurance is purchased by almost everyone, while life insurance is not.

Since the concept of risk is inextricably linked to the question of insurance, it is important that each person consider what risks in life he can afford to bear himself or pass on to his family, relatives or friends. If his family is unable to cope financially with disaster in certain areas, then insurance of some kind should be purchased. This is a principle that can be applied to life, health and general insurance. If a person cannot afford to replace his home and contents in the event of accidental loss, he should buy a home and contents insurance policy. If he can't afford the high costs of certain medical procedures, he should buy medical insurance. And if

there are insufficient funds in the event of a death in the family, then life insurance should be purchased on the lives of both husband and wife.

Some insurance policies offer the chance of wealth transfer to the next generation, so these should be considered and their benefits used if appropriate.

On the basis of the biblical evidence it is not possible to agree with the view that Christians should not buy insurance. This is a mistaken notion based on an incorrect view of God and what it means to have faith in Him. Therefore, Christians should have no hesitation in buying insurance, and making sure they buy the policies that will assist them best to achieve the utmost security and peace of mind for themselves and their family.

CHAPTER 10

The Creation of Wealth

THROUGHOUT THIS BOOK IT HAS BEEN SUGGESTED that wealth creation is the key ingredient that has set the Western world apart. The influence of Christianity cannot be ignored or denied; as a matter of fact, there is a cause and effect relationship between the religious views of a society and its wealth.

It is necessary, therefore, to take up the challenge that is confronting Western civilization. Since the West has rejected its religious foundations, it is in disarray. The result is a mountain of debt that will never be repaid, high unemployment, and no apparent solutions to these problems. Since they are *moral* problems which can only be resolved with the right *ethical* answers, Christians will have a unique part to play in the future reconstruction of the West.

In this chapter I'll present various strategies that people can take right now to increase wealth. These investment strategies are tried, tested and proven. They work.

Like anything in life that is productive, however, each requires a certain amount of self-discipline to ensure that the intended results actually occur. Investing is like playing the piano: it takes many years to master the keyboard, then another few months to overcome the difficulties in a Brahms' Concerto. At the end of that effort is some of the most superb music ever written, hopefully played in a manner that is pleasing to the ear. A successful investor has many things to learn before he will be proficient.

Employment or Calling

The place to start a wealth creation program is in employment. Many people reading this book will have a job, unless they've unfortunately been put off, or cannot obtain work in the present economic climate. Unemployment for many means hardship, frustration, and a difficulty in coming to grips with being made redundant. This is understandable. To be fired from a job can lead to feelings of rejection in the person being retrenched. His psychological outlook can be affected detrimentally if he's not careful. This is where Christians often win out. They know that God controls whatsoever

comes to pass, and while life may be difficult, they have this wonderful comfort of being cared for by the Creator of the universe.

Work and Ethics

One does not have to be in the business community for long to realize what is a major problem for post-Christian society: it does not know what to do. This is an ethical problem. The denial of Christianity creates a moral vacuum that cannot be filled. Although subjective ethics attempts to replace Christian moral standards, the results are disastrous. Once the concept of a Higher Authority is denied, each person acts as his own moral standard. Thus, non-Christian society becomes a society where the gods are at war with one another, each attempting to make *his* moral standard the one for society to obey.

The importance of an ethical standard cannot be stressed too much. Imagine what life would be like without one. Anarchy would rule. But even having a moral yardstick is not good enough unless it is the *right* standard. The importance of the correct moral code is necessary because God, the Creator of the world, has made this world to operate in a particular way, according to His laws. Hence, men may no more transgress the moral laws of the universe, the Ten Commandments, than they can the so-called laws of science, such as the law of gravity. To jump off a 10-storey building hoping that God's laws of gravity will be suspended is just as futile as expecting His laws condemning theft and requiring restitution to be suspended while we help ourselves to our neighbor's goods.

Thus, the Christian today has a unique opportunity in the market place. He brings to the business world a set of moral principles that are the right ones. He bases this not on his own conviction but on the opinion of Almighty God. The Christian knows in principle, therefore, how to act in given situations. He may not know in detail how to act in every situation, but because he has the basic principles, the Ten Commandments, at his fingertips, eventually he is able to make decisions that are right.

Image Versus Ethics

The world without standards has no choice but to replace ethical standards with image. When firm principles are not to be found, then image becomes an important criterion. When men don't know how to act the right way, they become concerned in presenting an image, *as if* they were acting in a correct manner.

If men are concerned with image rather than substance, the result is the internal politics to be found in so many businesses. In the long run, however, this leads to shoddy goods and services, frustrated customers, and a decline in the firm's viability. Sometimes this might take many years, but it is certain to occur eventually. When image replaces ethics, the wrong moral choices are made. Or, as sometimes happens, the right moral choice is made but it lacks the internal motivation within the individual to see the right choice through to the end. There are examples of this. Modern sales

and marketing materials stress the importance a firm should place on the individual customer. They might even suggest a post-sale phone call to the client to reassure him of the firm's commitment to him and that he made the right choice in his buying decision. But if this call is made because the sales manual says to, rather than because the salespeople have a genuine concern for their client (i.e. if they are doing it for money rather than because it is the right thing to do to help the customer), then they have the wrong motivation for the right action. This won't last, and it does reek of falseness to the discerning customer. We are speaking here of the internal motivation people have to do the right thing. The Bible is adamant that people apart from God find it difficult, if not impossible, to do the right thing. Their sinful "old man" gets in the way to a greater or lesser degree.

This is why the Christian has a unique opportunity in the market place. Because he is able to deal with people on the right moral plane it is possible to reap a benefit in terms of financial reward. For example, if politics governs the office, the senior management of the company will find it difficult to get the proper information needed to run the business. Staff beneath them will deliver false information, probably because they are afraid that the boss will react unfairly. The tragedy is, many bosses *do* react unfairly — often just to protect their own position. This misinformation leads to wrong business decisions. The Christian, because he believes in honesty, will report accurately to the senior management. He won't (or shouldn't) hide things from the boss; rather he will bring them out in discussions where sometimes difficult issues can be dealt with openly and forthrightly.

Now I want to be very careful here. I'm not saying we should do these things to make money. We should do these things because *they are the right thing to do.* But just as an ordinary customer would rather pay a higher price and buy from someone he can trust, so an employer will reward the staff he can trust. Even the non-Christian often appreciates honesty and integrity when he sees it in others, even if he may not have a solid foundation for these characteristics in his own life. Consequently, just as Joseph prospered under Pharaoh, or Daniel and his friends prospered during the reign of Nebuchadnezzar, Christians today can prosper in a world that is hostile to the Christian faith. Even today, it could be said of the Christians, "in all matters of wisdom and understanding about which the king examined them, he found them ten times better than all the magicians and astrologers who were in all his realm" (Dan. 1:20).

The Christian also has a unique opportunity in his job in the manner in which he manages those staff under his jurisdiction. Workers' relationship with management is often not cordial. The fault can be in one or both groups. But the Christian can bring an attitude of conciliation, care and concern for those he manages which is conducive to harmony and therefore increased productivity in the work place.

Our purpose here, however, is to look at employment as a wealth creation process. That process occurs when we supply goods and services to customers. They pay for those goods and services and employees get

paid. So for many, the way to gain personal wealth is to create it for others first. But how does this help the individual? And in what proportion should he be remunerated?

Effort and Reward

Entrepreneurship is often associated with self-employment. Self-employment is frequently thought of as being your own boss, working for yourself in your own business. This, however, is not the total sum of what it means to be self-employed. Under present work conditions in much of the Western world, workers are self-employed in the sense that they contract their labor and skills out to an employer, promising to fulfil certain tasks in return for an agreed rate of remuneration. While we don't popularly use the word "contract" in most employment situations, this is the correct word to describe what goes on. Employees agree to work for a specific number of hours each day and a certain number of days each year. They also agree to give maybe two or four weeks notice if they intend to leave, and they ask the same courtesy from their employer should he wish to terminate their services.

It is the freedom to contract out one's skills that is the essence of self-employment. Whether that is through a self-owned proprietary company is not so important. The freedom to choose where we will work and the ability to negotiate conditions of employment is the essence of self-employment. Sometimes, due to the circumstances of life, we don't have as much freedom as we would like. We may not be rich enough to move to another town and are forced to take the only available job where we live. This, however, does not prevent us from starting our own business rather than working for a particular boss whom we'd rather avoid.

What we should favor is any opportunity where effort and reward are directly related. The closer the relationship between reward and effort, the more accurately we'll be paid. In many instances this will mean better pay. Let's explore this in a little more detail.

No business survives unless it produces profits[1] and profits are produced by providing customers or clients with goods or services. Now the sole trader who makes the sale to the customer knows exactly how much of his time goes towards making the sale, doing his homework on the products or services he sells and providing his own administrative support. Since he does all these things himself, he rightly keeps all the profits from the sale.

Once the sole trader becomes overworked and cannot keep up with the demands the business makes upon him, he needs to hire staff. Maybe he could hire an administrative assistant to help. Now he has a problem to solve: what proportion of the money from each sale will be given to the

1. To remind the reader of what has been said in chapter 3, profits are an accounting illusion. Profits are the future costs of staying in business. cf. Drucker, *Managing in Turbulent Times*, p. 29.

administrator? Alternatively, he could hire a salesperson and keep the administrative load for himself. In this case, how much of the profits from sales should be shared with the salesperson?

If the business grows and an office junior is employed for those odd jobs, how much of the sales revenue will be paid to this person? I think you begin to see the problem. The larger the organization and the more remote each person is from the sales process, the harder it becomes to ascertain what percentage of sales should be paid to those who help in the sales process.

Unfortunately, trade unions and award wages have made much of this an irrelevant discussion. Workers are paid a fixed wage, irrespective of their contribution to each sale. An employer only has to make sure that the wages can be covered by incoming revenue. The present wages structure, perhaps more than anything, has made it more difficult to get a better understanding of a person's value to his or her employer.

Workers whose income is directly linked to their contribution to revenue are the workers who are usually, but not always, paid the highest wages. I am generalizing at this point. There are no doubt examples where this is not true. But if the *general principle* is valid, it shows that if workers wish to better themselves they can do so by getting a job where their income is directly linked to the revenue process. The idea is to have income linked to both revenue and profitability. This can be done in various ways, such as being paid commission, receiving a portion of profits as part of a salary, or being a shareholder of the company and receiving profits as dividends.

Opportunities in the Business Revolution

There is a major revolution under way in the business world. Management practices were often modeled along military lines: do as the commander says. The economic climate, together with the advent of the personal computer, has changed that. The computer has removed layers of middle-management. This trend was identified by John Naisbitt and Patricia Aburdene in 1985 in their provocative book, *Re-Inventing the Corporation: Transforming Your Job and Your Company for the New Information Society.* They made this observation: "We are witnessing the beginnings of a tremendous whittling away of *middle management,* a flattening out of those hierarchies that were the norm. . . . Worldwide, middle management has shrunk more than 15 per cent since 1979. And there is much more to come."[2]

Since the stock market crash of 1987 companies in Australia and elsewhere have been shedding staff at accelerating rates. This has been their step to survival: lean and mean. But for many this "lean and mean" attitude has created new work opportunities. In 1992, for example, massive layoffs

2. John Naisbitt and Patricia Aburdene, *Re-Inventing the Corporation: Transforming Your Job and Your Company for the New Information Society* (London: Futura Publication, 1985), p. 12, emphasis in original.

were reported in US businesses. Where did the workers go? What did the businesses do with the vacant positions? In many instances they rehired the staff on a contract or part-time basis.

As the business environment has become more difficult, senior management in many companies has had to take a very serious look at every possible cost cutting exercise. In this environment, every aspect of the business has come under scrutiny to determine cost reduction measures. The employee has not been exempt from this investigation.

Under intense examination management has found it difficult to justify the employee's salary. In many organizations it is difficult, if not impossible, to assess the true value of a worker to the firm. As they have attempted to determine costs and consider cheaper alternatives, the question of outsourcing work to independent contractors has become a factor. Since it is difficult for a company to assess the real value of its employees, it never knows whether it is getting value for money. Nor does the employee know if he is being paid his true market value. By forcing staff to compete as contractors against all other suppliers in the marketplace, the business firm is better able to gauge the value of the people it hires. And the workers gain by being able, *first,* to assess the value of their contribution by comparing with their competitors, and second, by being able to take on additional contracts.

In America, companies such as the Thompson Publishing Group restructured so that in-house staff would have to compete with outsiders. The new profit-driven centers would also be expected to win outside contracts.[3] This is not just occurring in America. Recently, the giant Australian insurance company AMP handed over its computer operations to an independent contracting company. Many of the computer staff in AMP now work in the contracting company. Since the outside supplier must compete against all potential suppliers, AMP will be able to assess far better the value of the computer staff who are no longer on its payroll.

Thus, unemployment is not necessarily bad in the long run, although it can be difficult for those out of work in the short term. Provided business entrepreneurs are not hindered from starting new businesses, they will soon begin to absorb the unemployed into new ventures.

Armed with the knowledge above, someone out of a job could bid for work at his previous place of employment, offering to supply services at competitive market rates. In doing this, he will need to be able to convince the potential buyer that he can deliver the required service at competitive rates. By doing this in such a way as to add value to the service, he can usually reduce the overall cost to the client.

In essence, the worker is starting his own business. He's become self-employed. No longer does he depend on a fixed salary, but lives on his abilities to supply a satisfactory product in the marketplace. He will be

3. See Tom Peters, *Liberation Management: Necessary Disorganization for the Nanosecond Nineties* (London: Macmillan, 1992), p. 337ff.

rewarded accordingly. And in most instances, provided he learns the necessary skills, he will do better in his own company than he would on a wage or salary.

But why wait until one becomes unemployed? No business owner likes to shed productive and profitable staff. Since the pressures are on all businesses, the opportunities are available for many workers to begin the process. Get in first. Make an offer to the present employer. Find a way to reduce his costs by delivering a better quality product.

The removal of layer upon layer of middle management has not abated, it has accelerated. Opportunities abound for those who seek them. For example, go into business for yourself with your present employer. Maybe you can structure a deal whereby you become a joint partner in a particular venture with your present employer. Businessmen are always looking for sound investment opportunities, and if you have an idea, or can manage a new operation, there can be a chance of going into partnership with your present employer. This can be a powerful method of increasing your wealth if your efforts prove successful.

There's a relatively simple way to tell how to improve one's income by going into business. Most firms exist to supply a particular product or service in the marketplace. But many businesses employ ancillary staff whose skills are not related to the product or service that the company supplies. For example, a financial services company offers financial advice. The company will employ secretarial staff to help in the production of sales documents. It is unlikely that the sales secretarial staff will rise to high positions in the company. But if those secretarial staff could start a business that provides secretarial services, they have the opportunity to rise to the top in that company. This rise can be in terms of seniority in addition to income level. They might even be able to contract back their services to the financial services company that employed them on salary.

Confidence in our Calling

People often associate the idea of self-employment with greater insecurity. They think that a guaranteed income offers more security than receiving a percentage of sales. What they forget, however, is that all income is ultimately dependent upon sales revenue. In terms of job security, a person who is willing to live directly off sales revenue for each pay check is more likely to have greater job security than a person on a fixed wage.

The only way a business can protect itself from market fluctuations in revenue when it pays a fixed wage is to make sure that the wage is as low as possible. It is a kind of "worst times" calculation. When employees are on a percentage of sales, their income flows with the business. When times are good, they get well paid; when times are tough, their income falls accordingly.

This is not a new concept. Farmers have been living like this for hundreds of years. All business owners find they must live according to market

fluctuations. It is only the employee who mistakenly thinks he is better off when he gets a fixed wage each week. In reality, when times are tough for the business it is often the fixed wage earner who is the first to be fired. Thus, the worker who receives a percentage of the business revenue as it comes into the company is usually remunerated at a better rate than fixed wage employees. This is not always the case, since people make incorrect judgments about many things in life. None of us is perfect, but within the scope of human understanding, it should be better for the percentage-taker to do better over the long haul than his fixed wage counterpart. Because the percentage worker is prepared to risk his income with the success of the business (a lot of which might be tied to his own revenue-creating skills) his income is generally higher than if he took a fixed wage.

The risk element in the process has two aspects. *First,* risk is the very thing that permits workers to get the higher wages. The more risks they are prepared to accept, the higher will be their reward, other things being equal (which they may not be, but we make the qualifying statement to help our understanding). *Second,* risk is the very thing that people seek to avoid. Thus, by avoiding risk they also minimize the rewards that come with successful risk management.

People least worried by risk are those who have a very strong sense of God's calling in their vocation. They know this is where God wants them to be. They know, too, that He will never leave them nor forsake them (Heb. 13:5,6). Thus, they work in assured confidence that their efforts are not in vain, that what they are involved in will eventually bring its own rewards, not only in the far-off future after Christ returns, but here and now, prior to the return of the Lord Jesus.

Thus, there is an apparent contradiction here. A person takes on a job that appears to have a lot of risk involved. But he knows that it is his calling under God, so he moves ahead with confidence, not unmindful of the risks, but certainly without fear of them. The result is that he proves highly successful in his chosen vocation.

So, an essential step in any wealth program is to ensure that insofar as possible, our vocation is also our true calling under God. At the same time we should do our best to secure a close relationship between risk, effort and reward.

Education

It is not possible to consider wealth and employment, however, without thinking about education, for this can often be one of the best investment strategies of all. I mentioned the value of education in chapter three, but it is worth reminding readers of its importance as a wealth creating strategy. In the words of management consultant Peter Drucker, "no investment in the modern economy pays as well as the advanced degree."[4]

4. Peter F. Drucker, *The New Realities* (London: Mandarin, 1989), p. 236.

Take, for example, a person who "invests" time and a few thousand dollars in a course at night school. At the end of the course he receives a certificate or diploma that says he is now better educated. His employer, in recognition of that higher standard in his worker, increases his pay packet by $5,000 per annum (or around $2.50 an hour). This point is being reinforced as one friend of the author completed an MBA degree that cost about $50,000. For a young man with a family, that is a large expenditure to outlay. But he counted on the fact that upon successful completion of the course of studies his salary level would increase by 50% — if not with his current employer then with another. At his new salary level, he recovered his $50,000 in less than two years.

Education is certainly one of the best investment programs of all, one that the Chinese and other Asians pursue with great vigor, since they appreciate its worth. For the sum of $10,000 and two years' effort, a better educated employee might get an extra $5,000 per annum — for the rest of his working life! This has been especially true for some in the area of personal computing in the past decade. By educating themselves in programming or other computer skills, many have found they could get substantial salary increases because of their expanded knowledge.

Making the Right Choice

If we want our education to pay dividends — huge dividends — then it is not just education alone which is important. What is critical is that we become educated in the right things.

According to Drucker, "The real and controlling resource and the absolutely decisive 'factor of production' is now neither capital, nor land, nor labor. It is knowledge. Instead of capitalists and proletarians, the classes of the post-capitalist society are knowledge workers and service workers."[5] The knowledge-based society creates opportunities for those who are willing to educate themselves and be prepared for the next wave of business activity.

Education thus needs to be forward thinking. It is no use learning how to use an old manual typewriter when what is needed are skills with a computer and word processing package. There's little sense in learning how to use a pocket calculator when the work place demands a knowledge of electronic spreadsheets and powerful database products.

Education needs to be directed at the next phase of business activity, and those who get it right will reap the appropriate rewards. Many people had never seen a computer in Australia in 1983. But the introduction of the IBM personal computer and its foreign clones provided a tool that attracted many. Those who mastered the machine and its peculiarities could, five years later, get a job almost anywhere as a computer "expert." Some were able to get jobs at considerably higher rates of pay than they had in other

5. Peter F. Drucker, *Post-Capitalist Society* (Oxford: Butterworth-Heinemann, 1993), p. 5.

positions. Even though they may have spent years in studying a trade or a profession, for some people the personal computer opened up new opportunities of work and reward.

Given the spectacular growth in demand for the personal computer, it is not too hard to see why salary levels climbed astronomically. Supply exceeded demand. In the euphoric days of the 1980s, when businesses were booming under spectacular monetary growth rates, salary levels for computer personnel reached dizzy heights. Naturally, when the crunch came, many of these highly-paid computer people were the first to be fired. Salary levels dropped quite markedly.

A similar phenomenon occurred in the financial planning industry, very much in its youth in the early '80s. Those who mastered the products and gained some skills in financial advising found themselves earning spectacular salaries. The record in this area was one young man who had obtained an economics degree and was working as an economist for one of the largest companies in Australia. His salary was about $30,000 a year in 1985. At that time he took the risk and became a financial planner. Within less than a year he earned in excess of $50,000 in just one month's commission payment. He forgot all about his former job! All this because he educated himself in what was then a small and growing industry. Today, due to the increase in the number of people supplying financial services, the income to be made is declining. Now the same worker is fortunate if he makes $200,000 a year. Still a nice salary, but way below the levels of earlier years.

Conclusion

Our particular vocation and our level of knowledge in the chosen area, provide opportunities to create wealth — real wealth. It is the way we can overcome our poverty and, at the same time, make other people's lives richer by the quality of the goods and services we supply.

Discovering what one's calling is can often be a most difficult and frustrating thing to achieve in the Christian life. Some people appear to find their calling in life easily, while for others it is a long and hard struggle. Once they have found it, however, results speak for themselves, both in terms of personal contentment and material reward. In fact, it is probably true that most of us do fulfil our true callings because that is what we enjoy doing. We take a job not just for the size of the pay packet but because we enjoy the challenge. Increasingly it is being recognized in the corporate world that staff are motivated by things other than money, and success at a particular activity is high on the list. Job satisfaction is a top priority for most workers. Yet it is no coincidence that those who find their true calling in life often reap some of the largest material rewards. Much of this has to do with attitude and the manner in which business is conducted when we enjoy it.

But the fact remains, unless we work we cannot create wealth. Once it's created, though, we must know how to use and keep it, otherwise we lose it. That is the subject of the next chapter.

CHAPTER 11

The Preservation of Wealth

VARIETY IS THE SPICE OF LIFE. We can't all follow the same investment program. If we did, the returns that are possible would diminish substantially. The laws of supply and demand comes into effect and as the supply increases to satisfy demand, so too will the returns the investor can expect. All of us can find an investment program that will help us keep the wealth we've obtained from various activities. We can also think about strategies that will help us improve our economic well being. In the previous chapter we thought about generating wealth, steps that would help us increase our financial assets. Once we've generated wealth, however, we have the onerous task of managing, preserving and putting it to work so that we don't lose it but get to see it grow. To achieve this, we need wealth preservation strategies that will help us.

The differences between wealth *creation* and wealth *preservation* are significant. When we wish to create wealth, we need to concentrate our resources and our materials. We should put all our eggs in one basket — then sit back and watch that basket grow. When it comes to *preserving* our wealth, we don't want to put all our eggs in one basket. This is the time to find more than one basket, spread the wealth around a little. Some general guidelines about making sure our wealth continues to grow are still applicable. But in this phase of our wealth plan, we will have a finger in more than one investment pie.

In the next chapter, I'll discuss six rules for financial management that can help everyone. In this section, I'm providing simple guidelines that will help you to keep the wealth you have managed to create for yourself.

1. Don't Budget!

Budgeting requires a self-discipline that many people don't have. Yet it is certain that no financial success in life is obtainable to any great degree

without learning how to budget. It is an absolute necessity. We all must pay the butcher, the baker, the supermarket; there are the costs of electricity, water, telephone and land rates to provide for; and we may never forget the taxman.

These demands on limited resources can involve people in a stupendous effort of putting aside the money for each item into a jar, an envelope, or maybe running several bank accounts for various purposes. There is a rule in budgeting, however, that is almost invariable. In this regard, budgeting is like dieting. The rule is this: *the harder it is to implement the plan, the more likely it is to be forgotten.*

If this is the psychological problem we face, then it appears that the easier our budgeting process is, the more likely it is to succeed.

Investment advisers, husband and wife team Mark and Jo Ann Skousen, advocate a budgeting plan that is really simple, effective and easy to follow. Their plan is this. If it is too difficult for you to maintain a detailed budget, then don't do it. It won't work. You'll fail and become exasperated and depressed at your own failure. This can have an even more adverse psychological effect when you next try to budget. You'll know you failed last time and your enthusiasm this time will be less than it should be. So don't budget in the traditional manner. Don't keep the detailed records, the cookie jar with its own designation, the separate bank accounts.

What is necessary is to put aside some earnings each week to provide for the future. In other words, save a portion of each week's pay check. Once that portion is put aside you are free to spend the rest on whatever you like.[1]

See how simple this is? We can make our budgeting very difficult or else we can devise a strategy that is simple to implement and simple to keep going. This is the beauty of the "no budget" approach. Yes, if we wish to be pedantic we are still budgeting. We are still laying aside some money each pay day. By putting that money aside, we leave ourselves free to spend the rest on whatever we like. Yes, we must still pay the electricity, the telephone, the food and other bills. By ensuring we put this money aside, it does not matter if we spend everything else on other items.

The question here is how much should be saved. Here's a way to calculate how much you should be saving.

What you need is some idea of how much you spend, apart from daily living, on things such as annual premiums for insurance, car registration, property rates (or rent) and holidays. If this amounts to $3,000 a year, and your take-home pay is $30,000, then you need to put aside 10% each pay day for these items.

Add to these expense items the amount you wish to put aside for retirement years. There are two approaches to resolving how much to save

1. Mark Skousen and Jo Ann Skousen, *High Finance on a Low Budget* (Chicago, IL: Dearbon Financial Publishing, 1993), pp. 14-22.

for old age. The first is to save whatever is left over each week. Unfortunately, the truth is that there is rarely, if ever, anything left over. This is why many people have no accumulated savings. The alternative to this is to put aside an amount from each pay check for long-term savings, then adjust your current lifestyle so that you live on what's left.

This is the plan that I'm suggesting here. *Every* payday, put aside enough money to pay those annual bills and the amount you wish to put aside for long-term savings. Then simply live on the rest.

So, in the example I'm using here, if your goal is to save $3,000 in addition to the regular annual bills, then you need to put aside $6,000 each year, or 20% of your after-tax income every time you get paid. With the introduction of the Superannuation Guarantee Charge (SGC),[2] or if you're already contributing to superannuation through an employer scheme, you can take these contributions into consideration when making your calculation.

Once you've determined how much to save then approach your employer or paymaster and ask if it is possible to have this amount of your salary deposited directly into your savings account. If you are going to rely on yourself each payday to go to the bank and deposit that 20% of your income into a savings account, you may fail in achieving your goal. When you have the money in your hand and you're walking past the shops on the way to the bank, the temptation can become too great. You might not succumb every time, but you only need to do it once or twice to set up a pattern that will destroy your savings plan.

What you're trying to achieve here is *simplicity.* The more often you have to do something, the less frequently it will be done. That *has* to be your operating premise. All you need to do is find ways around your own limitations. Don't be hindered by your own weaknesses. Discover ways to overcome them.

Direct bank debit is one method to overcome inertia at constant decision-making. Once the money is in the bank, all that's required is the willpower to leave it there. Having savings paid into a bank account is relatively painless and it requires only one decision to be made. Otherwise, twenty-six times a year, or maybe even fifty-two times a year, the conscious decision must be made to place some of the hard earned money into the bank. Your chances of doing this every time are slim.

A variation on this idea, if you're planning to save outside of your usual bank, is to get the bank to send your money directly to the savings institution. Insurance companies, for example, have been using periodic debit authorizations for many years. This authorizes a company to obtain a certain amount of money on a regular basis directly from your bank account. It has the advantage that it can be canceled any time you like. The company prepares your bank account information on computer tape or disk

2. SGC is a compulsory retirement savings plan, imposed by Federal law in Australia.

which is given to the banks. The result is the direct transfer of money from your account to the account of the company that has your authorization.

Procrastination can kill financially. Sometimes it might be refusing to make the hard decision to commence a regular savings program. Other times there might be hesitation in getting out of an investment when the market is falling. Therefore, you need to set up procedures that will help you achieve your goal and don't depend on your ongoing decision-making. Automatic stop-loss orders on share transactions is one example of how an automatic procedure can stop you from losing money. Regular bank transfer is a method by which your savings program can be conducted without the necessity of constant decision-making. (Naturally, you need to keep an eye on the investments and stop any savings if the market is falling dramatically. No automatic program removes the responsibility to manage the investment. All it does is ensure that your wishes are carried out on a regular basis until you change your mind.)

2. Bargain Hunting

Preservation of wealth can also be achieved by spending less when purchases are made. For many people a cut in expenditure means a cut in lifestyle. People don't usually want to lower their living standards unless they see long-term benefits that outweigh the short-term disadvantages. This is why savings programs are not so popular. Many people desire a lifestyle beyond their present income. Saving for the future might mean going without things so that they can put aside something for the future.

There are, however, methods of increasing wealth without taking a lower living standard in the immediate future. The way to do this is to reduce expenditure on as many items as possible throughout the year, not by refusing to purchase but by getting lower prices on what is bought.

There are many ways in which expenditure can be reduced. We are all wasteful at times so it is not too hard to find ways we can reduce the amount we spend each week. A change in brand product or maybe just a change in supplier can reduce costs. Supermarket A may sell at lower prices than supermarket B, so by driving to another store, we may effectively get another six or seven dollars a week. Over a year that adds up to more than $300, almost enough to pay the car registration or an insurance premium. Or it can pay for new curtains, contribute to a new dining suite, or may simply be spent on new clothes.

But there is another way we can get substantial savings on items, and that is by *bargaining*. It is almost invariably true that the higher the price of the item, the more we can benefit by learning how to bargain for a lower price from the seller.

Too often we believe that when a seller asks $250 for an item, that is the price we must pay. This may be true in the larger department stores, but it is almost certainly not true in many smaller stores. Every seller who is an astute businessman knows that it is to his advantage, in most in-

stances, to turn his stock over more regularly at a lower price than to sell at higher prices and make sales less frequently.

Consider this. An item costs the seller $180. He asks $295, to make himself $115. At the price of $295 he can sell on average one item every three months. At the price of $249, however, he finds he can average one sale every month. At the $295 sale price, he'll receive $460 gross from the sales in a year. But at $249, he'll generate $768 in gross revenue. Naturally, the seller would rather make a sale each month at the $295 price tag he has on the goods, but buyers won't cooperate with his wishes. Therefore, if he wants to maximize his profits, he'll cooperate with buyers and sell at the $249 price tag.

In order to get good bargains, you're somewhat dependent upon the seller's marketing strategy. In the example above, the seller might simply price the item at $249. Or he might "price" it at $295 and offer it out at the "special discount" price of $249. The more knowledge you have about the seller and how he operates, the more you can turn that into a constructive approach to find a common point where both you and the seller are happy with the outcome. He wants larger margins while you want lower prices.

What you do know that is important is what the item cost the seller. You know that it cost him $180, and he will be reluctant to go below this price (although there are times when you can buy below cost). Since you know the seller's profit margin you're in a position to make an offer *below* the price tag of $249 that the seller might be happy to take. You'll never know what discount you'll receive unless you ask. And most people *don't* ask for a better price. Naturally, the seller is not about to prompt on this issue!

The Advantage of Cash

Armed with this knowledge, a smile on your face and *cash* in your pocket, you'll find that prices on a myriad of items can be negotiated downwards in many instances. Often this means you're better off in the smaller, independent store than the larger department stores. The man who owns and runs the business is in a position to negotiate the price. A salesperson in a department store, who receives a salary no matter what price the goods are sold at, will almost never be able to give you a better price. The department manager might give you a good deal. But the best deals are usually from those who own and operate their own businesses. They understand cash flow far better than employees, and they are the ones who can make the decision to sell at lower prices.

Here's a simple strategy that works. Find out the selling price of the item you wish to buy, or at least try to get some idea of the general price range of an item. If you know how much the item cost the seller, you're in the best position. If you don't know the cost price, try to get an idea of the

profit margins charged in particular industries. With this information you'll be better able to arrange a lower buying price.

When you make an offer lower than the asking price, you should back that offer up with cold, hard cash. You may need to make several offers, and a little horse-trading between yourself and the seller is the perfect environment for *both* of you to come to an acceptable price. Once you've made your final offer, though, place it on the table and let it be known that is all you're prepared to offer. Then sit back in silence and wait for the response. If he asks for more, you'll have to be firm and reaffirm that's the limit. Remember, this is your *final* offer and the cash is only out in the open to show the seller you're a serious buyer at this price.

More than anything else, you need to be firm about the price you're willing to pay. If the seller senses any hesitation in your firmness, he'll probably counter with another offer and leave you in the position of decision-making.

What this strategy does is leave the decision-making with the seller. Make *him* think about how much he really wants out of this deal. Offer him the cash to show you're legitimate. None of us likes to make firm decisions. We're all procrastinators at heart. So, too, is the seller. He'll have to decide whether it's easier to take your money now or enter into negotiations that might lose him the sale. Your cash offer tells him he has a firm sale.

In almost every instance, if your offer provides a reasonable return for the seller so he can still pay for the goods, pay his rent, and provide for his family, he'll accommodate your genuine offer and accept it. Of course, you'll also get rejections, but that's to be expected. You can also get rejections with marriage proposals, but that doesn't stop many males from asking a prospect for her hand in marriage.

Over time your experience at this will become better; you'll be able to make offers that have a better chance of acceptance. But if you don't learn to negotiate better prices to your advantage now, when will you commence? You must make a start. Commit yourself to the idea that on the next purchase of $200 or more, you'll make a counter-offer to the seller. Even if it is only $5 off, don't worry. You'll become better over time as you do it more often. But start bargaining. Now!

In negotiations of this kind it helps if your first offer is not your final offer. This means you need to start lower than the highest price you're willing to pay. You must therefore determine beforehand what is the maximum price you're willing to pay. Anything you pay below this is an added bonus. But if the seller is in any way an experienced negotiator — and most salespeople are — then you'll receive a counter-offer trying to get you to pay more than your first offer.

What it amounts to is this. You and the seller come to a common observation about each other. You observe that the ticket price on the seller's goods is the price he'd like to get every time he makes a sale. At the same time he has told you the maximum price he is asking. The seller,

on the other hand, must consider your initial offer as the kind of price you'd like to get every time you made a purchase. Your first offer will also be considered the minimum you're prepared to pay. The real world of sales exists somewhere in between. The idea is to reach a common point where both of you are happy.

If you're buying a motor vehicle, for example, be aware of all the optional extras you might want. When the sales person makes a counter-offer, you can then ask him to include the alarm system, tow-bar, CD player, or whatever it is that you want included for the price he has just offered. If it's a computer purchase, ask for software or other options to be thrown in at no extra cost. If it's a suit, ask for a shirt and tie free — before you agree to pay the price. What you're telling the seller is that you're prepared to pay that much money, but you think there is not enough value in the present goods being offered. If he increases the value, you'll hand over the money.

Customer Frustration

Sometimes circumstances can put you in a powerful negotiating position. Recently, I purchased a hi-fi set from a large chain store. I bought a demonstration model, took it home, was not completely happy with it and arranged to have it exchanged. After I arrived home with the exchanged unit, I discovered it was a cheaper model. So, back to the store for my third visit. I was told to hang on to the present unit and they'd contact me in a day or two with the right model. I received the call a few days later and went to the store for the fourth time, only to find that the wrong model had been supplied again.

By now the store manager had to admit he could not supply the exact model I had purchased since it was an obsolete model. "What other models around the same price are available?" I asked. None suited my tastes, so I had to start looking at the next price break and consider paying $300-$400 more for a hi-fi set. Then I asked this question: "What model in the higher price bracket could you do the best deal on?" I settled on a model costing more and we argued the price around until I was offered a changeover deal for an additional $250. Not the best deal but one I could live with, since my frustration level in this was getting higher each visit. When they went to get it from the store room, since I refused to take the one on the display shelf, they found they did not have one. They tried to convince me to wait a few days while they got one in. By this time, I've been in the store for well over two hours, I'm thoroughly aggravated, the store manager is sick of my hanging around, and he's embarrassed by the fact that he he has an unhappy customer on his hands. And I'm wishing I'd bought elsewhere.

Now we're in what appears to be a stalemate position. But I also realized the powerful bargaining position I was in. So I made the following offer to the manager. "Since both of us have been put to so much trouble on this issue and it's costing us both time and money, why don't you go to your store-room and bring back something that you have in stock. But I want

something you can give me a very, very good deal on. Once I've seen what you can supply tonight, we'll talk about the price."

He was happy with this suggestion, and came back some twenty minutes later with a system that was almost twice the price I paid originally. It was far more expensive than I wished to pay, but the store manager either had to make me an offer I'd find hard to refuse or else give me a refund. He offered a price, I remained silent, and he dropped another $100 off the price before I said anything. Now I know I'm going to get a good bargain. I made an offer and he said, "Sold!" so quickly, I probably could have obtained a cheaper price. (This illustrates that we should never be in a hurry when bargaining. Give yourself plenty of time to make a good deal.) But a bargain is a bargain, even if it could have been a better bargain. I was happy, the store manager was happy, and I ended up with a wonderful hi-fi system at a great price.

Bargaining on price, if you're not used to it, can be difficult. I know the first time I did this I felt very uncomfortable. For some reason, quite inexplicable, some people think offering a price lower than the asking price is somehow cheating the seller of his just rewards. When I became a salesman, I learned a totally different perspective. I studied economics textbooks and found out how prices are determined. I read the Bible and found it is no less moral to offer a lower price than it is for the seller to ask a higher price. Pricing is something that is agreed upon between buyer and seller, although obviously the limits are set by buyers. Once I accepted that negotiation is not morally wrong, I happily negotiate where I can, when I can and with whom I can. I recognize, however, that it is not always possible and there are times when it is not profitable to do so. It is probably not worth arguing for a discount on a can of Coke. But if you're buying a dozen cans, then it becomes an attractive proposition. And when you're spending thousands of dollars on something, then bargaining can be a very effective way of making substantial savings on purchases.

Cash Versus Credit Card

But there are other techniques that can be used without the necessity of asking the seller to lower his price. If you buy with a credit card there are usually fees the merchant must pay on the transaction. So, if you're buying with cash, you should get the merchant fees off the price and the seller still gets the same money as he would if you purchased with a credit card. This idea once got me into a discussion with a camera salesman. When he realized I was a serious buyer, he made a sale, I received a discount, and we became good business friends, and I continue to get up to 25% discount on purchases without bargaining. It took me twenty minutes to get a $7 reduction in the price of a new camera (priced at $499). I was first abused as a terrible customer for asking for discounts (he'd obviously been having a bad sales month), but I waited for him to cool down and explained (for

the third time) that I wasn't asking him to take less money. All I wanted as a discount was the fees he would pay to the bank if I had used a credit card.

Many stores take credit cards such as Visa card or Master card. For this privilege the store owner pays anything up to 5% in merchant fees to the bank operating the credit cards. Yet, the seller offers the same price to all customers, whether the buyer is using a credit card or paying cash. If you're a cash buyer and pay full price, the seller makes an extra 5% on the sale.

Once you've selected the items you want, take them to the counter and offer cash in return for receiving the credit card fee as a discount. The discount might be as low as 1½%, and even if the store pays 5% charges, you might only be given a portion of this. But, something is always better than nothing. Once again, this technique often works better in a small store where the owner has direct customer contact than a larger store operated by employees. Nearly every warm-blooded store owner likes the feel of hard cash rather than credit card summary slips. Give him what he wants in return for his giving you what you want: lower prices. This is the winning combination for both parties in a transaction.

A reduction of just 2½% on all purchases in a year could give you an extra $400-$500. Not a large sum until you find that if you reinvest that amount every year at just 6.0% (assuming taxes are paid from other sources), after 10 years you've a tidy little sum of around $6,317 in hand (see Table 2). After 20 years of even this small savings in purchases, you've turned your savings close to $20,000.

One other consideration can often help you get a bargain price. Many companies operate in terms of monthly budget figures. Salesmen will thus be trying to meet budgeted sales targets. Buying towards the end of the month can often get you a better price, since the salesman will be keen to boost sales so that he is sure of meeting his goals. Of course, this may not work if he is well up on achieving his goals. Again, you don't know until you try. Don't be afraid to ask for a better price. You'll be surprised at how many times it works in your favor.

Moral Concerns

There is a moral issue here that needs to be addressed, for I fear that many Christians have the false notion that prices should never be negotiated. It is often thought that the Bible requires that both the seller and the buyer should ask or offer only a "fair" price. This is true, but what is a fair price? Who determines what this fair price shall be? The Bible does not tell us what a fair price is, nor does it tell us what a fair profit margin would be. It does tell us, however, that whether we are buyers or sellers we should be charitable towards our fellow man on all occasions.

Since the Bible does not tell us what a fair price is for any of the goods we buy, it is safe to assume that the only fair price in terms of Biblical principles is the price that is voluntarily agreed to by both buyer and seller. What we're doing in a negotiation is finding that point of common interest between ourselves and the seller.

Year	Yearly Savings	Year-Begin Balance	Earnings @ 6%	Year-End Balance	Value of $1.00	Inflation Adjusted
1	$400	$400	24	$424	$0.9709	$412
2	$412	$836	$50	$886	$0.9426	$835
3	$424	$1,311	$79	$1,389	$0.9151	$1,271
4	$437	$1,826	$110	$1,936	$0.8885	$1,720
5	$450	$2,386	$143	$2,529	$0.8626	$2,182
6	$464	$2,993	$180	$3,172	$0.8375	$2,657
7	$478	$3,650	$219	$3,869	$0.8131	$3,146
8	$492	$4,361	$262	$4,623	$0.7894	$3,649
9	$507	$5,129	$308	$5,437	$0.7664	$4,167
10	$522	$5,959	$358	$6,317	$0.7441	$4,700
11	$538	$6,854	$411	$7,265	$0.7224	$5,249
12	$554	$7,819	$469	$8,288	$0.7014	$5,813
13	$570	$8,859	$532	$9,390	$0.6810	$6,394
14	$587	$9,978	$599	$10,576	$0.6611	$6,992
15	$605	$11,181	$671	$11,852	$0.6419	$7,607
16	$623	$12,475	$749	$13,224	$0.6232	$8,241
17	$642	$13,866	$832	$14,698	$0.6050	$8,892
18	$661	$15,359	$922	$16,280	$0.5874	$9,563
19	$681	$16,961	$1,018	$17,979	$0.5703	$10,253
20	$701	$18,680	$1,121	$19,801	$0.5537	$10,963

Table 2. Indicates what happens if you could save $400 p.a. and invest that saving earning 6.0% p.a. All amounts are adjusted for a 3.0% inflation rate. The final column shows the account balance adjusted for inflation

None of us has perfect knowledge. If we did, sellers could ask the "right" price the first time and negotiation would be unnecessary. The "right" price is the one all buyers will pay without hesitation. But no one has perfect knowledge. The only thing we can do is talk to those with whom we do business to get a better understanding of what it is that they want. When two people understand what it is that each person wants in a trade, then successful exchange takes place where both parties win. This is called a win-win situation. We should endeavor to make all our transactions win-win situations.

This win-win attitude is crucial if we are going to maintain our Christian witness. Each businessman has a margin he needs to make in order to stay in business. Remember, he doesn't have perfect knowledge and the margin may be higher than he really requires. On the other hand, a businessman may not have analyzed his business properly, leading him to underestimate his margins. As a result, he could be selling too low.

I am not suggesting we should beat the price down so low that the businessman goes out of business. This is a foolish attitude. Even if we were

given the lowest price in town, if the seller goes out of business it would be a lose-lose situation for everyone. First, because the more sellers there are in any industry, generally speaking, the lower the prices will be. This is not always true, but insofar as the laws of supply and demand teach us anything, they instruct us that the more goods there are the lower the prices will be. Second, you need the seller to stay in business both for ongoing service and in case you want to purchase from him again.

In marketing circles there is a well-worn saying that the best person to make a sale to is a previous customer. This is true if the customer is happy with the product and service he received. But the reverse is also true. The best person to get another great bargain from is a seller who has given you a bargain previously. He knows you're a buying customer. Most sellers resent "tire-kickers." These are the people who hang around car yards, kick the tires, but buy nothing and have no intention of purchasing at the time. They waste the salesperson's time, so they are avoided as much as possible. Since you're known as a buyer, the seller should go out of his way to make you happy so that you'll not only come back again and again, but so that you will also tell friends to shop there as well.

This is the ideal trading environment for ongoing wealth creation for all. Win-win. Make sure it works for the other fellow as well as yourself.

3. Serving Customers

Thus far I have looked at opportunities from the side of the buyer. But many of us are sellers of goods and we have just as much opportunity here to increase our wealth as we do when we're buying goods and services.

As I mentioned above, most marketing textbooks will tell you that the best person to sell an item to is a previous customer. And the more recently that person has purchased the same or similar goods, the better prospect he becomes for another sale.

On this basis, businessmen could find ways to service customers better that would give the customer more value for money and bring the customer back again and again into the store. Interestingly, the competitive nature of business in an increasingly difficult economic environment has made many businesses think more deeply about service. Total Quality Management or Continuous Improvement (abbreviated TQM or CI) are the "buzz words" in many industries. They are trying to improve their service in order to keep customers.

It is beyond the scope of this book to provide details of how businesses might increase their service to their customers. But it is certain that whenever companies have discovered how to do this, profits have been increased, customers are happier and everyone wins.

These principles of service can be applied by every person. You do not have to be in business for yourself in the narrow sense to try these things. Every employee can provide increased service and duty to his employer. In

nearly every instance, this is one of the best avenues for increased remuneration and advancement within the company.

This is a practical application of the "second mile" principle talked about in the Bible. When people ask us to do something, why not give them a little more than they asked for. It will usually be appreciated.

A word of caution is necessary, however. This principle of giving more than is asked is not something that can be implemented merely to obtain additional revenue. If this is the motivation for doing it, something is drastically wrong somewhere. Rather, in the Bible, we are to "love one another fervently with a pure heart" (1 Pet. 1:22). We are back to something I outlined in an earlier chapter, helping others get ahead without any thought of doing it for selfish gain.

4. Know Your Limitations

There is no surer way of losing wealth than to invest in areas where the investor has little expertise. This could be nothing more than buying a business about which the purchaser has little knowledge. The road to economic ruin is covered with people who have taken on an activity which is beyond their present abilities.

This can happen so easily. For example, a mechanic working in a garage sees his employer sitting in the office charging the customer $35 or $40 dollars an hour, while he is doing all the work and getting only $15 an hour or less. So, the mechanic thinks that he will be better off with his own garage where he can sit in the office and collect $40 an hour from the customer and employ someone else to work for only $15 an hour. He thinks he is about to increase his income from $15 to $25 an hour and have someone else do all the work. Often he doesn't find out until it is too late what his former employer used to do. As an employee he's never had to worry about attracting customers, juggling cash flow, dealing with customers' complaints and making sure that employees are kept fully occupied.

An investor can make the same mistake. Someone tells him the share market is the place to make money so he buys shares. What he doesn't know is that in order to make reasonable returns in the share market it is necessary to know when to buy and sell and which companies have potential for the shareholder. So he buys only to find, for example, that after a few years his shares have made him little return.

An investor must know himself and his limitations. If he moves into an area that is foreign to him, he must ensure that he minimizes the risk by only investing small amounts in that area until some expertise is gained. In order to gain that expertise he will read and study. If he's investing in the share market he will read books by those who have proven their expertise in the share market. If our share market investor is going to be serious, he will certainly read Benjamin Graham's, *The Intelligent Investor,*[3] or a simplified

3. 4th ed., New York: Harper and Row, 1973.

version by Peter Lynch, *One Up on Wall Street.*[4] Later, he can use his knowledge to invest larger sums if that is appropriate.

Conclusion

There is more than enough evidence in the Bible that if we apply certain principles for the right reasons, God blesses our activity. Those blessings can translate into increased physical wealth, but this may not necessarily be the case. God does not treat all of us exactly the same way and there are many other factors outside of our business activities which can affect our lives. Life is a whole, and we cannot isolate some parts of it and attempt to apply biblical principles if we intend to ignore them in other areas. This is why the creators of the sales and marketing programs who preach "doing the right thing for the customer" while ignoring other aspects of a person's life, such as their sexual habits, cannot offer a complete program of economic well being for all.

The opportunities of wealth creation I've presented here are all applications of biblical principles. In terms of spending habits, the ideas presented are an application of the principle of counting the cost. Unfortunately, it is the inability to count the cost accurately that leads so many onto the shores of economic shipwreck.

But stewardship, counting the cost, begins with small things, not large things. As in all areas of life, we must serve an apprenticeship. If we cannot handle the spending of $100 carefully, it is most unlikely we can do it with $1,000. And if we can't handle $1,000, what is going to happen when we get the $30,000 needed to start a business?

To reinforce these principles and ideas, however, turn to the next chapter where I explain six "golden" rules that need to be applied by anyone who is serious about expanding his wealth and adopting better management of his current assets.

4. Peter Lynch with John Rothchild, *One Up on Wall Street: How to Use What You Already Know to Make Money in the Market* (New York: Penguin Books, 1989).

CHAPTER 12

Six "Golden Rules" for Financial Independence

IF YOU WERE TO ASK PEOPLE what they want financially, the answer in most cases would probably be "financial independence." A definition of the meaning of financial independence, however, varies from person to person. Many people win the lottery and get hundreds of thousands of dollars, only to find that after a few years they have spent every cent. Financial independence eludes them. Would these people have had financial independence if their lottery win was twice, even three times the amount? Does the *amount* of money we have guarantee financial independence?

The answer to this question is *no!* Money does not buy financial independence or financial freedom. Most of us would like to be free of the necessity to turn up for work each day. We would rather work when we feel like it, if we feel like it and for whom we feel like working. We want to feel that we are free from necessity and not governed by the fact that we *must* turn up for work otherwise the rent or mortgage doesn't get paid, and we can't afford "luxuries" like bread, milk or sugar.

If you've read the first ten chapters of this book, you know I've encouraged you to think of new ways to create wealth or increase wealth by better management and a different attitude to work. True financial independence comes from *creating* wealth, not by merely refraining from spending what you earn. But once you've taken steps towards an improvement in your employment situation, what then? Even though many families have high incomes, still they cannot achieve what most people want in life: financial independence. It is also necessary to recognize that once we've mastered the principles of wealth creation, we must also learn the art of wealth *management.*

Before I go on, though, it will be necessary to reiterate something that is at the foundation of what I am trying to say in this book. While I am saying many things that can be found in some of the usual investment

books, there is one aspect I do not wish the reader to forget. I do not believe it is possible to have financial freedom and independence outside of God. That is the underlying premise of this book. This is why I have started by looking at social conditions rather than just the steps of making and preserving wealth. The Bible is clear: "As for every man to whom God has given riches and wealth, and given him power to eat of it, to receive his heritage and rejoice in his labor; this is the gift of God" (Eccl. 5:19). Wealth is the gift of God. So is the ability to create it, keep it, preserve it, and use it wisely for the extension of God's kingdom. Perhaps this, more than anything else, indicates why so few people have great wealth: they cannot manage it properly. Some, of course, gain it by ill-gotten means, but their future hold on this wealth is clear: "the wealth of the sinner is stored up for the righteous" (Prov. 13:22b).

There are then, a number of "golden rules" which we can apply. These are not things that will guarantee wealth. But they are the steps that we find in the Bible that are necessary conditions for the godly person to live the life of faith.

Rule 1: Pay God First

There is no more important step to be undertaken in wealth management than the principle of tithing. A tithe is a tenth, so tithing is giving a tenth of our increase to God in recognition of His sovereignty over everything that we have in our possession. If you don't already tithe, then you need to commence now. If you expect God to bless your efforts to create wealth, then you must ensure you pay what rightfully belongs to Him.

If you have any doubts that tithing is obligatory today, read what the Bible says about tithing. If you're wondering just how much of your income should be paid as tithes, you need to commence a serious Bible study on tithing. If you're unsure whether your tithe should be paid to the local church or to other Christian ministries, you have little choice but to study the Scriptures to make sure you know what God wants you to do.

Failure to tithe amounts to robbing God. This is what God says in Malachi chapter three. Read this passage of Scripture again. In fact, this is so important, you should put this book down and do that right now. Then commence tithing.

In addition to tithes, we're encouraged to be generous with our wealth in the form of gifts and offerings. While the tithe is God's basic tax on our wealth, the Bible also talks about gifts and offerings which we might make over and above the tithe. Our financial management system should never deny God and His work the funds that we are able to give.

Rule 2: Obey the Ten Commandments

I was tempted to put this rule first, since the Ten Commandments are the summary of the total law of God which is to be our rule for the whole

of life. However, I place the commandments second, not because they take second place, but because I wanted to place first in your mind the necessity of acknowledging God as sovereign over all our belongings by paying our tithes.

We live in an age of easy believism. Much of modern Christendom thinks that to talk about the Christian faith is the equivalent of doing it. So we hear much talk and see very little practice. And this lack of practice is likely to manifest itself first in the management of wealth. People might attend church regularly or hold home meetings, but very little of their wealth finds its way into the coffers of the Christian church to finance the expansion of the kingdom of God. For many, the first call on their money is the home mortgage, so God gets second or third place in their life.

Our age is a materialistic one. To a great extent we are governed by things, not the principles of the Word of God. In this environment there is perhaps no better test of our faithfulness to God than our ability to tithe faithfully to His work. This is why I place tithing ahead of the commandments. Our tithing habits will indicate our willingness to be governed by the commandments of God, since it is our acknowledgment of the total sovereignty of God over all that we possess.

The Ten Commandments define our basic relationships with God and with our fellow man. Thus, we are to put God first in our lives, to obey Him in all things, and we should not worship Him idly or in a false manner. Concerning our fellow man, we must not steal from him, lie about him or covet anything that he has. And, as theologians have long recognized, the negative sanctions of the commandment carry positive obligations. Thus, while the eighth commandment forbids theft, it also requires of us, in the words of the Westminster Larger Catechism, "truth, faithfulness, and justice in contracts and commerce between man and man; rendering to every one his due; restitution of goods unlawfully detained from the right owner thereof; giving and lending freely, according to our abilities, and the necessities of others; moderation of our judgments, wills, and affections concerning worldly goods; a provident care and study to get, keep, use, and dispose these things which are necessary and convenient for the sustenation of our nature, and suitable to our condition; a lawful calling, and diligence in it; frugality; avoiding of unnecessary law-suits, and suretiship, or other life engagements; and an endeavor, by all just and lawful means, to procure, preserve, and further the wealth and outward estate of others, as well as our own" (Q. 141).

That's a pretty tall order. But if we are convinced that it expresses the biblical requirement, then we must set about putting it into action. It is time to stop talking. We can talk forever and still not plumb the depths of the full implications of Scripture. Now is the time we must begin to put the commandments to living use in our daily lives.

Rule 3: Pay Yourself Before Others

God does not just deposit wealth in people's bank accounts overnight. To be certain, wealth comes in a variety of ways and means. For most of us, our work and our labor — diligence in our calling — is the God-ordained means for us to obtain wealth. Once we are remunerated, however, there are a number of demands from other people for our wealth. There's the butcher, the baker, the telephone company, the utility company, the supermarket, medical bills, school fees, clothing and so the list goes on. Nor should you overlook the person who will seek the biggest slice, the tax man. If we're not careful, we work just to pay other people.

But there is a missing person on this list. That person is ourselves. We need money ourselves, for future activities. It might be retirement, it might be medical bills that come with age. Whatever the need, when we have the income, we must learn, like the farmer, to "fill up the barn" when the seasons are good. Then, in bad seasons we will have the resources to survive. For this reason, we must learn to pay ourselves as well as everyone else on the list. In fact, however, we must learn to pay ourselves first — *before* we pay anyone else, except God. If you pay other people first, you'll soon find there's none left. So, our third rule is to pay ourselves before we pay others.

There's a joke that asks, "How do you eat an elephant?" Answer: "One bite at a time." Apply that logic to wealth creation. How do you save a million dollars? Answer: A few dollars at a time. It is the slow drip-feed process of regular savings that can, over a lifetime, create an enormous amount of wealth for *any* person willing to persevere with the discipline.

An important question arises here. Many people who might like to implement this program will be in debt. Should they pay their debts first? My answer to this is yes. Those in debt need to get out of debt as quickly as possible. As I've argued in chapter seven, I don't believe debt is the right way for a Christian to obtain things. But a person in debt usually has a debt problem because he doesn't have any accumulated savings. Or, at least he has no accumulated savings that match his spending. In others words, he lives beyond his means. Therefore, he will be better off getting out of debt and learning to live within his means while, at the same time, learning to save for the future.

Consequently, more than anything else, the person who has no savings and is in debt needs to see his bank balance grow. If a person who has never saved anything after ten years of working begins to see his bank account grow, he'll be more motivated to continue with the plan. His attempts in the past have probably failed because while he may have started savings programs, he did not continue to save or started to withdraw money for various purposes.

This is especially true in cases where financial counseling is required. Those in trouble need to learn to pay themselves first. Work out a payment schedule with creditors that permits the debtor to pay himself first. This, I

should add, is not stealing. It was poor management that got them into this mess in the first place. Proper counseling will ensure not only that the immediate problem is solved, but that its recurrence is eliminated, or at least diminished as far as possible. Only money in the bank will prevent people who have a debt crisis from getting into another one.

Rule 4: Pay Yourself at Least 10%

How much should you pay yourself? There are no hard rules here, but the principle of the tenth, or tithing, is as good a figure as any to start with. In chapter ten, I dealt with the idea of saving, putting aside money each week to pay your annual bills.

This, however, is different. This is money you're not going to spend at all — at least not for what could be a very long time. Nor will it be spent on what we might call consumption goods. This is the money for your long term accumulation plan, so whatever it is spent on must produce more of it. It might be put in a bank, a cash management fund, or it might be used to start a business. This is the money you'll need to help you achieve your goal of financial independence so it must never be consumed on things like cars (unless the vehicle is used to earn income), food or holidays. Under almost no circumstances is this money ever to be touched to pay your regular bills. This is your security money. Whatever you do, don't spend it.

In his book, *The Richest Man in Babylon,* author George Clason tells how Arkad became the richest man in Babylon. He did not have a highly paid job. He did not inherit great wealth. He did not discover gold. All he did was put away 10% of his income on a regular basis until he had accumulated great wealth.[1] By combining this strategy with the controlling of expenditure and wise investment, a humble camel trader became the richest man in Babylon and taught others his "secrets" of wealth.

Rule 5: Stay Out of Debt

Nothing can ruin wealth more than debt. As I've argued earlier in this book, the biblical advice is to live debt free. Follow that advice and you won't have a problem.

In *The Beauties of Commerce,* probably written around the ninth century by Abu al-Fadl of Damascus, this piece of wisdom comes down to us through the ages as an important step in financial management: "That you give out no more than you take in; for whenever that happens, then property disappears directly and nothing remains." It is a perverse viewpoint that encourages debt as the way to wealth. Throughout the centuries, wise men have avoided debt in their financial affairs. It is only in an inflationary period that people can make money out of debt, which is why debt and inflation are co-partners.

1. George S. Clason, *The Richest Man in Babylon* (New York: Bantam Books, 1926).

Unfortunately, there is another factor that distorts a person's judgment on matters of debt. That element is the federal government. There are tax incentives given for certain types of debt. Too many people make a miscalculation about debt when they get a tax deduction on the interest. The size of the tax deduction becomes a factor in their thinking, and in nearly every instance it leads to a wrong judgment about either what is purchased, or the quantity that is purchased.

Rule 6: Forget the Tax Deduction

Never, ever, make investment or business purchase decisions based on tax considerations — unless you can afford to lose the investment. For starters, the government will probably change its mind next week and the advantage you hope to receive will fail to materialize. Since there is no sure way to protect yourself against arbitrary legislation, it is best not to have your wealth dependent upon the whims of the politicians.

Make sure you buy the product that will achieve the goal you've established. If you need a new car for a business and it is a tax deductible purchase, you probably don't need a Rolls Royce just because you can get a bigger tax deduction than you can if it's a Honda or Ford. Don't buy a warehouse full of stock when all you need is five cartons. Don't buy a truck when all you need is a delivery cart. And don't invest in products that give you 120% tax deduction but give you little or no return for your investment.

Any tax advantage you receive for an investment should be considered a bonus. It should not become the primary reason for a particular course of action. For example, just because you can get a tax deduction for putting money into superannuation does not necessarily mean you should put money into a such a scheme. You need to calculate the benefits and disadvantages very carefully. Again, seek professional counsel and advice.

On the other hand, you do need to consider very thoughtfully what the government may or may not do to any of your plans. Governments do one thing well (in fact, it's probably the only thing they do well), they spend taxpayers' money very easily. Therefore, they are continually seeking new means to get taxpayers to part with their money.

For this reason alone, it may be wise to keep away from most superannuation schemes. The tax advantages are designed to encourage people to place their money in these schemes. But these huge pools of money are also the easiest for the government to get its hands on. Since 1983, when the Labor Party came to power in Federal Parliament in Australia, people's superannuation funds have been at risk. Whereas only 5% of accumulated savings in pension schemes were once taxed, now a tax of 15% is applied to all savings when they enter the funds, and earnings are also taxed at 15%. For reasons I explain in the next chapter, I believe this percentage will continue to increase. You cannot trust the government to look after you in any form at all. Tax concessions, while not ignored, should not be the major reason for an investment decision.

Conclusion

Here you have a simple and effective six-point plan that will help anyone — rich or poor. While recognizing God as sovereign in the affairs of men, it is a system designed for building up wealth by retaining a portion of present income to use in the future. This money can be used later to start a business. It might never be spent, being left to children and grandchildren as a legacy they can use to achieve goals that were impossible for this generation of the family. That is what we call progress, and it is impossible without savings.

You will no doubt have noticed that this is not a quick road to riches. However, this plan is a plan that will suit nearly everybody in terms of a long-term accumulation strategy. Those of you who need wealth more quickly will need to consider other sections of this book and find opportunities that help to create wealth.

CHAPTER 13

Conclusion

IF YOU'VE READ FROM THE BEGINNING of this book you know you need to do something. Procrastination is not a valid option.[1] But you need to be certain not only about *what* you should do but *why* you should do it.

Let's conclude by looking at the general economic environment in which we live. Many people today have remarkably high levels of debt. The politicians at municipal, state and federal level are living beyond their means.[2] Many individuals are adopting the same method as a means to becoming financially independent. Clearly this cannot continue. Somewhere, sometime, one of the following alternatives must happen: either the debt is repaid in full, or else it is repudiated. Unfortunately, the history of humanity is one of repudiation, rather than one of honoring financial contracts.

History indicates that debtors can easily disown their obligations on a massive scale. Inflation is the means by which creditors can be paid off in depreciating dollars. This is why a debt society is also an inflationary society. It is also why there are no signs of inflation abating in the world today: too many people have a self-interest in inflation. They hope to repay loans in depreciated dollars. Although creditors try to protect themselves with higher interest rates, inflation ultimately destroys the tool of economic calculation, money, and makes it difficult to make economic decisions. (This also explains why so many businesses fail in an age of inflation. Business people are unable to make the correct calculations necessary to keep the business in operation.)

When debt occurs, high inflation usually follows, since this allows debtors to pay off creditors with money that is declining in value. This is the second thing to guard against. While inflation has been low since 1990, this

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1. If you need help to stop procrastinating, see Bill Lee-Emery, *Stop Procrastinating! Change Your Habits, Change Your Life* (Milsons Point, NSW: Hutchinson Australia, 1990).
2. It may be more accurate to say they are living beyond *our* means since it is "our" money they are living off.

should not lead us to expect it to remain low. Monetary growth (M3, or Broad Money) which had been held around 1-2% during 1990-92 had increased to around 4% by the end of 1993 and had reached 9.5% p.a. by the end of 1994. At June, 1995, it had dropped to 7.4% per annum. (This compares with a 2.4% p.a. increase in money in the United States at June, 1995.)Throughout the 1970s and the 1980s, monetary growth averaged around seven percent per annum. At this rate, the value of money halved every ten years. With such huge debt problems, and so many people still hoping for the return of inflation because they borrowed in periods of higher inflation, the rate of inflation is bound to increase. Watch the money supply growth rates and interest rates. If money supply growth continues to move upwards, expect interest rates to follow. Inflation will be off and running again. A survey by *Business Economics* shortly after the 1993 Australian Federal election found that about 80% of those surveyed expected the inflation rate to increase over the next year, and the figures above show they were not disappointed.[3] If federal debt continues to expand and taxes don't increase to cover the debt, further bouts of inflation will be certain. Australia's balanced budget for 1995-96 has been purchased by $6 billion in asset sales and the highest ever tax increases in history.

Rising interest rates (end 1994) indicate what the government is doing with money and inflation. The drop in monetary expansion during 1995 has seen a corresponding drop in interest rates. Will this trend continue? Not if history is an accurate guide. Eventually the inflationary faucet will be turned on again.

This brings us to the third point. High levels of debt have brought, and will continue to bring, demands from the politicians for extra tax revenue. But these demands are not being met by the taxpayers. Not only have people been willing to avoid and evade taxes, but the economy has turned downwards. This means declining sales, increasing unemployment — and lower tax revenues for the federal government.

Where will the government get the money? There's only one place for them to get it, although they may try several means to do it. Ultimately all government revenue comes out of the pockets of the productive citizens in the society. How will they do this in the future? One clear way is for the government to raise taxes. History reveals, however, that once income tax levels get above 25% taxpayers begin to object. At the end of the day, there is a limit to people's willingness to be taxed. With combined direct and indirect taxes way beyond reasonable levels, a tax revolution is certainly underway. Direct taxes are already at or above the 25% level for most wage earners, so tax increases are unlikely to achieve the results the politicians require.

3. See the article "Inflation Forecast to Push Up Loan Rates" by Carolyn Cummins, *The Weekend Australian*, April 10-11, 1993, p. 23. As of December 1994 it is possible to say those who anticipated higher inflation have not been disappointed.

One of the challenges before the Australian federal government is to find new ways to collect taxes. That is, ways in which people don't feel they are being taxed so strongly. They are also making it hard to evade taxes and closing the loopholes that the tax avoiders use to advantage. A restructuring of the tax mechanism is necessary from the government's point of view. It needs more money, but it also needs to hide the fact that it is taking more. This is why a Goods and Services Tax (GST) was offered to the Australian public and why tax "reform" will remain on the political agenda. Although the GST has been buried following the defeat of the Liberal Party in 1993, you can expect increased taxes to come back in some other form, or in a modified GST program.[4]

A significant drain on government finances in addition to general social welfare is medical care. Originally, Medicare in Australia was funded at a 1.25% tax level for some time. This rate is now 1.5%. How long before it will be increased again? But the public are complaining, for publicly financed welfare aid creates "the problem of the commons." At one time villages had a field that was available for common use. Villagers, however, would use this in preference to using their own property. Consequently the common field was overused. It is the problem with any good that is provided "free" or for a fixed cost. People will demand the "free" good before they pay for something else. As a result, demand always exceeds supply and a shortage of supply is the result. This is the consequence of Medicare: overservicing at the surgery level and a shortage of hospital beds as people take advantage of "free" health care. Now the public are complaining about dwindling health care and the government is complaining about increasing costs. However, by separating tax components into different areas (e.g. medical services, general PAYE taxes, goods and services taxes, customs, etc.) the government can hide the fact that it is moving beyond the 25% limit that people are apparently willing to accept. This is one strategy that might help government linger a little longer at exorbitant tax levels.

There is, however, another major source of revenue which to date has not been tapped to its full extent. It's a source that the Labor Government began to use shortly after it came to power in 1983. The politicians will most likely continue to take this from the same place they've seized it for the past decade: from people's long-term savings for their retirement. That is, they'll take it from the superannuation funds. I'll give reasons for this later.

Meanwhile, there's a further factor contributing to the lower government tax revenue. It is the declining population levels and the shifting age distribution. If the Australian population was expanding at an even rate, we'd expect to see that each age group is larger than the one older than it. This is not so, according to population estimates published by the

4. These words of prediction were written at the end of 1994. The 1995-96 Federal budget in Australia, delivered by the Federal Treasurer in May, 1995, raised the Medicare levy, most existing sales taxes by 1% and added some new ones. Corporate taxes were raised by 3%.

Australian Bureau of Statistics. While there is a general increase from the older age groups down to the group about 30 years of age, once we get below that age the population begins to decline. This has very, very serious repercussions for the federal government and its tax base. Depending upon your present age, it may also have a serious effect on your future.

Unless this trend is reversed by immigration making up the shortfall in population, in another thirty years there will be considerably fewer people paying taxes than there are at present. Since the population in the present 30-45 age group represents the largest group, it means that when this group becomes eligible for the old age pension and other forms of social welfare benefits, there will be fewer people contributing taxes to pay for it.

This is why the federal government in Australia has introduced compulsory superannuation. It knows that it cannot continue to pay the present levels of welfare without significant tax increases. The present deficit indicates the revenue shortfall is already serious. Within 20 years, the government will begin to have a greater shortfall in tax revenue combined with an increase in welfare demands. Compulsory superannuation offers the government a solution to this impending dilemma.

This problem is not peculiar to Australia. Around the world, cutbacks in welfare spending have begun to appear, with the notable exception, apparently, of the United States. The cutbacks are necessary because of the growing bankruptcy of most governments and the demographic changes within nations. At present in industrialized nations, there are approximately three to seven workers who are taxed to support those dependent upon the health-care and pension systems. By the year 2025, it is anticipated there will be less than two workers to support each pensioner.[5]

These are some of the reasons why I believe people's superannuation will not be safe. The compulsory Superannuation Guarantee Charge (SGC) offers the government a source of funds to be taxed at leisure. Be warned! And if you think this suggestion is scare mongering, remember that in the 1950s taxes were imposed to finance the old age pension. What happened to that money? There is no government old age bank account, no Social Security Trust Fund protecting your retirement benefit. All that remains is the capacity of the government to tax in the future. And with an unhealthy economy and a work force dwindling in numbers, this tactic does not provide a confident financial future for pensioners.

The Australian Federal government is in debt to the tune of billions of dollars. In America, its reached the trillions. So any promises politicians have made for the past forty years concerning people's old age can only be met out of current revenue. And governments everywhere, not just in Australia, are trying every avenue available to increase their revenue base. So, if we think our private long-term savings are safe, we will be sadly mistaken.

5. "Cutting Back the Welfare State," *Newsweek*, December 21, 1993.

The government will not stop at the point of confiscating people's retirement funds. It's already taken those savings once. Why not again?

Despite huge revenues from taxes on earnings in the accumulating superannuation funds, it will also need to minimize demands on the social welfare system. There is one thing available to the government that will help it in both these concerns: private pensions. Instead of allowing people to collect the lump sum from their accumulated superannuation funds at retirement, the government has legislated that people must take a portion of their retirement savings as a pension. There is one good reason for this: a person pays higher taxes on a pension than he does if he takes the lump sum and invests it in ways that will minimize taxation.

There is, however, another curious phenomenon that occurs once people reach retirement age. They think that they are entitled to a pension. After all, they've paid taxes all their working lives, so they figure retirement is a chance to get some of it back. Others think that being a recipient of a government pension provides them with financial security for the rest of their lives. Some people will go to extraordinary lengths to get a pension; they'll even *spend* a huge portion of their savings to get their assets and income levels down so that they qualify for a social security pension.

The Retirement Money-Pool

By forcing everyone to take their retirement money as a pension, the government not only prevents people from squandering this wealth, it receives increased tax revenue available as the result of pension payments. Pensions are taxed at normal rates (even though they might attract some tax concessions), whereas a lump sum can be invested legally in ways to minimize tax.

There are a few reasons why I'm confident the government will do this. *First,* they have been doing it since 1983 and very few people have complained. In spite of all the rhetoric about Australians being independent, strong and courageous, they display a radical compliance with government decrees. Yes, although we may indulge in a little tax evasion or avoidance, Australians are really a compliant group of people. That is why our parliaments around the country have successfully legislated some of the most outrageous laws in the Western world. This tendency is only explicable on the basis that Australians believe the government to be their savior. Although they do not like what the government does so often, it is their choice to accept the government programs for dealing with social problems. Thus, they may complain, but they will comply.

Second, superannuation funds represent one of the largest bodies of financial resources available for the government. With the introduction of compulsory superannuation contributions, the amounts of money in superannuation funds paying 15% tax on earnings to the government will be very large indeed. It has been estimated that the present funds of $120 billion will expand to $1,400 billion by the year 2010. Even a small increase in taxes on the earnings, will provide the government with substantial

amounts. The current earnings tax on super funds is 15%. Even on the present fund size, this means $1.8 billion (if the earning rate is 10%). By the year 2010, this would mean a tax of $21 billion on the same earning rate. So, if the government were to increase the tax by a percentage point or two, say to 16% or 17%, it is easy to see the substantial revenue to be obtained from this source.

There is a *third* reason to support the argument. If it becomes compulsory for Australians to take all their retirement funds as a pension or annuity, thereby denying them the lump sum, who will *keep* the lump sum of money that individuals have accumulated over their working lifetime? This is a very important question. If you get to take the lump sum, you can leave it to your children, grandchildren or your favorite charity when you die. But if you don't get the lump sum, who will get it? Presently, the people who get it are those who administer the superannuation funds, the fund managers and the insurance companies who specialize in superannuation funds. Curiously, not one of these organizations has spoken against the idea of a compulsory pension. If you've been wondering why, wonder no further. They stand to "inherit" billions of dollars in people's money if compulsory pensions become law.

This, I emphasize, is not speculation. It's being debated publicly now. The Federal Government has already limited the lump sum amount a person can collect to $400,000. Anything over this will need to be taken as a private pension. You can be sure it will eventually legislate something along these lines, first a partial pension and eventually the total amount in this form.

Once the pension is mandatory, people will be sunk if the government continues to depreciate the value of money through inflation. A pension is a fixed sum, although it might be indexed for life. Indexation means increasing it in line with the Consumer Price Index (CPI). However, prices are increasing faster than CPI figures. This means a declining standard of living for all those on fixed pensions whether that pension is paid from private sources or from the Federal Government.

A new factor in 1994 gives weight to the arguments expressed here. The compulsory Superannuation Guarantee Levy forces superannuation moneys into what is called "complying funds." These funds are usually privately run investment funds for superannuation money. However, the fund managers must make charges. In quite a few instances, people are paying more in charges than they are receiving in interest. Thus, their funds are suffering a net loss.

To combat these charges, the Federal government has recommended that all small superannuation payments, below $900, should be given to the Australian Tax Office. At a later stage, when the owner of the money requests it, the funds can be placed into a privately operated fund. Now the question that arises is this: If the ATO is to keep people's investment moneys, will the money be held in a special account so the politicians cannot get their hands on it? Or will it be placed in general revenue where the politicians can spend it, merely promising the individuals that his money

will be returned out of general revenue when he demands it? These are the important questions, and without clear answers the saving public could find their old-age savings devoured by government. In short, an interest-free loan to the government. And when the politicians get used to all this money, will their spending habits anticipate it all the time? And once they get a taste for those sums under $900, will the limit be eventually raised?

History is repeating itself. Once before the government taxed people in order to provide a pension. But the money made its way into consolidated revenue and was never held isolated from general expenditure leaving the taxpayers' pension payments unprotected. Now the government is again collecting on behalf of its citizens, and if history is our guide, then we know that before too long private superannuation money held by the government will against find its way into consolidated revenue. On this basis, we have no reason to place trust in the politicians.

The Mess We're In

A question that must be addressed is this: how bad is the Australian economic situation? Are people in Australia in better shape, say, than those living in the United States? Consider the following:

In May 1993, the Australian National Audit Office (ANAO) released Audit Report No. 34. Entitled, *The National Bankcard: Who Will Pay the Piper?*, the Auditor-General's analysis of the Federal Government's financial obligations. The report is devastating.

The ANAO found that obligations of the Federal Government exceeded $125 billion Australian dollars. However, it's not certain of the real amount. Apparently there's insufficient information to calculate the government's true position. The ANAO believes there's at least another $40 billion in debt, but cannot be certain it is not more.

The Auditor-General's report noted that "funding decisions taken by the Government lack the benefit of information that would normally be available to any well run company which manages the level and impact of its obligations on future cash flows, costs and investment decision so as to protect its future viability and maximize its return to shareholders."[6] This is an almost unbelievable assessment, yet it should not surprise us. Politicians, unlike public company officials who are responsible to the shareholders, are not held accountable to the voters for their financial decisions. This leads to short term concerns. Short term here means about four years.

So critical is the ANAO of the government's attitude toward its debts, that it considers neither parliament nor the taxpayer is in a position to correctly assess the true nature of the situation.

> The ANAO considers that the information currently provided is deficient to such an extent that the Parliament and the taxpayer is (sic) not in a position

6. *The National Bankcard: Who Will Pay the Piper?* a report by the Australian National Audit Office (Canberra, ACT: Australian Government Publishing Service, 1993), p. ix.

> to assess the Government's management of its obligations and whether, in the management of programs, the Government has considered the impact on the level of obligations and the consequences to both existing and future taxpayers.
>
> As an example, the Parliament and the Australian taxpayers are not provided with comprehensive information to assess the future costs and implications of government policies. Budget papers provided projected expenditure levels, including the cost of servicing borrowings for four years ahead, however, no information is available to allow an assessment of the impact of government policies on Australia in five, ten or twenty years time. The true obligation in respect of these programs is not currently measured nor reported in government financial statements.[7]

In summary, no one knows just how bad the Australian Federal Government debt situation really is. Despite the lack of information, the ANAO estimated that the cost of servicing debt levels is expected to increase by 60% over the next four years. This should cause each Australian to begin a sober assessment of the future of the country.[8]

Mind you, Australia does not seem to be in as big a mess as the United States. By the year 1995, it is expected by some, the US government will no longer be able to pay the interest on its debts. Harry E. Figgie, Jr, a former co-chairman of the Grace Commission under President Reagan, has written a devastating exposure of the American government's financial situation.[9] In 1984, the Grace Commission reported 2,478 cost-saving recommendations to the President. Most of them were ignored. The US Government has continued to live beyond its income to the point where Mr Figgie decided it was time to blow the whistle.

How bad is bad? According to Figgie, the total deficit under President Carter was $US226.9 billion. During Ronald Reagan's eight years in office, the federal deficit totaled $US1.34 trillion. Yet, President Bush managed to achieve the remarkable figure of $US1.04 trillion in just four years. Mr Figgie anticipates that during the first term of President Clinton this figure will triple to $US3.17 trillion. Those who are dependent upon the US government to repay loans, to pay welfare checks, to finance business through huge government purchasing for various departments, are about to learn a hard lesson.[10]

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7. *Ibid.*, p. xii.
8. This report may well remain unique in Australian history. The Auditor-General at the time. John Taylor, says he thought the government wanted him to help it improve itself, so he provided honest reporting. In retrospect, he thinks he was a little too naive. That reporting cost him his job, as he was forced to take early retirement, partly due to ill-health caused by his arguments with the government over his reporting integrity. Taylor's naivity, however, for once told Australians the reality of the Federal government's financial position. Australians should be worried.
9. Harrie E. Figgie, Jr., with Gerald J. Swanson, *Bankruptcy 1995: Te Coming Collapse of America and How to Stop It*, Revised Ed., (Boston, Ma: Little, Brown and Co., 1993).
10. It is probably safer to say that Mr Figgie is indicating a trend, since the ability to predict

Anyone who pauses to contemplate this situation will realize the precarious financial situation that exists throughout the world. Governments everywhere have used deficit financing to boost their national economies. The result of credit expansion, however, is always the same: economic recession, and a refusal by governments and citizens to honor their financial obligations.[11]

Meanwhile, back in Australia, we're apparently rushing headlong to catch up to the government of the United States in terms of debt as a percentage of total government revenue. But where does that leave our investment program? Thinking about the future, we must realize that it is very bleak and something needs to be done about it. In chapter five I argued it was necessary to think about the future when making investment plans. There can only be a disastrous future unless we act now. For example, "the Parliament and the Australian taxpayers are not provided with information necessary to determine the extent of intergenerational transfers resulting from current policy decisions."[12] It's time the politicians and the taxpayers undertook a serious stock count!

Debt cannot go on forever. The "Great Reckoning" is about to begin.[13] For many, those who have seen their life savings dissipated by reckless spending in the '80s, or those who have seen their retirement fund reduced to inadequate levels, the day of reckoning has commenced.

Ask yourself this question: Is this what you want for your children? Do you plan to become a burden upon your children in your old age? It appears the government will impoverish you one way or another. Would you not rather leave your children an inheritance that will enable them to climb higher and further than you have done, something that will help them achieve goals beyond your wildest imagination? If you answered "yes" to this last question, then take steps now to change the political climate in your home country.

R.E. McMaster, a Christian investment adviser, publisher of *The Reaper* newsletter and businessman in the United States, made a telling observation in his 1986 book, *No Time For Slaves.* He argues that slavery is essentially economic, not political. To forget this is to easily find ourselves enslaved to a political order that keeps its people working just to supply the enormous taxes required to maintain the powerful elite in office. But what he

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the future relying on government statistics is notoriously inaccurate. Thus his timing may be out, but his argument otherwise is sound.

11. Robert Beckman, *Crashes: Why they Happen — What to Do* (London: Sidgwick & Jackson, 1988). See also Charles Mackay, *Extraordinary Popular Delusions and the Madness of Crowds* (London: George Routledge and Sons, 1869).

12. *The National Bankcard: Who Will Pay the Piper?* p. xii.

13. James Dale Davidson and William Rees-Mogg, *The Great Reckoning: How the World Will Change in the Depression of the 1990's,* revised ed. (London: Sidgwick & Jackson, 1993). See also William Houston, *Meltdown:The Great '90s Depression and How to Come Through it a Winner* (London: Smith Gryphon, 1993); Harry Browne, *The Economic Time Bomb* (New York: St. Martin's Press, 1989).

also points out is that "as children, we are dependent upon our parents to take care of us. We are irresponsible. We are accordingly not free. In a sense, we are slaves. People who grow older but are still dependent upon others to take care of them are nothing more than old children. They are still dependent. They are accordingly irresponsible and not free. They are slaves."[14]

This is why, ultimately, we must think about social conditions. We're back to the point made at the beginning of this book. You cannot have an investment program that does not have some relationship to the social conditions that exist at the time. Either our investment program supports these conditions or we work to change them. We cannot work to make changes while, at the same time, our investment strategy is contributing to the kind of social conditions we're trying to replace. This is clearly contradictory and an effort in self frustration and self defeat. Perhaps this is why the world is not changing for the better, despite the best efforts of many people. The check book eventually speaks louder than words.

McMaster does us another favor. He provides a barometer to test the level of slavery in society. That barometer, he argues, is the amount of taxes. The higher the taxes, the greater the amount of slavery, especially the kind I've discussed in this book, debt slavery. Ultimately, in the words of McMaster, "tax slavery moves people into debt slavery in order to maintain a lifestyle."[15] And after a while, doublespeak takes over and soon people begin to extol the virtues of debt and thereby the virtues of slavery. Now we are told slavery (debt) is the way to freedom and debt (slavery) is the way to riches. Both are illusions, as people shall find out the hard way.

Conclusion

In closing I'd like to finish where I started, considering the social conditions under which we live. No one's wealth is safe while the government continues to spend more than it takes in revenue. There will be either increased direct taxation or increased indirect taxation — perhaps both. Inflation is a tax and it is certain to exist while the demand for government revenue increases.

Therefore, the key to any long term financial goal must be the establishment of a social system where people can fulfil their callings under God without fear that their efforts will be frustrated by politicians and bureaucrats. This means an evangelistic program to change the way people think. But an evangelistic program of this magnitude, to change the political environment in Australia — and the world! — will demand huge financial resources.

Wealth gained for selfish purposes is ultimately sterile wealth. It achieves very little unless it is put to work. Wealth, when it is used to aid the spread of the gospel and used charitably to help those genuinely in

14. R.E. McMaster, *No Time For Slaves* (Phoenix, AZ: Reaper Publishing, 1986), p. 104.
15. *Ibid.*, p. 110.

need, becomes an enormously powerful tool in the hands of those that wield it. Use it wisely and you will gain; spend it foolishly and many people lose.

"You ask and do not receive, because you ask amiss, that you may spend it on your pleasures" (James 4:3). This is the challenge of Scripture. We lack the wealth we'd like to have because we do not ask for the right reasons.

CHAPTER 14

Postscript: A Special Word to Men

STATISTICALLY SPEAKING, MOST MEN WILL DIE before their spouse. You have the obligation to do your best to make appropriate financial arrangements for your spouse so she is not dependent upon others. How will this be done? Can you guarantee that your retirement pension will be sufficient to keep body and soul together? Remember, most private pensions reduce to a lower amount once the primary beneficiary of the pension dies, just as the government pension reverts to the single rate.

If your goal is to provide adequate financial resources for your old age as well as for your spouse and family, you have little alternative but to consider carefully the things I've outlined in this book and act upon them. Let's summarize the issues.

First, you need to decide what social conditions you want to have for yourself and your heirs. An investment program must work not only to create these kinds of conditions, but also to prevent the wiping out a lifetime of saving.

Second, I have argued that productivity is the way to increasing wealth. It is the best investment of all. There is no easy way to the top of the financial tree for most people, though some get there easily. Some people win the lottery, but the majority must work to produce wealth. (Naturally, lotteries are not a valid option for a Christian.) God has ordained that we should work and be productive, providing value-added goods and services to our neighbors who will, in return, reward us for our efforts at making their lives that little bit easier. So a job is required where there is scope for expansion of earning ability. This might require retraining and will definitely involve ongoing training, for it takes an eye for the future to see what will be the next area of opportunity in the marketplace. But it certainly is the way God has ordained that we should walk, so we can walk in it confident that He will guide us day by day.

Third, the three greatest dangers we face are death, taxes and inflation. Death is more dangerous to loved ones who remain than it is to you, so be mindful of them in your wealth creation programs. Taxes and inflation are here to stay until people get fed up to the point where they begin to look for representatives in government who will vote for lower taxes, a reduction in government spending and a halt to inflation. This is not about to happen in the immediate future. We will not see a change until there are enough people who become so tired of the present schemes that they provide a moral and ethical alternative based on the Bible. Politicians are needed who can offer biblical alternatives to the policies that have lured us into the mess that threatens to collapse the world's economic systems. To date, our Christian politicians remain part of the problem because they often fail to bring a specifically biblical response to the functions of government.

Fourth, keep out of debt. Live debt free because this is the only environment in which wealth can be saved and put to use for economic expansion.

Fifth, insurance provides a means of protection and should be used by everyone serious about protecting assets and their loved ones. There are no theological reasons to refuse to insure, just as there are no theological reasons that justify the use of debt, especially long term debt.

Sixth, settle on tried and proven money management and wealth creation programs that suit your goals and your personality. It is no good taking on a sophisticated savings program when you've not learned to put a few dollars into the bank each week. Long distance runners don't get to run 15 miles overnight. They build the stamina over many months of training. You must learn to do the same thing with your financial affairs. Begin small. If you've already passed this first hurdle, then you can look at other programs.

The Bible places obligations on all of us concerning the material possessions that God has given us. We are to be faithful stewards, and faithful means using wealth carefully and intelligently to create more of it. Not only that, God has given each of us unique gifts and abilities which can be used in cooperation with our fellow man so that we provide each other with mutually beneficial goods and services.

There are many demands on our time and wealth. The government's confiscatory taxation system, a wealth redistribution scheme, takes wealth from productive citizens and gives it to the non-productive and less-productive citizens. If this policy continues, it will eventually decapitalize the nation. No one continues to produce wealth only to have it taken from him. Eventually, the entrepreneurs, the successful people in terms of wealth creation, will begin to slow their productive activities. People will begin to calculate that the effort is not worth it if they cannot enjoy the fruits of their labor. There's an example of this in mainland China today. Many young Chinese wish to get out of the country. They know that if they enter a Chinese university, they're obligated to work for several years to reimburse the government for their tuition. At the end of that time the Chinese government will give them a special title of some kind, then declare they are too important to the Chinese economy to be permitted to leave the

country permanently. The result is that many Chinese students are refusing to attend university, for it hinders their chances of escape from a totalitarian regime. China is killing its future almost as surely as if it murdered the young.

Conclusion

Our calling under God is to be workers in His vineyard. Our work, all our activities, must serve this ultimate purpose. When we do things for God's purposes, we find our true mission in life. Then we have contentment and peace of mind, knowing that we are truly walking in the purposes God has ordained for us. We also know that our labor is not in vain, for our works follow us forever (Rev. 14:13).

This, then, is man's ultimate destination: to glorify God and *fully* enjoy Him forever. If we don't achieve this, we have only ourselves to blame.

APPENDIX A

Eight Arguments Against Debt

IT HAS BEEN ARGUED IN CHAPTER SEVEN that there are biblical grounds for staying out of debt. Any one of these is sufficient reason for people to avoid debt as far as possible. When accumulated together, they become a formidable array of reasons why debt should be avoided. Listen to what the Bible says.

1. Debt Discouraged

The first argument against the use of debt is that the Bible tells us very plainly to avoid it. In a passage in Romans 13:8, the apostle Paul, writing under the inspiration of the Holy Spirit, tells us that we should "owe no one anything except to love one another" (Rom. 13:8a).

There are some, however, who argue that this passage is not referring to financial debt. Commentators are divided on the matter, and when the scholars disagree it is often difficult for the layman to form an opinion. Their position, however, is usually presented as a statement without supporting evidence. Mostly, it comes down to the fact that the commentator *thinks* it is not referring to financial debt, but rarely offers evidence to show why this is so. Commentators, however helpful, are not our ultimate guide to life.[1] Only God and the Bible can hold that position in our lives. Therefore, we need to turn to the biblical text, and not the commentators, for guidance.

In order for us to understand the text, there are several things we should note about this verse to make sure the words are not taken out of their context and misused. *First,* commencing from verse one in the chapter, we have God's instructions on the nature of the civil authorities. They are God's servants or deacons (Greek: *diakonos).* In verse seven, St. Paul argues that it is precisely *because* they are the servants of God that we should pay taxes

1. See Appendix B for a discussion on the commentaries on this passage of Scripture.

to them. We are to "render therefore to all their due: taxes to whom taxes are due, customs to whom customs, fear to whom fear, honor to whom honor" (Rom. 13:7). According to this, we are under obligation to pay whatever is due to another person. Notice that we are not told *how much* we are to pay at this point: that question is answered elsewhere in Scripture. We are simply instructed to pay what is due. Since the Bible never countenances theft, the amount due here is only that which is *legitimately* owing. The point being made here for the purposes of our analysis, however, is that this passage is very definitely talking about money matters.

Second, it is clear from verse seven that the things being talked about are far wider than mere money. Note that this verse obliges us to render things such as fear and honor to those to whom it is due. While money is mentioned as one obligation we are to pay, we cannot confine this passage to monetary concerns only. Money cannot be excluded from this portion of Scripture.

Third, that the context includes money *and* other things is abundantly clear in verse eight. We are to owe no man *anything.* This is an all-encompassing term that must, *at the very least,* include the items mentioned in verse seven: taxes, custom, fear and honor. It seems that the great apostle is covering his tracks. He has mentioned four items in verse seven: taxes, fear, honor, and custom. In verse eight St. Paul is making it very clear that what he is saying here cannot be confined only to these four issues. We are to owe no man *anything* — including money!

Fourth, the Holy Spirit includes an exception in the latter half of verse eight. Debt as a concept cannot be avoided, since there are some things that are obligatory at all times. What is this obligation? We are to owe no man anything "*except* to love one another." Debt in some form, we might say, is something that is inescapable, since we have a genuine obligation to love one another. The point here is not whether we are to have any debts at all, but whether we may have *financial* debts. It is apparent here that the Scriptures are saying we are to have no debts, including financial debts, with this exception: we have an ongoing debt to love one another.

The language of Scripture here is useful. In the modern world, we do not usually regard the idea of loving our fellow man as a debt. God is saying that we have an ongoing *obligation* to love one another. When we go into financial debt by borrowing money we have an ongoing obligation to meet the repayment schedule. So, too, we have an ongoing obligation to love one another. It is not an option: it is mandatory. It is a debt we owe one another.

Fifth, the Bible here even tells us how we are to fulfil this ongoing debt that we have to one another. In verse nine several of the Ten Commandments are quoted and summarized under the concept of love. Love is, as the Scripture reminds us elsewhere, obeying God. "For this is the love of God, that we keep His commandments. And His commandments are not burdensome" (I John 5:3). I love my neighbor when I don't murder him or members of his family, when I don't steal from him or commit adultery with

his spouse. I obey this commandment to love my neighbor when I don't tell lies about him or covet anything that he owns. This is the debt that each of us has, an ongoing obligation to love our neighbor by keeping the commandments as they relate to both God and our neighbor.

For these reasons, there seems no valid case to exclude money matters from this passage in Romans 13:8. The context of the passage itself is very clear that it not only includes money (e.g. taxes), but incorporates everything, since nothing is excluded from the mind of the writer of these words. We are truly to owe no one anything — except love.

2. Slavery Prohibited

Think about words. Without them we'd find it difficult to communicate with others (even though some people are quite articulate with their hands). What do words mean? Who decides what they mean? What is the origin of language? If language comes from God, as our doctrine of creation implies, then it follows that the meaning of words must also come from God. Our basic definitions thus should come from God and not from man himself.

This idea is not new. It represents an older view, demonstrated in the original Noah Webster Dictionary of 1828. Webster, a Christian, sought to clarify the language so that it would aid in the propagation of the Gospel. What makes his original dictionary unique is the number of times he took basic definitions, or meaning of words, from the Scriptures.

I wish to follow this procedure here. There are two verses in the Bible that, when seen together, provide a basic definition and understanding of the word "debt" when used in the context of a financial obligation.

The first of these verses is Proverbs 22:7, "The rich rules over the poor, and the borrower is servant to the lender." The word here for servant can also be translated slave, and has the meaning of someone who has become a bonded servant to another. In Hebrew it means to become enslaved to, or to be kept in bondage. Taken by itself, the verse says that a borrower becomes a servant, or a bondslave, of the lender.

In a New Testament passage we are told, "you were bought at a price; do not become slaves of men" (1 Cor. 7:23). Since we are purchased by the precious blood of our Savior Jesus Christ, we are His bondservants. We do not have the liberty, therefore, to enslave ourselves voluntarily to any other master, since we are the servants (or bondslaves, if you prefer) of Jesus Christ. The Greek word translated as "slave" is *doulos.* It denotes the idea of compulsory service.[2] So we are not to voluntarily put ourselves into the compulsory service of others. Rather, we should keep ourselves as free people ready to serve our true Lord and Master, Jesus Christ.

2. See Gerhard Kittel and Gerhard Friedrich, eds., *Theological Dictionary of the New Testament,* Abridged in One Volume by Geoffrey W. Bromily, (Grand Rapids, MI: Wm B. Eerdmans, 1985), p. 182f.

If we take these passages together, we find that in the Proverbs passage we are given a definition of how we can become bondservants. We are informed that the borrower is a bondservant to the lender. In the First Corinthians passage we are instructed that we may not voluntarily enslave ourselves to any man. We have another Master whom we must obey at all times. We cannot be the servant of two masters, as Jesus tells us in a well-known passage from the Sermon on the Mount (Matt. 6:24). It appears we are not capable of split allegiance; we must have one Master, the Lord Jesus Christ.

In Scripture, financial debt is a form of slavery. It is too easy in the current climate of opinion to think of slavery as only a political manifestation. The Bible clearly links slavery to economic matters and debt in particular. We become slaves by borrowing things then promising to repay that which we borrow. Clearly this is not the only kind of slavery spoken of in the Bible, but it is one form of slavery. If this is the case, on what grounds can we exclude financial debt from the meaning of slavery when we come to the New Testament? It is illogical for us to reduce the meaning of the word slavery in the New Testament so that it does not support the concept of financial debt spoken about so clearly in Proverbs. Not only is it wrong, but it is all too easy to do.

Based on the evidence, it is reasonable to conclude that Christians may not enslave themselves to any person. This means we must avoid placing ourselves in debt in any form with one exception: we have a debt to love one another.

3. Prohibition Against Surety

Proverbs 6:1-3 says the following: "My son, if you become surety for your friend, If you have shaken hands in pledge for a stranger, You are snared by the words of your mouth; You are taken by the words of your mouth. So do this, my son, and deliver yourself; For you have come into the hand of your friend: Go and humble yourself; Plead with your friend." These words are an encouragement to anyone who has taken the position as guarantor for any debts, that he should do everything in his power to get out of this obligation. While this is not so much a specific command against debt, it is certainly an instruction from God that makes borrowing much more difficult.

The concept of avoiding surety is repeated later in Proverbs 22:26: "Do not be one of those who shakes hands in a pledge, One of those who is surety for debts." These words are self-explanatory.

There are reasons for this discouragement against being a guarantor for loans. In Psalm 119:122 the psalmist asks God to be His surety. "Be surety for Your servant for good." It is too easy to seek security from sources other than God. This is what both the borrower and the lender seek to do by having someone as guarantor for the loan. The guarantor is someone who can ultimately get the borrower out of his predicament of meeting his loan

obligations, while the same guarantor protects the lender when the borrower defaults. The Bible encourages us to seek our surety in God because we are His bondslaves or servants. Asking others to be surety for us is a rejection of God as our Surety. Acting as a surety for another is an attempt to take the place of God in the life of that person.

4. Debt and Inflation

In chapter six I discussed inflation and its causes. I argued that monetary inflation, an expansion of the money supply, causes price inflation. Monetary inflation, I also argued, was immoral, since it devalues the purchasing power of money as prices in the community rise. I pointed out that the two primary means of monetary inflation were using the presses to manufacture notes and coin and the creation of money through credit. It is this latter method of monetary inflation that we need to understand in relation to debt as well as in relation to biblical morality.

The modern banking system operates on a system of trust and confidence. No modern bank, at least in Australia, carries all its obligations fully in reserve. The legalization of fractional reserve banking, where the bank is only required to hold a fraction of depositors' money in reserve, has rendered each bank unable to meet its immediate obligations. When you deposit money in a bank it is a liability of the bank and an asset to yourself. Banks, though, have been granted a legal privilege that is denied to most other businesses. It is not obliged by law to hold all its liabilities in reserve. Instead of holding money in its vaults for safe keeping, the bank treats a portion of depositors' money as a liability and holds it in reserve (the purpose of the Reserve Bank of Australia), but considers the remaining and larger portion as an asset that it lends out at interest.

Bankers feel fairly safe in doing this, since they can estimate from previous experience what the cash flow from their vaults will be in terms of people demanding the return of their deposits. If they know that on average only 10% of money is needed to satisfy demands for a return of deposits, the bank can make use of the remaining 90% for itself in the interim.[3]

This is known as fractional reserve banking. But the problem does not stop at this point. It is compounded because the bank further mistreats the loaned-out portion of a deposit when it returns to the bank by again keeping 10% and loaning out the rest. This is how the financial system inflates the money supply, thereby increasing the amount of purchasing power (here in the form of credits). When the ratio is altered between money and goods (money includes credit, since it combines with currency to form purchasing power) by increasing the amount of money, prices tend to rise. Or, to look at it from the other side, the purchasing power of money

3. See Mark Skousen, *Economics of a Pure Gold Standard* (2nd ed., Auburn, AL: Praxeology Press, 1988).

declines. This is inflation, and you can refer again to chapter six for a fuller explanation of inflation and what effect it has.

If it is accepted, however, that diluting the value of money is morally wrong, then we need to think carefully about the use of bank debt, since it is the primary means whereby the money supply is expanded.

Put this another way: without borrowers, fractional reserve banking methods would fail. If there were no borrowers, there would be no possibility of the bank creating money *ex nihilo,* out of nothing.

Since lowering the purchasing power of money is defrauding our neighbor of his wealth, we must recognize that each one of us has the means in his power to help prevent this from occurring. Single-handedly we may not be able to stop the practice totally, but we can add our small part to hinder its progress. We can decline to participate in the fractional reserve procedure by refusing to become borrowers. (We could also refuse to participate by insisting that the banks hold our funds in reserve so that their obligations are matched by their reserves. In other words, we need a 100% reserve banking system.)

This argument is an argument against borrowing from banks. Borrowing from friends or relatives does not cause the money supply to rise, so this argument against debt is limited in its scope to only that debt which is used to increase the money supply. Earlier arguments against debt, however, cover non-bank debt, so the limited aspect of this particular argument against debt does not provide any loopholes where a pro-debt position can be taken.

5. Debt vs. Saving

In the first three chapters I described the wealth creation process. Mankind was created with the mandate to be fruitful, to be innovative, to be productive, to look after God's garden, preserve it, husband it, and in so doing create wealth for all to enjoy.

More importantly, however, it was seen that the process of putting aside for future use (savings) was the necessary step for economic advancement. Without savings there can be no process of ongoing economic development.

Debt is the opposite to the idea of saving. Instead of saving, people become borrowers. Instead of storing up wealth for the future, they consume other people's accumulations of wealth paying for the privilege with the wealth of tomorrow. The God-ordained process of wealth creation, however, is the foregoing of current consumption in order to put aside wealth for use in the future. That is, we must save for the future. We need to take assets we have now and turn them into more assets, better assets, in the future.

We saw in chapter four that the scripture in Proverbs 13:22 says a good man leaves an inheritance to his children's children. This thought is repeated in the New Testament where parents are instructed to "lay up"

wealth for their children (2 Cor. 12:14). This leaves each of us with an obligation to leave our children some kind of inheritance. Our children's advancement will be directly linked to the inheritance we leave them; and it does not require a degree in economics to understand that the greater the inheritance we leave them, the better off they'll be (assuming they don't squander that legacy).

Debt, however, is the very antithesis of this biblical idea. Rather than putting aside wealth to consume in the future, debt is an attempt to use future productivity in the present. People do not like to wait in order to get things. When borrowed funds are so readily available, as they are under the present financial system, it is easy to forget that the biblical pattern is to work and save for the future. To buy now, with borrowed funds, is to say that our future earnings are to be spent in the present.

This contrasts with the New Testament passage mentioned above, where we are instructed to "lay up" wealth for future generations. While there are some people who will argue that debt is a means of laying up wealth for the future, they do not take into consideration the interest that is paid when they borrow. Unfortunately, our calculating ability on this matter is seriously hampered by inflation. We see, for example, house prices going up. We also see our pay packets going up each year. So we borrow to buy something, hoping that the item we buy also increases in price to cover the cost of interest that we must pay. If prices were relatively stable, then we would see the real effect of borrowing: an item that might cost us two or three times its price by the time we paid the interest bill, and if we were to sell it, we'd never recover the amount paid in interest.

Only in an age of inflation can any attempt be made to defend the use of debt. But this is precisely why debt must be avoided. Debt fuels inflation and we can soon get caught on a never ending merry-go-round of price increases that distort our ability to make sound economic judgments.

It is true to say that there can be no borrowing unless there is a saver who has made the funds available. But just because other people save, this is not a reason we might use to excuse ourselves from the same obligation. When everyone saves, the future productive capacity of society is enhanced. This is how we create an inheritance for our children and grandchildren.

Not surprisingly, we are seeing what the low saving's rate is doing to countries such as America and Australia in the current economic climate. Many of our Asian neighbors have much higher saving's rates, and their productive capacity is outstripping that of Australia. The opinion of business analysts is divided as to whether productivity in countries in the Pacific Basin is surpassing that in the United States. Increased wealth, though, is flowing to these nations, showing the truthfulness of God's plan for wealth creation. The United States, once the leading industrial nation in the world, is now staggering under a massive debt load of four trillion dollars. Some suggest that it is no longer the leading economic player in the world. But it is debt and the failure of Americans to follow the Bible's teaching on this matter, that has brought about its economic decline. In other words, ethics

is the cause of declining productivity, and only a return to biblical ethical standards will improve the economic situation.

6. Greed

There is another argument against debt — or if not against debt as such, it at least requires a very careful self-analysis to make sure we are not guilty of simple greed. Debt can do at least two things for people. *First,* it permits them to buy goods for which they do not have sufficient cash right now. They don't have the funds right now and don't want to wait until they can save it. Or they think they'll never be able to save the required amount, and don't want to miss out on the goods. This has nothing to do with sound management at all. Rather, it is the manifestation of greed in the heart of man. This impatience, a refusal to wait until the funds are saved, is founded on an attitude of laziness and lack of self-discipline, often an inability to save for the future. Neither attitude provides a proper excuse to borrow money.

The desire for goods we cannot afford right at this moment is, I suspect, a reflection of the attitude towards the wealth that other people have. It is the "keeping up with the Joneses" syndrome (better spelt *sin*drome). However, time and time again we are told not to covet or desire the wealth of our neighbor. We should be content with that which God has given to us in His providence (Heb. 13:5). We break this command by desiring, for wrong reasons, to have a similar amount of wealth to our neighbor.

How many can truly say that their borrowing does not have, at its deepest level, the motivations of greed and avarice? Maybe it is not recognizable as greed, but a serious dose of self-analysis in the light of the glorious revelation God has given to us in the Scriptures might surprise many.

Second, there is another aspect of debt and its relationship to greed that has nothing necessarily to do with borrowers. People who borrow are those who want to buy goods and services. But there is always another person involved when someone makes a purchase. He, too, has an interest in debt. He is the seller of goods and services. If he can get a potential buyer to go into debt, it may become possible for him to get a higher price for his goods than he could if the buyer refused to borrow.

Imagine a person selling his home. He asks $100,000 for it. A potential buyer offers him $92,500 cash. Another buyer, however, says he'll pay $115,000 by going into debt for five years so he can get the funds to pay the price. A third buyer arrives and is willing to take on a 20-year mortgage and pay the seller $150,000 for the house. What is the seller going to do? Better still, what would you do if you were the seller? Many people would be tempted to accept the higher offer. But is this the morally correct response in this instance?

Martin Luther saw this side of the debt issue clearer than many, and he had some firm words to say about it. He was concerned that business dealings be governed by ethics, not economics. "Because selling is an act performed toward your neighbor, it should rather be so governed by law and conscience that you do it without harm and injury to him, your concern being directed more toward doing him no injury than toward gaining profit for yourself."[4] For Luther, the idea that a seller could, or should, sell for as high a price as possible, was an occasion "given for avarice, and every window and door to hell is opened."[5] While this does not totally discount the idea of getting the highest possible price, it does mean that sellers must consider their motivation in attempting to get high prices for the sale of their goods. It does mean that money alone should not be the criterion by which we make the judgment. It is better to get a lower price and not see the buyer "injured" than to get a higher price and "hurt" the buyer.

Greed is the issue here. Greed is an attitude that puts the individual and his desires at the forefront of any transaction (Isa. 56:11). The greedy person is only concerned for himself and what he can get. He gives little recognition to the needs of others. Naturally, the Bible warns us against greed. It was one of the charges the Lord Jesus Christ brought against the Pharisees: "Then the Lord said to him, 'Now you Pharisees make the outside of the cup and dish clean, but your inward part is full of greed and wickedness" (Luke 11:39). According to Psalm 10:3, the wicked person is one who "blesses the greedy and renounces the Lord." A greedy person is prohibited from being an elder or bishop (I Tim. 3:3), for ultimately greed gets such a hold on a person that it leads to death (Prov. 1:19). Like a cancerous growth it leads to a slow and lingering annihilation.

Temperance in our business and our demeanor concerning wealth is just as important as it is with alcohol or food. While recognizing that there is a place for a just and fair price that must compensate a seller of goods, it becomes a matter of moral concern, and charity towards others, whether those selling prices are determined by the amount of debt that a potential buyer might be willing to take on.

While there are some who argue that we should always get as high a price as possible, it is a fine line between getting a high price and being greedy. It is better to stay on the side of conservatism than to become greedy for an extra dollar or two in a sale. (There is always someone reading an argument like this who will want to know how to tell where to draw the line on prices. Greed, however, is not a dollar amount, it is an attitude. It is caused by letting money rather than the moral concerns of love and compassion towards our fellow man dictate our actions. It is up to each one of us to know ourselves well enough so that we do not cross the line.)

4. Martin Luther, "Trade and Usury" in Walther I. Brandt, ed., *Luther's Works: The Christian in Society*, Vol. 45 (Philadelphia, PA: Fortress Press, 1962) , p. 248.
5. *Ibid.*, p. 247.

7. Debt and the Lender

Thus far our discussion has centered on those who borrow, and those who can benefit from debt, the sellers of goods. But there is yet another person who benefits from debt, and that is, naturally, the lender. Interestingly, the Bible also has some comments to make to the lender. The passage in Deuteronomy 15:1-11 places limitations on the actions of lenders. First, they are to cancel all debts to a brother in the seventh year. At the end of every seven years, the creditor is to cancel any outstanding debt. Second, this limitation did not apply to foreigners. Third, the requirement to cancel debts was no excuse not to lend to a brother in need. Fourth, the fact that the sabbath year was drawing close was likewise no reason to withhold assistance to a brother.

The sabbath year laws, interestingly, put a restraint upon the lender, not the borrower. This passage gives no encouragement for debt, even the limited use of debt. What it does do is put a strict limitation on lenders. The debt was not to be collected in full. At the end of the seventh year whatever remained unpaid was to be canceled. It is expressly stated that the Sabbath year's imminence should not be used as an excuse to withhold funds from those in need.

If nothing else, this provides an indication that long-term lending is to be avoided. By long-term is meant longer than seven years. And if long-term lending is to be avoided, this naturally abolishes any notion of long-term debt.

8. Predicting the Future

None of us knows the future with any certainty. The future is known to God alone, and we must live each day in ongoing dependence for His daily provision during the circumstances in which we find ourselves. Ecclesiastes 11:6 says, "In the morning sow your seed, and in the evening do not withhold your hand; for you do not know which will prosper, either this or that, or whether both alike will be good." Although God is our heavenly Father and promises never to leave us nor forsake us (Heb. 13:5-6), this does not mean we have a trouble-free life. Christians get sick; they are killed in battle; and their businesses can flounder.

When we take on debt, however, we are saying that we know the future with enough certainty that we can guarantee payment of the loan. The Sabbath year debt cancellation, however, places a limit on how far we can safely make these kinds of assumptions about the future. The person who takes on a 25-year mortgage is, in effect, saying to the lender that he is sufficiently knowledgeable about the next 25 years that he can guarantee to make the repayments. Our choice is whether we accept God's limitation on debt or whether we substitute our own standards for those which He has given us in the Bible.

This point is appropriate to those who are self-employed in some form, especially farmers. In the present economic recession many farmers have

gone to the wall because of lower commodity prices. The depressed prices might occur because of poor weather or because of international and local price fluctuations caused by supply and demand conditions. Individual farmers have no control over prices and any sudden drop can make the repayment of farm debt difficult, if not impossible. It is those farmers in debt who are suffering most in the present conditions. Those without debt certainly are making no more income than those with debt, but since they don't have repayments to meet they can wait more patiently until the economic situation improves.

When people take on long-term debt and ask God to bless their activities, they are, in effect, asking God to do whatever is necessary to make sure they can keep their commitments. This is an attempt to manipulate God, rather than live in the shadow of His bountiful goodness and daily provision for us. It is because we don't know the future that we should limit our guesswork about how God will deal with us in the future. To make promises to a lender that we can meet repayments for the next 25 years is clearly a presumption on our part and a mistaken notion about God's providence.

Conclusion

These eight reasons accumulate to a serious proposition that debt, if not prohibited outright in Scripture, certainly needs to be approached with caution. The modern proclivity to use debt for so many purposes certainly finds no warrant in the Bible. It is also certain that debt has contributed to the economic problems of formerly great nations. Therefore, the person who is serious in approaching his wealth, both its accumulation and its preservation, will do everything in his power to handle debt in a manner which conforms to the requirements of God's Holy Word.

It is important to note that none of these arguments is an economic one. They are all moral arguments. This is not an argument in the first instance over whether debt is a good use of money, The decisions over debt and its use should not be made on pragmatic grounds (e.g. this is the only way I'll get a house) but on ethical considerations: "What saith the Lord?" This is the only way to secure a financial future.

APPENDIX B

A Note on the Commentaries

THE VIEWS EXPRESSED IN THIS BOOK concerning debt are, in the modern context, not held by the majority of Christians. While it is recognized that the Church was at one time against the idea of usury, that is, the charging of interest for money, the notion of borrowing itself does not seem to have come under the same condemnation. Perhaps this is because the Church felt that if usury itself were prohibited then few people would lend. From an economic viewpoint, we would expect that a "free" good would be in great demand. However, if lenders could not charge interest on loans, then they would need to find something else to do with their money in order to make it productive. This they could only do by putting the capital to work in other forms.

The views expressed in this study rely to a great extent on an understanding of Romans 13:8. While the arguments against debt are not confined to this verse, it is a very significant passage for the subject. Moreover, the interpretive approach taken here is that the natural reading of the verse should be accepted unless there are good and necessary reasons for modifying this approach. Thus, the natural reading of the phrase, "owe no man anything" is taken to mean that people should not put themselves into *voluntary* debt. To be certain, this means a great portion of economic activity today would be prohibited. However, some of the economic issues of debt have been dealt with in chapter seven and Appendix A. Refer to these for further comment.

Interpretation of this passage falls into two categories. On the one hand, all the commentators say that if we owe something we are to pay it. This might mean, for example, that we meet our repayment schedule for a home mortgage. Clearly, this is a very important point, also talked about elsewhere in the Bible. If we make commitments of this kind, we should make every effort to keep them. Failure to do so would be a violation of the eighth commandment: Thou shalt not steal. This view, however, omits a

discussion of a prior and more important question: should people voluntarily go into debt in the first place?

On the other hand, there is a very small number of commentators who confront this question. They actually raise the question as to whether or not this verse is a general prohibition against debt in general, and monetary debt in particular.

In light of this, it is appropriate to review some of the modern and earlier commentators to see how they interpret Romans 13:8.

1. John Calvin

Interestingly, John Calvin makes no reference to monetary matters in his commentary on this verse. Therefore, he cannot be used either to support or to deny the exegesis offered in this manuscript. Calvin's concern rested with his intention to ensure the idea of love in this passage was not divorced from specific biblical standards, and therefore did not become an excuse for anarchy.

2. Matthew Henry

Matthew Henry comments in part: "do not continue in any one's debt, while you are able to pay it, further than by, at least, the tacit consent of the person to whom you are indebted." This interpretation implies that if it is possible we should pay our debts, and if we remain in debt then we should do so only with the consent of our creditors.

While it is recognized that we should pay out our debts if at all possible, this is not the real question. The real issue is should a person be in debt in the first place. Unfortunately, Matthew Henry does not address this question nor talk about it in the context of money. This may be because the modern forms of debt were not familiar to him, and the acceptance of debt foreign to people in his day.

3. Robert Haldane

Haldane takes the phrase "owe no many anything" to mean, we are not "to withhold from any man what is his due." What someone is due, however, is not the same as asking whether people should borrow in the first place. To be certain, we are to ensure that we pay what is due: the mortgage or car repayments are due on a particular date agreed upon the payment schedule. However, Haldane does not address the question: does this text put an obligation on people to avoid borrowing?

4. John Brown

Brown has little comment to make on this passage other than in a generalized sense. He does not accept the imperative mood of the phrase, thinking that as a command "there is something hard and unnatural in the expression." This seems to be inadequate reason to dismiss the imperative

option, especially when the form of "no one" and "nothing" in the Greek would be different if the mood was indicative.

5. Charles Hodge

Hodge's commentary respond to the question of whether the verb "owe" should be taken as imperative or indicative mood. He explains why the original language requires the phrase to be translated as an imperative. Therefore, Hodge gets closer to the heart of the matter. He recognizes that the words may have the interpretation of prohibiting debt. However, he offers this comment: "The idea which a cursory reader might be disposed to attach to these words, in considering them as a direction not to contract pecuniary debts, is not properly expressed by them; although the prohibition, in its spirit, includes the incurring of such obligations, when we have not the certain prospect of discharging them." Hodge thus adds something to the text which, perhaps, is not warranted. He makes the text to read: "take on no debts unless you have the certain means of paying them." This, no doubt, is a valid truth. Whether it is taught in this verse, though, is another question.

A person who contracted a debt without the means of repayment would most certainly be committing a sin of dishonesty. Now the question of whether or not a person who takes on a 25-year mortgage can know for certain that he is able to make the repayments is relevant at this point. Predicting this far into the future seems to be attempting to "be like God." It appears presumptuous, and also an attempt then to dictate to God that He must providentially place the borrower in circumstances to permit him to meet the repayment schedule. In itself, this is an argument against debt. While it is true that this is not so great a problem in shorter term debt, the primary reason for an anti-debt position is not based on time (i.e., the length of the repayment schedule), but what the Scriptures teach: "owe no man anything."

Hodge, recognizing that there is an imperative in the words at this point, adds that the text only requires us to "acquit" ourselves of any debt, except the ongoing obligation to love. This seems, however, to contradict his earlier comment. It appears that if we may legitimately contract financial debt, then there is no reason to hurry to acquit ourselves of it. Our sole obligation, apparently, is to keep up the repayment schedule.

It does not appear to stretch logic too far to argue that if Hodge recognizes that we should be acquitting ourselves of any debts, then there is some kind of obligation not to be in debt in the first place. If the words "owe no man anything" have any meaning, this is precisely what they mean. And to imply that it is acceptable to contract financial debts but to acquit ourselves of it if we have the means, is to force a strained interpretation of the words themselves.

6. The Biblical Illustrator

The *Biblical Illustrator* offers us a number of views on the passage. Of these, the words of Dr Chalmers are the most forthright on the meaning of the words, "owe no many anything." Says Chalmers, "This precept may signify either to leave not our debts unpaid, or never get into debt. . . . There can be no doubt, however, that in the first interpretation of it, it is a matter of absolute and universal obligation. Though we cannot say that a man should never get into debt, we can feel no hesitation in saying that, once in, he should labor most strenuously to get out of it."

It does not seem to strain the words of Chalmers at all to say that he is in some agreement with the thesis offered by this writer. When the choice is ours, we should not put ourselves into debt under any circumstances. The fact that people need to go into debt to buy many goods and services is "far more due to the want of management than to the want of means," argues Chalmers.

The Editor of *The Biblical Illustrator,* Joseph Exell, echoes these sentiments when he argues, "Keep out of debt. Avoid it as you would avoid war, pestilence, and famine. Hate it with a perfect hatred." Echoing the sentiments of Proverbs 22:7, he argues that "Debt is the hardest of all taskmasters; the most cruel of all oppressors. It is a millstone about the neck It is an incumbus on the heart. It spreads a cloud over the whole firmament of man's being. . . . It drags the nobleness and kindness out of the port and bearing of a man; it takes the soul out of his laugh, and all stateliness and freedom from his walk. Come not, then, under its crushing dominion."

7. William Hendriksen

Hendriksen attempts to address the issue of whether the passage deals with financial debt . However, he is against the idea that Romans 13:8 prohibits people from borrowing money. He provides several texts in support. Each one of these needs to be considered.

a. Exodus 22:25 (NKJV): "If you lend money to any of My people who are poor among you, you shall not be like a moneylender to him; you shall not charge him interest." A question that must be addressed in this issue is who is the writer talking to in Romans 13:8. I do not mean who is the letter addressed to (the Romans), but who does he have in mind when he states, "owe no many anything." It seems fair to surmise that he has in mind here *borrowers.* These are the people who should not go into debt so they do not violate the imperative, "owe no many anything." This text, however, is not directed at borrowers. It is directed toward lenders. It is lenders who are not to act like a moneylender and charge interest. Thus, it seems that this verse cannot be used to say that Romans 13:8 prohibits borrowing. In this context it is necessary to remember that this paper argues that Christians should not take on debt *voluntarily.* The circumstances of life cause some people to make errors in judgment which force them to need assistance from those more fortunate than themselves. Thus, there is no

prohibition in the Bible against lending. There is, on the other hand, a general encouragement not to go into debt.

This passage also indicates that lending was not a commercial business operation. Thus, the lender must not be like the moneylender. This would indicate that loans are loans of charity, of help and support to those in genuine needy circumstances, not the kind of loans that are made for commercial reasons. This latter group would include home mortgages, car loans, etc.

The question may arise, if God permits lending, then why does He prohibit borrowing? This is a legitimate question. What we see in the Scriptures is a general encouragement to lenders to be generous with their wealth to those less fortunate than themselves. Potential borrowers, on the other hand, are encouraged not to borrow. This paradox is not alone in Scripture. A similar paradox exists when the Bible prohibits the taking of a bribe to pervert justice while allowing the payment of a bribe in order to obtain justice or to be left alone. (See Deut. 16:19; Prov. 17:23; 18:16; 21:14; Matt. 5:40.)

b. Psalm 37:26: "He is ever merciful, and lends; And his descendants are blessed." This text, again, is directed at the lender, not the borrower. Here the psalmist declares that the godly man is one who lends. But to lend in this manner, he must lend in terms of the law of God, Deut 15:8, not as a common moneylender. It does not seem warranted to use this verse to force an unnatural interpretation on Romans 13:8.

c. Matthew 5:42: "Give to him who asks you, and from him who wants to borrow from you do not turn away." Again, this verse is directed to lenders, and the comments above apply here as well.

d. Luke 6:35): "But love your enemies, do good, and lend, hoping for nothing in return; and your reward will be great, and you will be sons of the Most High. For He is kind to the unthankful and evil." yet another encouragement from the Scriptures not to close our wallets when it is within our means to lend to another. However, a repetition of the sentiments of Ex. 22:25 is found in the phrase, "hoping for nothing in return."

Thus, Hendriksen has not proven his case. He has only proven that lenders are to have a certain view about their wealth and the way in which they should manage it. Thus, we cannot accept Hendriksen's argument that these verses somehow do away with the natural reading of the phrase, "owe no man anything."

8. John Murray

Comments applied to William Hendriksen are applicable to Murray, for he uses the same four Scripture references to do away with the natural reading of the phrase, "owe no man anything." Murray adds another reason to his argument when he states: "In accord with the analogy of Scripture this cannot be taken to mean that we may never incur financial obligations, that we may not borrow from others in case of need. . . ."

Unfortunately, Murray does not tell us what this "analogy of Scripture" is that somehow excludes financial debts. So, his modified interpretation of this verse is not accepted. However, he is more circumspect in adding his own qualifier: borrowing may only be undertaken in case of need. This, no doubt, raises the question of how to define "need". But it seems probable that he has in mind that needs and wants are not necessarily the same thing.

Thus, it seems that Murray is aware of the force of the natural reading of the phrase, "owe no man anything." He knows that there is no open market for borrowing in the biblical economy. While he shies away from making this interpretation rather pointedly, by adding his qualifier of "need" he seems to be recognizing that Romans 13:8 acts as some kind of limiter on borrowing. And once a limitation is admitted, it is then necessary to draw the line to show where that limitation resides. The text appears to do this for us: *owe no man anything!*

9. Sanday & Headlam — International Critical Commentary

No mention is made of the *application* of the verse in question. Their translation of the Greek, however, reinforces the imperative nature of the text. As they say, the Greek "must be imperative as the negatives show. It sums up negatively the results of the previous verse and suggests the transition, 'Pay every one their due and owe no man anything'."

10. R.C.H. Lenski

Lenski falls into the error of making logical deductions rather than following the biblical argument. Based on his reading of Matthew 5:42 where, as mentioned above, there is an express encouragement from our Lord to lend to those in need, Lenski assumes that this "shows that borrowing is not wrong."

Our problem with this assumption is that he is applying the laws of logic rather than the laws of consistent biblical exegesis, allowing the text to speak for itself, interpreted, no doubt, in the light of other Scripture. However, because our Lord does not condemn lending, this does not mean that borrowing is approved: especially the kind of borrowing familiar in the modern world of consumerism.

While it may *appear* to be illogical to say, on the one hand, that lending is approved by God but borrowing is disallowed in most circumstances, the issue is ultimately not one of logic, but one of "what saith the Scriptures?" Thus, we do not believe Lenski provides any argument that would invalidate our thesis that Romans 13:8 is a prohibition against all but involuntary debt.

11. Others

The following commentators were consulted. Since they contributed little of substance to this topic, they are listed here as sources of reference only.

Matthew Poole, *A Commentary on the Holy Bible;*

Adam Clarke, *The Holy Bible: Commentary and Critical Notes;*

Charles Ellicott, *Bible Commentary;*

W.G.T. Shedd, *A Critical and Doctrinal Commentary on the Epistle of St. Paul to the Romans;*

H.C.G. Moule, *The Epistle to the Romans;*

William Barclay, *The Letter to the Romans;*

F.F. Bruce, *The Epistle of Paul to the Romans,* Tyndale New Testament Commentaries.

Conclusion

It is significant that in the one commentary that offers the closest agreement to the thesis presented here, (*The Biblical Illustrator*), the writers are not twentieth century commentators. One is tempted to say that perhaps some commentators have accepted the cultural status quo on the issue and interpreted the passage in the light of accepted cultural practices, rather than address the biblical text as it stands. We cannot read motives where they are not expressed. However, it is disconcerting to find that the commentators make little attempt to apply the phrase, "owe no man anything," literally.

Of the contemporary commentators, John Murray seems to express a view not too far distant from this writer. At least his view is consistent with the idea expressed in this paper, that general borrowing is prohibited by Romans 13:8. Murray is willing to allow borrowing in case of need. This writer accepts that in the circumstances of life people do make bad judgments, or they suffer circumstances which, sometimes, force them into a position of needing financial assistance of some kind.

It would be remiss not to consider, however, that in the total context the lender is also to be charitable when lending. Lending amongst God's people, in the biblical economy, was an act of charity, not a commercial operation. Debt has long been thought of as a position of slavery (Prov. 22:7). People inside Israel were to be slaves to God and righteousness. Those outside Israel were slaves to sin and therefore could be put into financial bondage as a sign of their spiritual slavery. Inside Israel, however, God's people could not be enslaved.

Also, the Sabbath year law required a lender to forgo all debts at the end of the seventh year. This put a clear limitation on lending. It also placed an obligation on the lender to ensure that kindness and charity were at the center of his lending, not commercial gain.

Much of the commercial activity today would thus be condemned under the interpretation of Romans 13:8 offered here. Prices of many goods, e.g., houses and automobiles, would be much lower, since debt permits the seller to get a higher price. However, the fact that this interpretation might cause a change in our economic structures is hardly reason to abandon it. The interpretation must stand or fall on its own merits and its general

faithfulness to the teaching of Scripture. Once this question is satisfactorily answered, the task is to reform our economic practices to conform with the righteous and just standards of God's Holy Word.

APPENDIX C

Debt versus Rent

SOME PEOPLE READING THIS MANUSCRIPT will be sufficiently astute to recognize that I have not dealt with the relationship between borrowing and renting. This appendix is a contribution to the ongoing debate in this area. I say ongoing because I am not certain that I have said the definitive word on the topic. All I can hope and pray is that I have been able to contribute some worthwhile thoughts to the debate on debt.

On the surface, there appears to be no difference between renting and borrowing. For example, I can borrow (i.e. rent) a car (an economic asset) from Hertz and drive it to my heart's content while I continue to make the rental payments. On the other hand, I can also borrow (i.e. rent) money (an economic asset also) and have the use of this money while ever I continue to pay the "rent" — that is, the interest — on the money. In both cases, at the end of the rental period, I must return the economic asset that has been rented. One difference between renting a car and money, though, is that the rental payments on the money quite often include a repayment of some of the principal amount, the economic asset rented.

If renting a car or a house, on the one hand, is identical to renting money on the other, then a legitimate question arises: What it is that the Bible prohibits when it says, "owe no many anything" (Rom. 13:8)? Are renting and borrowing the same thing, or is the word debt used to distinguish a particular type of transaction that is not the same in all respects to renting an automobile?

It will help us answer these questions if we recognize that money, although an economic object like any other, is not the same as other economic objects in all respects. Money is different in a most peculiar and important respect: it functions as a medium of exchange.[1] That is, money, of all economic objects, serves a single purpose: to facilitate exchange of other goods and services. It serves other purposes too, but these are not the focus of our attention at this time. It is the function of money that sets

1. Ludwig von Mises, *The Theory of Money and Credit* (Irvington-on-Hudson, NY: Foundation for Economic Education, [1952] 1971).

it apart from other goods. Other goods serve us when they are consumed in some form. Money, however, is never consumed, it is exchanged for goods and services.

Since money serves the purpose of exchange, it is evident that money serves us best when its *value* is relatively stable. The laws of supply and demand tell us that when the quantity of an economic good is expanded while all other items remain stable, the value of that economic good will decline. That is, its price will go down. Money is not immune from general economic laws. The value of money will change if its supply is increased, just as the value of potatoes will alter if the quantity of potatoes is changed.

For money to serve its function as a medium of exchange, it must hold its value over time. Since exchanges are usually made with money, and people do not want to make all exchanges immediately, they need to be able to hold onto the money until they are ready to make an exchange, and have that money hold its value over time. While there is an economic advantage to have the value of money get higher over time, there is certainly no value to have its value lowered.

This function of money indicates a major difference between "renting" money and renting any other economic object. Because money is exchanged and not consumed in order to fulfil its economic purpose, when money is "rented" it is immediately exchanged for some other economic item. When a house is rented, in contrast, the house stays with the renter: he holds on to it, uses it, until such time as the house owner and the renter decide to end their agreement.

Thus, there is a marked difference in one respect between "renting" money and renting other economic goods. It is the collateral required in the different agreements that sets renting money apart from renting other economic goods. When a person rents a house, he only needs to prove that he can make the rental payments in order to get a rental contract. Should he not be able to meet the payments, the owner will take back the rented item, and their agreement comes to an end.[2]

When a person rents a $200,000 house, for example, he must be able to show he can pay the $1,200 per month rental fee. If he discontinues the agreement in the future, he hands back the house. When he "rents" $200,000 in money, on the other hand, he will be required to return that principal amount. Because the money renter turns the money into another asset, the person (or bank) renting out the money, seek collateral *other than the item rented* to secure the money. If a person "rents" money to buy a home, for example, the bank might require the house as collateral in case the renter (borrower) find himself unable to repay the principal amount. But if that collateral does not permit the bank to get all its money back, the bank will continue to pursue the person who "rented" the money.

2. This may be modified by the necessity of the renter to meet a minimum number of rental payments. But usually, if another renter can be found, the current renter can be let out of his agreement with relative ease. Not so when money is borrowed.

So, in practice there is a major difference between "renting" money, commonly referred to as borrowing (i.e., going into debt) and renting any other economic good. That difference is collateral.[3] While there are many similarities in rental of all economic goods, the "rental" of money manifests itself in different legal arrangements to protect those who "rent out" their money.

It is this difference that distinguishes between what is called rent and what is called debt. This difference manifests itself in current law, and we need to ask if this difference is what the Bible means when it uses the concepts of rent and debt. If rent and debt are no more than different names for the same thing, then any prohibition against debt would also be a prohibition against rent. On the other hand, any biblical endorsement of rent would also be an approval of debt. This would make nonsense of the biblical text.

On the one hand, the Bible permits rental contracts but places a restriction on debt, as I've argued in chapter seven. S.C. Mooney, in his book, *Usury: Destroyer of Nations,*[4] takes this argument a step further when he argues that the concept of rent in the Bible is different from the modern understanding of rent. This may be so, but proves no more than that there is a wider difference between rent and debt, as argued in this appendix. But we still need to address the issue whether rent and debt, as they are understood by modern man, are identical or not. In this instance, I've argued that they are not the same.

Therefore, it is not permissible to use the "debt is the same as rent" argument to justify debt and its use. They are not the same thing in all respects and there are good reasons for not dealing with them as identical issues. Every contributor to the money and debt debate appears to be agreed that the "renting" of money is what we call debt. It is this practice that the Bible regulates with its prohibition: "owe no man anything."

3. For further discussion on the nature of collateral and debt, see Gary North, *Tools of Dominion: The Case Laws of Exodus* (Tyler, TX: Institute of Christian Economics, 1990), pp. 713-716.
4. Warsaw, OH: Theopolis, 1988.

APPENDIX D

Further Reading

NO SINGLE BOOK CAN GIVE YOU all the information you need concerning the creation and management of money and wealth. Below is a list of books that will help you on your way to achieving your financial goals.

A word of warning. Some of the books listed below are by non-Christian authors and do not profess to provide a biblical view of the topic at hand. However, I have included these books because I believe that each of them has something positive to contribute to an understanding of wealth. Sometimes even the non-Christians get it right! This requires diligence on the part of the reader to discern what is worthy and what is not commendable in any particular book. But the experience of reading these books and gleaning the ideas of the author will be well worth the exercise for anyone serious about learning how to create and manage wealth.

Happy reading!

1. Economics, Money and Wealth

Anderson, Douglas, *Owe No Man Anything,* Hampshire, TN: Light & Salt, 1980.

Beckman, Robert, *Crashes: Why They Happen _ What To Do,* London: Sidgwick & Jackson, 1988. A history of market crashes over the past four centuries, why they occurred, how to identify them, and how to protect yourself.

Burkett, Larry, *What the Bible Says About Money,* Brentwood, TN: Wolgemuth and Hyatt, 1989. A compilation of all the references to money found in the Bible.

Burkett, Larry, *The Coming Economic Earthquake,* Chicago, IL: Moody Press, 1991. A superb analysis of the modern world economy and why there is going to be a collapse.

Burkett, Larry, *Debt-Free Living: How to Get Out of Debt (and Stay Out),* Chicago, IL: Moody Press, 1989.

Chilton, David, *Productive Christians in an Age of Guilt Manipulators,* Tyler, TX: Institute for Christian Economics, 1982. Rev. Chilton replies to the socialist policies of Ronald Sider.

Congdon, Tim, *The Debt Threat,* Oxford: Basil Blackwell, 1988. The world is on the brink of economic collapse because of debt. Must reading for any investor who wants to know what's going to happen at some time in the future.

Davidson, James Dale and Rees-Mogg, William, *The Great Reckoning: How The World Will Change in the Depression of the 1990's,* London: Sidgwick & Jackson, 1991.

Davis, John Jefferson, *Your Wealth in God's World,* Phillipsburg, NJ: Presbyterian and Reformed Publishing Company, 1984. A Christian view of wealth and its use, defending a free market system.

Figgie, Harrie E.Jr, *Bankruptcy 1995*, New York: Little, Brown and Company, 1992.

González, Justo L., *Faith and Wealth: A History of Early Christian Ideas on the Origin, Significance, and Use of Money,* San Franciso, CA: Harper and Row, 1990.

Greaves, Percy L. Jr., *Understanding the Dollar Crisis,* Boston, MA: Western Islands, 1973.

Hazlitt, Henry, *The Inflation Crisis and How to Resolve It,* New Rochelle, NY: Arlington House, 1978.

Hodge, Ian, *Baptized Inflation: A Critique of "Christian" Keynesianism,* Tyler, TX: Institute for Christian Economics, 1986. An analysis of the economic theories of John Maynard Keynes with biblical alternatives.

Hore-Lacy, Ian, *Creating Common Wealth: Aspects of Public Theology in Economics,* Sutherland, NSW: Albatross Books, 1985.

Houston, William, *Meltdown: The Great '90s Depression and How to Come Through it a Winner,* London: Smith Gryphon, 1993.

Lee, Francis Nigel, *Communist Eschatology,* Nutley, NJ: Craig Press, 1974. Chapters on labour, value and property are especially commended.

McGavin,P.A., *Wages and Welfare: The Failing Symbiosis,* St Leonards, NSW: Centre for Independent Studies, 1992.

McMaster, R.E. Jr., *Wealth For All: Economics,* Whitefish, MT: A.N. Inc., 1982.

McMaster, R.E. Jr., *Wealth For All: Religion, Politics and War,* Whitefish, MT: A.N. Inc., 1982.

McMaster, R.E. Jr., *No Time for Slaves,* Phoenix, AZ: Reaper Publishing, 1986.

Mises, Ludwig von, *Human Action,* 3rd ed., Chicago, IL: Henry Regnery, 1966.

Mises, Ludwig von, *The Theory of Money and Credit,* Irvington-on-Hudson, Ny: Foundation for Economic Education, [1934] 1971.

Mises, Ludwig von, *Planning For Freedom,* South Holland, IL: Liberty Press, [1952] 1980.

Mises, Ludwig von, *A Critique of Interventionism,* New Rochelle, NY: Arlington House, [1929] 1977.

Nash, Ronald, *Poverty and Wealth: The Christian Debate Over Capitalism,* Westchester, IL: Crossway Books, 1986. Provides a biblical defence for free market capitalism.

North, Gary, *The Dominion Covenant: Genesis,* Tyler, TX: Institute for Christian Economics, 1982. Lays the foundation for a Bible-based economic theory from the book of Genesis.

North, Gary, *Salvation Through Inflation: The Economics of Social Credit,* Tyler, TX: Institute for Christian Economics, 1993. A study on the economic theories of C.H. Douglas.

Olasky, Marvin, *The Tragedy of American Compassion,* Washington, DC: Regnery Gateway, 1992.

Openheimer, Ernest J., *The Inflation Swindle,* Englewood Cliffs, NJ: Prentice-Hall, 1977.

Powell, E.A. & Rushdoony, R.J., *Tithing and Dominion,* Vallecito, CA: Ross House Books, 1979.

Rushdoony, Rousas John, *Roots of Inflation,* Vallecito, CA: Ross House Books, 1982.

Schultz, Helen E., 'Introduction,' *Economic Calculation Under Inflation,* Indianapolis, IN: Liberty Press, 1976.

Sennholz, Hans F., *Age of Inflation,* Belmont, MA: Western Islands, 1979. A comprehensive economic analysis of inflation, its causes and its cure.

Skousen, Mark, *The Structure of Production,* New York: New York University Press, 1990.

Smith, Adam, *The Wealth of Nations,* Edwin Cannan, ed., Chicago, IL: University of Chicago Press, 1976.

Sowell, Thomas, *Knowledge and Decisions,* New York: Basic Books, 1980. Essential reading for those who want to understand ecnomics.

Tapper, Alan, *The Family in the Welfare State,* North Sydney, NSW: Allen & Unwin, 1990. This book explains why welfare is ultimately a mechanism for the transfer of wealth from the young to the elderly. It also explains why the welfare state will ultimately fail.

Thomas, David, *Selfish Generations? The Ageing of New Zealand's Welfare State,* Wellington: Bridget Williams Books, 1991. Another important study on why the welfare state cannot sustain itself.

Webber, Carolyn and Wildavsky, Aaron, *A History of Taxation and Expenditure in the Western World,* New York: Simon and Schuster, 1986.

2. Theology and Work

Berkhof, Louis, *The History of Christian Doctrines,* Edinburgh: Banner of Truth, [1937] 1969.

Berkouwer, G.C., *Man: The Image of God,* Grand Rapids, MI: Wm B. Eerdmans, 1962.

Block, Peter, *Stewardship: Choosing Service Over Self-Interest,* San Francisco, CA: Berrett-Koehler Publishers, 1993.

Boettner, Loraine, *The Reformed Doctrine of Predestination,* Philadelphia, PA: Presbyterian and Reformed Publishing Company, [1932] 1976.

Charnock, Stephen, *The Existence and Attributes of God,* Minneapolis, MN: Kloch & Kloch, [1797] 1977.

Hodge, Ian, ed., *Is This the End of Religious Liberty?* Homebush, NSW: Anzea Publishers, 1993.

Lee, Francis Nigel, *The Central Significance of Culture*, Phillipsburg, PA: Presbyterian & Reformed Publishing Company, 1976. According to author Gary DeMar, this is an analysis of "the Christian's comprehensive responsibility under God to cultivate the world over which God has made us stewards."

Lee, Francis Nigel, *The Origin and Destiny of Man,* Phillipsburg, PA: Presbyterian & Reformed Publishing Company, 1977. One of the finest studies available on the purpose and destiny of man. Dr Lee explains who man is and what he must achieve.

Rushdoony, Rousas John, *Systematic Theology,* 2 vols, Vallecito, CA: Ross House Books, 1994.

Ryken, Leland, *Work and Leisure in Christian Perspective,* Portland, OR: Multnomah Press, 1987. A superb introduction to the Christian concept of work and leisure.

Steele, Richard, *The Religious Tradesman,* Harrisonburg, VA: Sprinkle Publications, 1989. A reprint of a seventeenth century Puritan publication on the Christian's attitude to work.

Symington, William, *Messiah the Prince,* Edmonton, AB: Still Waters Revival Books, [1884] 1990. If you have any doubts about who rules the world, read this book.

Van Til, Cornelius, *A Christian Theory of Knowledge,* Phillipsburg, PA: Presbyterian & Reformed Publishing Co., 1969.

Van Til, Cornelius, *The Defense of the Faith,* 3rd ed., Phillipsburg, PA: Presbyterian & Reformed Publishing Co., 1967.

3. Investment Strategies

Some of the titles in this section are dated books. The advice was offered because of particular economic circumstances that provided a unique opportunity for a specific strategy. These are listed, however, be-

cause the principles are valid through all time, and if the circumstances arise again you'll know how to capitalise on the opportunity. Some of these are out of print, but you may be able to get them from a library or second-hand bookstore.

Allen, Robert, *Creating Wealth,* New York: Simon and Schuster, 1983. Mr Allen unfortunately relies on debt as a major means of creating wealth. However, this book contains excellent information on investment opportunities in real estate. He also offers help on negotiating techniques.

Browne, Harry, *Why the Best-Laid Investment Plans Usually Go Wrong and How You Can Find Safety and Profit in an Uncertain World,* New York: William Morrow & Co., 1987. For the conservative investor who wishes to have a safe and secure investment strategy to maintain accumulated capital, Harry Browne's "permanent portfolio" strategy is an easily managed and safe approach to investing.

Browne, Harry, *The Economic Time Bomb: How You Can Profit from the Emerging Crises,* New York: St Martin's Press, 1989. A combination of sound economic analysis with investment strategies to help protect assets.

Casey, Douglas, *Strategic Investing,* New York: Simon and Schuster, 1982. Has a great section on how to invest in the stock market.

Davidson, James Dale & Rees-Mogg, William, *The Great Reckoning: How the World Will Change in the Depression of the 1990's* rev. ed., London: Sidgwick & Jackson, 1993.

Donnelly, Austin, *More Wealth Through Beating the Money Traps,* Brisbane, QLD: Boolarong Publications, 1991. Austin Donnelly has a reputation as a controversial investment adviser. He also happens to give thoughtful advice, even though it is possible to disagree with him at times.

Graham, Benjamin, *The Intelligent Investor,* 4th ed., New York: Harper & Row,1973. Must reading for the person who takes share market investing seriously.

Lynch, Peter with Rothchild, John *One Up on Wall Street,* New York: Penguin Books, 1989. One of the best introductions on how to invest in the share market.

Skousen, Mark and Skousen, Jo Ann, *High Finance on a Low Budget,* 6th edition, Chicago, IL: Dearbon Publishing, 1993.

4. Business

Belliston, Larry and Hanks, Kurt, *Extra Cash For Kids*, Brentwood, TN: Wolgemuth & Hyatt, 1989. 100 money-making ideas for kids, including details on how to do the job, how to set prices, and how to avoid problems.

Brumbaugh, J. Frank, *Mail Order . . . Starting Up, Making it Pay,* Radnor, PA: Chilton Book Company, 1979. An introduction to the advantages of mail order businesses.

Burkett, Larry, *Debt-Free Living,* Chicago, IL: Moody Press, 1989. Although Mr. Burkett is not totally against the use of debt, he provides practical advice on how to get out of debt and stay out.

Caples, John, *How to Make Your Advertising Make Money,* Englewood Cliffs, NJ: Prentice-Hall Inc., 1983. If you're planning to start a business, you need to know about advertising. This book is by one of America's top advertising experts and will show you ways to create successful advertising.

Cook, James R., *The Start-up Entrepreneur,* New York: E.P. Dutton, 1986. James Cook built a billion dollar investment advisory business. In this book he provides practical advice on running a successful enterprise.

Drucker, Peter F., *Managing in Turbulent Times,* Oxford: Butterworth-Heinemann, [1980] 1993.

Drucker, Peter F., *The New Realities,* London: Mandarin, 1989.

Drucker, Peter F., *Post-Capitalist Society,* Oxford: Butterworth-Heinemann, 1993.

Gerber, Michael E., *The E-Myth Revisited: Why Most Businesses Don't Work and What To Do About It,* New York: HarperCollins, 1995. Over 80% of all new businesses fail. This book can literally help you reverse those odds.

Heller, Robert, *The Age of the Common Millionaire,* London: Coronet Books (Division of Hodder & Stoughton), 1988. Identifies 24 methods whereby people have become millionaires.

Hess, Karl, *Capitalism for Kids: Growing Up to be Your Own Boss,* Wilmington, Delaware: Enterprise Publishing, 1987. Great for teaching kids about entrepreneurship and starting their own businesses. Highly recommended.

Naisbitt, John and Aburdene, Patricia, *Re-Inventing the Corporation: Transforming Your Job and Your Company for the New Information Society,* London: Futura Publications, 1985.

Peters, Tom, *Liberation Management: Necessary Disorganization for the Nanosecond Nineties,* New York: Alfred A. Knopf, 1992; London: Macmillan, 1992.

Senge, Peter M., *The Fifth Discipline: The Art and Practice of The Learning Organization,* Milsons Point, NSW: Random House, 1992.

Smith, Eric *Making Money at Home: 100 Good Ideas for Starting a Business at Home,* Melbourne, VIC: Schwartz and Wilkinson, 1991. As the title indicates, a range of ideas to get you started in a home business. Also explains how to cope with government regulations when starting a business. Highly recommended.

Stone, Bob, *Successful Direct Marketing Methods,* Lincolnwood, IL: NTC Publishing Group, 4th ed., 1988. A practical how-to book on direct marketing.

Temple, Todd, *How to Become a Teenage Millionaire,* Nashville, TN: Thomas Nelson Publishers, 1991. Some great ideas to help people make, save and spend money wisely.

5. History and Sociology

Acton, Lord, *Selected Writings of Lord Acton: Essays in the History of Liberty,* Indianapolis, IN: Liberty Press, 1985, Vol. I.

Adams, Charles, *For Good and Evil: The Impact of Taxes on the Course of Civilization,* New York: Madison Books, 1993.

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Cantor, Norman F., *The Civilization of the Middle Ages,* New York: HaperCollins, 1994.

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Index

Aburdene, Patricia, 111
Acton, Lord, 18
  f.n., 59
Adams, Charles, 18
Alfred the Great, 59
Anabaptist, 19
Anderson, Douglas, 81
atheism, 3, 33
atonement, 24
Australia, iv, 2, 37, 79
Australian Bureau of Statistics, 141
Australian National Audit Office (ANAO), 145

Banfield, Edward C., 31, 90
  f.n., 3
bargain hunting, 120f
Bark, William Carrol, 6
Beckman, Robert, f.n., 147
Belgic Confession, 19
Block, Peter, f.n., 33
Bond, Alan, 22
Borgognoni, Theodoric, 10
Broken Hill Propriety, 42
Brown, Lawrence R., 10
budget, 117, 118, 140
Burkett, Larry, f.n., 7, 81
Bury, J.B., f.n. 6
business cycle, 64, 69f

Cantor, Norman F., 9, 29
capital, 29, 42, 45, 89, 167
  accumulation, 82, 90
  formation, 33
capital gains, 50
capital investment, 90
Carolingians, 9
Carson, Clarence B., 16
cash, 88, 121
cash flow, 44
charity, 10
Charlemagne, 5
Charnock, Stephen, f.n., 27
China, 7
civil authorities, 55, 59
civilization
  Western, 3ff
Clason, George S., 135
Cochrane, Charles Norris, f.n., 4
coercion, 24, 58
commissions, 38
common law, 59
communism, 1, 16, 31
Consumer Price Index, 65
Cook, James R., 43
covetousness, 20
credit, 64, 75, 82, 146
credit card, 124f
Crittenden, Brian, f.n., 17

Davies, Stephen, f.n., 59
death, 49ff
debt, 22, 46-47, 61, 70, 83-84, 134, 139-140, 142, 147, 161
  alternatives to, 87ff
  and greed, 162
  and idolatry, 84
  and inflation, 75, 139, 159
  arguments against, 81ff, 155ff
  as slavery, 81, 148, 157f
  biblical view of, 79ff
  commentators on, 167
  cost of, 80
  versus rent, 175
  versus saving, 160
Deming, W. Edwards, f.n., 32
disobedience, 95
division of labor, 8
Douglass, William Campbell, 1
Drucker, Peter F., 32, 114-115
Durant, Will, 5

Earl, George, 80
Eastwood, Clint, 28

economic calculation, 75f
education, 9, 40, 59, 114-116
Eilmer of Malmesbury, 10
entrepreneur, 4, 8, 28, 43, 44, 112
envy, 20ff
equity financing, 89, 91
ethics, 108

Fabricant, Solomon, 75-76
faith, 23, 94ff
fee for service, 38
Figgie, Harry E., 146
financial independence, 131
financial power, 8
foreordination, 3
fractional reserve banking, 74f
franchise, 43
freedom, 1, 9, 15-17, 25, 57, 76, 110, 131, 148

Gerber, Michael E., f.n., 43
Gimpel, Jean, 4-5, 8
God
  defiance of, 15
  kingdom of, iv, 24, 31, 45, 95
  law of, 28, 54, 95, 132
  man in the image of, 27
  sovereignty of, 54, 132
González, Justo L., f.n., 17
Grace Commission, 146
Graham, Benjamin, 128
Great Depression, 73
greed, 162

Harrod, Roy, 73
Hazlitt, Henry, 70, 76
Heer, Friedrich, 9
Herrin, Judith, 11
Hodge, Ian, f.n., 55, 64
horse
  collar, 7
  foot-stirrup, 9
  shoe, 7
  surcingle, 9

Idolatry, 84
inflation,49, 63ff, 139
  and debt, 75, 139, 159
  and liberty, 76f
  definition of, 64
  effects of, 66, 68
  money supply, 64
  morality of, 73f, 159
insurance, 97ff
  calculation of, 104
  definition of, 97
  general, 100
  life, 101
  medicine as, 99
interest, 39, 50, 66, 75, 80, 159, 167
interest rate, 64, 71, 140
Islam, 31

Johnson, Paul, f.n., 2
jurisdiction, 5, 16, 30, 55-56, 109
justification, 23

Keating, Paul, iv, 71
Keynes, John Maynard, 83
knowledge, viii, 23, 43, 65, 72, 81, 115, 121, 125
  limitations of, iii

Labor, 5-6, 29, 31, 58, 89, 96, 110, 134, 153
  division of, 8
Labor Party, 136
Lang, Paul Henry, 10
law, v, 57, 159, 163, 177
  common, 59
Lawn-Mower Test, 39ff
Lecky, W.E.H., 10
Lee, Francis Nigel, f.n., 16
liberty, 1, 11, 12, 16, 157
  foundations of, 76
Luther, Martin, 30, 163
Lüthy, Herbert, 6
Lynch, Peter, 128

McGavin, P.A., f.n., 49
machine power, 5, 7
Magna Charta, 20

Martel, Charles, 9
Marxism, 16
maturity, 23
McMaster, R.E., 44, 147
McNeill, William H., 7
medicine, 10,
  as insurance, 99
medieval, 3, 5, 7
  music, 10
  religion, 3
  taxation, 18
  technology, 8ff
Middle Ages, 8ff
Mises, Ludwig von, 29
  f.n., 5, 51, 65, 175
Molnar, Thomas, 15
money, 11, 32, 73, 79, 81, 87, 109, 119, 135, 143
  and inflation, 139
  and Scripture, 156
  as property, 57
  purchasing power of, 50, 73, 82, 160
money supply, 50, 65, 68, 74
  definition of, 64
Mooney, S.C., 177
morality, 125
Moss, H. St. L.B., f.n., 6
Muggeridge, Malcolm, iv
Mumford, Lewis, 8
Murrumbidgee Irrigation Area, 2

Naboth, 19, 53
Naisbitt, John, 111
Nazi Germany, 16
negative gearing, 50
neoplatonism, 94f
  f.n., 30
Noëttes, Lefebvre des, 7
North, Gary, f.n., 177

Olasky, Marvin, f.n., 240
Oppenheimer, Ernest J., 67, 76
ownership, 46
ownership of property, 19
  private, 2

Peel, Sir Robert, 73
peristroika, 1
Peter, Laurence J., 45
Peters, Tom, f.n., 47, 112
Pirenne, Henri, 6
poverty, v, 24, 60, 90
power, 18, 20
price inflation, 68f
procrastination, 120
profits, 32f, 110
progress, 2
purchasing power, 49-50, 64, 66, 74, 82, 159
  dilution of, 75
Puritanism, 31

Redemption, 51
Reformation, the, 11, 29
rent, 79, 122, 131, 175
Reserve Bank of Australia, 72
restitution, 108
reward, 40, 114, 124
  and risk, 42 risk,
  and reward, 42
  definition of, 43
Roman Empire, 6
  Diocletian, 4
  hostility to work, 6
  Septimus Severus, 6
  sovereignty of, 4
  taxes, 5
  Vespasian, 4, 6
rotational farming, 5
Rothbard, Murray, f.n., 90
Rule of 72, 66
Rushdoony, Rousas John, 16, 28, 75, 84
  f.n., 52, 58
Ryken, Leland, f.n., 17, 50

Sabbath year laws, 164
salvation, 3, 22ff, 51
sanctification, 23
saving, 90
Schaeffer, Francis, 94
Schoek, Helmut, 20, 22
security, 44

Sermon on the Mount, 44
Shafarevich, Igor. 19
Skousen, Mark, 159
Skousen, Mark & Jo Ann, 118
slavery, 17, 85, 147, 158
  spiritual, 173
  and taxation, 17
slaves, 6, 9, 17, 30, 81, 85, 147, 157, 158
Smith, Adam, 63
  f.n., 15
Smith, Eric, 47
Smith, John, 21
social welfare, 61
socialism, 4, 16
sovereignty, 4, 16, 54, 57, 133
Soviet Union, 20
Sowell, Thomas, f.n., 43
Spufford, Peter, f.n., 5
St Petersburg, 1
Steele, Richard, 30
Steinway piano, 40
stewardship, 33,152
Strayer, Joseph R., f.n., 18
superannuation, 142f
Superannuation Guarantee Charge, 119
surety, 81
  prohibition against, 158
Symington, William, 31

Tapper, Alan, 60
Tarnas, Richard, 9
tax, 17ff
  mark of sovereignty, 57
  PAYE, 141
  poll, 56
  progressive, 21, 58
  proportional, 58
tax revolt, 60
taxation
  as coercion, 58
  and freedom, 17
taxes, 49, 54ff
temperance, 163
Ten Commandments, v, 108, 132
theft, 73, 98, 108
  forbidden, 133
Theodosian Code, 7
Thirty-Nine Articles, 19
Thomas, David, f.n., 60
tithe, 55
  rejoicing, 55
torture, 5
totalitarianism, 16
tribute, 6

Ukraine, 1
USSR, vi, 1
usury, 167
Utopia, 15

Van Til, Cornelius, f.n., 28, 53
Vaughan, Alden T., 31
vocation, 114

Water power, 5
wealth, iii, vii, 2, 27ff, 55, 58, 70, 87ff, 128ff, 143, 151, 161
  biblical view of, 27
  confiscation of, 17
  creation of, 23, 88f, 107
  moral use of, 10
  preservation of, 117
  production of, 28
  transfer of, 103
Webber, Carolyn, f.n., 49
welfare, 142
West, E.G., f.n., 59
Westminster Larger Catechism, 133
Westminster Shorter Catechism, 11
White, Lynn, Jr, 3, 5, 8
Wildavsky, Aaron, f.n., 49
wisdom, iv, 45, 109, 135
work, 28, 34, 35, 52, 96
  ethics of, 108

Yeltsin, Boris, 1

Zero growth, 45
Ziglar, Zig, 87