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towards a biblical mind

# The divine economy

*by Paul Mills*

*Leviticus Chapter 25 is a passage that makes Das Kapital look tame...it is no longer Morris, Keynes and Beveridge who inspire and change the world – it's Leviticus.*

Will Hutton[1]

## Summary

**The basic economic problem is that the incentives needed to promote efficiency and growth also lead to inequality. Biblical law sets out an economic model that shares contemporary concerns for economic efficiency and fairness while avoiding the problems faced by the current Western model. In the process it achieves what economists have been aspiring to for the past 250 years and yields a number of innovative ideas for reform. The beauty of its conception from an economic point of view has rarely been appreciated.**

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## Introduction

Thanks to the Jubilee 2000 campaign for international debt relief, the ancient land laws of the Bible have joined the vocabulary of international finance. The Jubilee concepts of a periodic cancellation of debt, release of debt slaves and return of family property have become a powerful symbol for the advocates of debt forgiveness, as Will Hutton recognises.

Yet Jubilee 2000 is a typical example of how the economic ideas of the biblical law have been used in Christian political discussion throughout the Church's life. In the main, convenient precedents or analogies in the Old Testament law, the Prophets, the Sermon on the Mount or the parables have been used to bolster existing positions. Rarely have the laws of the Pentateuch in particular been studied as an integrated whole in order to provide the outlines of a biblical economic model. This paper will take just such an approach. The contention is that by considering biblical law as a whole, an integrated economic model emerges which satisfies the prerequisites for both efficiency and fairness without the wasteful and damaging side-effects entailed in the current Western economic model.

## The state we're in

With the demise of Soviet-style central planning and dilution of Thatcherite *laissez-faire* policies, Western societies have accepted a compromise between relatively free trade and markets on the one hand and a sizeable role for the state in the form of redistributive welfare and regulation on the other. Bureaucracies still control the expenditure of 40–50 per cent of national income in Europe but, for the remainder, companies and individuals decide what is produced and valued through market processes.

Besides the political apathy it engenders, this diluted form of capitalism has a number of worrying features that are undermining its long-term viability. The workings of the market system tend to commercialise every relationship and erode family and community structures by emphasising rootlessness, mobility and the 24-hour society. Mergers and takeovers mean that companies tend towards monopolies that subvert competition unless checked by regulation. Most fundamentally, the free market system's legitimacy relies on its linkage to a complex system of taxation, state redistribution and welfare. The shortcomings of this process are well known: taxation distorts people's behaviour in a number of deleterious ways, from reducing work incentives (through high marginal rates of income tax) to penalizing employment (through National Insurance charges); then, a multitude of tax officials, accountants and lawyers do battle to apply the tax code; finally, the welfare system distorts recipients' behaviour in a number of ways, from penalizing saving for old age to facilitating the creation of one-parent households. We have lived with these costs and distortions for some time. But the increasing global mobility of companies, savings and workers is likely to mean that governments will be unable to maintain taxes at a sufficiently high level to continue the current degree of redistribution that, in turn, gives the system its legitimacy.

1 'The Jubilee line that works', *The Observer*, 3 October 1999.

Essentially, we need to retain the disciplines and efficiencies of a market system but devise another mechanism that promotes fairness in the allocation of wealth and opportunities that does not require a burdensome tax and welfare system. Rather than a system of taxation and redistribution *after* the process of wealth creation, the initial allocation of wealth needs to be roughly equitable and maintained over people's lifetimes. Such a system would then combine the efficiency benefits of competitive market processes with a concern for fairness for those with lower incomes.

## Why look to biblical law for economic answers?

Could the biblical model offer such a viable alternative? The possibility has usually been dismissed on the supposed grounds that: the economic provisions of biblical law were designed to apply only to ancient Israel but not to later societies; technological changes make such teachings irrelevant; or that the law has been superseded by the coming of Christ. A fuller discussion of the case for using biblical law as a social 'paradigm' or model for contemporary application has been given elsewhere.[2] Suffice it to say, biblical law was devised on the basis of 'the hardness of men's hearts',[3] the principles that should govern economic organisation (the ownership of capital, work incentives, finance, the monetary system, taxes and welfare) are not technology-specific; and the relevance of biblical law was, if anything, re-affirmed by Christ.[4]

The disobedience of Old Testament Israel meant that the law's economic institutions were rarely, if ever, implemented in full. But this does not mean that they were not designed to embody practical economic wisdom of universal validity. Indeed, it is striking that Israel's punishment through exile in Babylon is attributed specifically to the non-observance of the Sabbath year of rest for the land and, by implication, the Jubilee.[5] The wisdom literature too is replete with claims that the law of the Lord contains practical, and not just spiritual, wisdom, while the law itself claims that economic prosperity will result from obedience. Indeed, Deuteronomy 28 even promises a 'trade surplus' if the law is adhered to. These promises are made because the economic sense of the model is assumed.

The remarkable thing is that when taken as a whole, the economic institutions of biblical law form a coherent framework that satisfies our concerns for fairness and efficiency more fully than the current economic consensus. The key to understanding the biblical model is that the production and sale of goods is almost entirely left to the unfettered operation of market forces, while the laws governing the use of labour, the allocation of land and the role of finance are tightly drawn so as to ensure a minimum level of income and wealth for all. In economist's parlance, the model envisages product markets (for goods) that are relatively unconstrained whereas markets for the factors of production (land, labour and finance) are tightly controlled or sometimes deliberately proscribed. The two recurring themes overarching this fundamental insight are that the rough equality of wealth, income and opportunity are encouraged without the need for a large centralised state (in the form of a monarchy); and that the interests of 'finance' are made subservient to those of interpersonal relationships.

## The foundation of 'free' markets

The biblical model contained a number of features that, with the economic hindsight of three thousand years, would have promoted economic growth and efficiency.

### *A general acceptance of free product markets*

Apart from the ceremonial food laws and the observance of the Sabbath, the only constraints on trade in biblical law were the exhortations to merchants to maintain fair weights and eschew adulteration.[6] This recognised the need for a basic degree of confidence by consumers in what they were buying. However, there were no other constraints on trade and no notion that trading for profit was inherently 'wrong' (although profit from an artificial monopoly was condemned). We can thus infer both the acceptance of competitive markets and the presumption that the 'just price' for a good is that which results from competition. There is also ample evidence that Israel participated in the international trading networks of the time.[7]

### *A capped and proportional rate of income tax*

A centralised system of taxation on income, wealth or expenditure was unnecessary due to the limited nature of the apparatus of central government. Instead, the criminal justice system and military were structured in such a way that did not require a police force, prisons or a standing army. Tithes of 10 per cent on income were directed to local poverty relief, the support of the local priests and Levites, or to religious celebrations (although the number of tithes in any one year remains uncertain).[8] The limited role of the state apparatus also reduced the potential for arbitrary confiscation – an all too familiar feature of monarchies at the time (1 Samuel 8). Hence, there were few external disincentives to work or save.

### *A stable monetary system and price level*

The evidence suggests that precious metals, first in the form of set weights of silver or gold and then coins, were used to increase trade by replacing barter throughout biblical times. This ensured a rough stability of the price level in Israel over hundreds of years,[9] once again encouraging saving and trade by providing a stable store of value.

### *A well-defined legal code*

Biblical law established property rights and made provision for debt collection. Whilst property rights over land were restricted and debts were periodically cancelled (see below), there was nevertheless a well-defined code of property law and debt collection, including means for enforcement such as fines for theft and bonded labour for the repayment of debts. As is clear from the limited success in developing some former Communist economies, the absence of a predictable property code deters investment and promotes hoarding. Economists are also only just realizing how crucial the clear definition of property rights is to enable the rural poor to develop their land.

### *A limited role for the state*

The intended structure of Israelite society did not include a privileged class to be supported through the labour of others. Nor did it envisage a princely 'court' or aristocracy. Even when a king was eventually appointed, the law sought to limit the size of the royal household and its wealth (Deuteronomy 17). This deliberate restraint on the scope and power of the monarchy was unique for the time. The absence of a rigid hierarchy meant that there were no incentives to forsake economic activity in favour of seeking concessions from the ruling class. Bribery was strongly condemned.

The combination of low taxes, a small state infrastructure, a stable price level and predictable property rights would have encouraged economic growth by maintaining incentives to work, save and invest. Given the right preconditions, free markets have generally proved to be better than bureaucrats at processing information about the desired types of production and the most efficient technologies.

2 See especially Wright, C.J.H., *Living as the People of God*, IVP, 1983; and Schluter, M., and Clements, R., 'Jubilee Institutional Norms', *Evangelical Quarterly*, Vol.62, No.1, 1990.

3 E.g. Deut. 15:9; Matt. 19:8.

4 E.g. Matt. 5:17–20. Jesus also reaffirmed that man lives 'on every word that comes from the mouth of God' (Deut. 8:3; Luke 4:4).

5 2 Chr. 36:21. The Prophets foretell judgement on Israel because the economic institutions of the law were not upheld (e.g. 1 Kings 21:19; Jer. 25:8–11; 34:17; Ezek. 22:7,12; Amos 2:6–8).

6 E.g. Lev. 19:35–36; Deut. 25:15–16.

7 E.g. Deut. 28:12; 1 Kings 10:14.

8 Lev. 27:30; Deut. 14:28.

9 See 'Should Christians Support the Euro?', by Paul Mills and Michael Schluter, *Cambridge Papers*, 1998, Vol.7, No.4.

These factors promoting prosperity would have been reinforced by free trade of produced surpluses both locally and internationally. The biblical legal model contains what are now recognised as the prerequisites for a successful market-based economy.

## The limits to *laissez-faire*

However, the arguments against such a free market approach are that it tends towards inequalities of wealth and income whilst degenerating into monopolies that subvert the very market forces that brought them about. How did the biblical model address these tendencies? It is in its treatment of the markets for the factors of production (land, labour and financial capital) that the biblical model addresses the undesirable and self-destructive aspects of free market capitalism.

### *Land transfer*

When the Israelites first entered Canaan, the land was divided up on a relatively even per capita basis. It was allocated at random by tribe and then by clan and family. The inheritance and Jubilee laws then ensured that the roughly equal allocation of land between families was preserved. A leasehold market was envisaged in the law, so families in dire economic straits had access to the market value of their assets until the next Jubilee year (once every 50 years). This also allowed the temporary transfer of land to those best able to use it. However, a freehold market in agricultural land was prohibited.[10] No family could sell its land in perpetuity. At the time of the next Jubilee, ownership and occupation had to revert to the traditional family owners, regardless of who had leased the land in the intervening period.

The implications of this novel economic institution were numerous. The Jubilee ensured that the initial extended family structure was preserved and rooted in an ancestral locality. It prevented the accumulation of large estates by the wealthier families or by foreclosing moneylenders. It also meant that every family member, at least once in their lifetime and however poor, could gain access to work on the ancestral farm – the means of production at the time. Thus, the Jubilee stood as a bulwark against the development of permanently landless poor.

### *Restrictions on the labour market*

Although a relatively free wage labour market could have developed, the welfare provisions of biblical law should have kept wage levels above subsistence levels. The requirement for employers to pay wages punctually[11] and to be responsible for their workers' safety shows the detail of the thinking behind the law in the protection of the waged labourer. Sabbath restrictions on work also underlined the importance of placing relationships to God and family ahead of material provision and reduced the pressures on vulnerable workers.

### *The prohibition of interest*

The Pentateuch contained a number of complex financial arrangements. As well as detailing sophisticated leasehold arrangements, biblical law described a rental contract and careful rules for the treatment of different forms of security for a loan, including bonded servitude in the case of default. It also envisaged a vital role for interest-free lending between family and community members as a means of poverty relief. Yet the model expressly prohibited all loans at interest, for both commercial and consumption purposes, at least within the Israelite community.[12] As a result, there was no place for a commercial loan market – a conclusion reinforced by the laws which prescribed the cancellation of all debts (and debt servitude) every seven years.

Although the text is not explicit as to why interest is prohibited, the problems associated with a debt-based financial system are numerous and we are only now fully appreciating their extent. Low income country debt is but one aspect.[13] In the context of the wider economic model, perhaps the most important implications of the prohibition of interest were that it encouraged both non-interest charitable lending and risk-sharing business finance (so distributing the profits or losses from commercial ventures more widely). Financial power could not be accumulated without sharing in the risks of enterprise, while no-one could be permanently enslaved in debt without prospect of release.

Hence the biblical model had a strong underlying current of concern for the poor. Yet its approach to the distribution of wealth and income was radically different from the familiar approach of redistributive taxes and welfare benefits. Instead, the biblical model did not concern itself with differences in portable wealth or consumption. Indeed, the acquisition of wealth was often seen as a blessing from God and provided incentives to work hard. Rather, its aim was to ensure that everyone, even the poorest, was able to gain access at some time in his or her life to the means of production (in this case, land); that no-one was in debt or debt bondage for more than seven years; that the primary responsibility for care of the poor was the extended family and local community; and that no-one could entrench their wealth through simply lending money at interest without risk.

The result should have been a relatively egalitarian society, but one without the intervention of intrusive tax bureaucracies and welfare states. Instead, biblical law achieved this by eliminating the existence of two forms of contract – the freehold sale of agricultural land and the interest-bearing loan. Wealth was not redistributed – rather the conditions necessary to give economic independence to the poor and to place a brake on the economic power of the rich were built into the fabric of society's finances and organisation.

## Economic lessons for today

Of course, the application of these biblical insights to contemporary conditions requires great care. Any such implications would need to be supported by a broad-based civic consensus rather than on religious conformity. Nevertheless, the practical wisdom of the model itself is too valuable to be dismissed as lightly as it has been. What lessons are there for economic policy today, given that our conditions and technologies are different?

### *A national investment fund*

Instead of a share in agricultural land, a national investment fund could be established, an equal share of which would be bestowed upon every citizen when reaching voting age and relinquished at death. A non-political board of trustees would oversee investment policy and a profit-related dividend would be paid each year linked to the returns enjoyed by the investments in the fund. If the fund was large enough, this dividend could provide a basic minimum income. Citizens could borrow against their dividends for, say, ten or twenty years (to finance education, training, house purchase or a business start-up). Crucially, however, citizens would not be able permanently to sell their shares to any third party. It is this Jubilee principle that distinguishes the idea from other suggestions for a universal capital endowment.[14] At some time in the not-too-distant future, everyone would receive back title to their share in the fund.

Such a fund would provide everyone with an income top-up or a way to raise initial capital, contribute to the sense of citizenship in society and reinforce incentives to ensure the wider success of the economy. The UK has already passed up two chances to establish an initial fund (in the form of the receipts from North Sea oil and the

10 Lev. 25:8–54; a careful distinction is made between agricultural land, urban property (verses 29–31) and the holdings of the Levites (verses 32–34).

11 E.g. Deut. 24:15.

12 Deut. 23:19,20; cf. Psalm 15:5; Ezek. 18:13. Although contemporary legal codes (e.g. Babylon) limit rates of interest, the Pentateuch is again unique in prohibiting interest outright. The teachings of Jesus presuppose and, if anything, reinforce the prohibition of interest (Luke 6:32–35; 19:22,23).

13 See 'The Ban on Interest: Dead Letter or Radical Solution?', Paul Mills, *Cambridge Papers*, 1993, Vol.2, No.1. The continuing difficulties of the Japanese economy bear chilling testimony to the damage that can be wrought by a debt-based financial system.

14 E.g. 'How to achieve a stake in the country for all', Samuel Brittan, *Financial Times*, 16 March 2000, p.19. Brittan envisages a one-off grant on reaching the age of 18.

privatisation of nationalised industries). The current healthy state of the public finances offers a further opportunity to establish such a fund.

### *A rediscovery of rootedness*

The Jubilee was structured to preserve the universal ownership of property and to return an extended family to its ancestral lands at least once every 50 years. This not only recognised the contribution of widespread property ownership to economic freedom, but it underlined the importance of rootedness and a sense of place. It is only through the physical and prolonged proximity of extended family members and neighbours that society can deliver care of dependants without ever greater reliance on the state or on purchased 'care'.[15] Yet current economic thinking encourages workers to be as geographically mobile as possible, leading to prolonged disparities in regional incomes (e.g. South-East England relative to Cornwall), and to family breakdown. As well as recognising the external benefits that rootedness brings, government policy could be more explicitly geared to encouraging regional rootedness and identity. For example, students could be encouraged to study at local universities through preferential loan terms.

### *Low income country development finance*

One of the ironies of the biblical economic model is that it does *not* unambiguously support the Jubilee 2000 campaign for international debt relief. Of course, on the one hand, biblical law prohibits interest on all loans within the Israelite community and protects the poor through periodic debt relief. On the other, however, it upholds the moral and legal duty of debtors to fulfil their obligations. Ironically, it did not apply the prohibition of interest or the cancellation of debt to loans made to foreigners. Hence, biblical law cannot be used to support the view that international debt relief is a matter of 'justice' *per se*. If relief is to be given, it is to be an act of *chesed* or mercy.

Nevertheless, the biblical prohibition of interest gives numerous pointers to how development finance should be structured in the future. For instance, 'charitable' lending, which should be interest-free and relievable if necessary, and commercial finance, which should share in the profit or losses of the funded enterprises, should be distinguished far more clearly. That way, richer countries would avoid tangles over what they were trying to achieve through their finance, and poorer countries would be sure they would not be saddled with unpayable and escalating debts. Similarly, the banking systems of poorer countries could apply the same principles, thereby limiting the concentration of wealth through debt slavery and repossession of family land.

Space precludes examination of further implications for economic policy from the biblical model. Some have been outlined in earlier papers[16] but others could include the design of the tax and welfare systems, the encouragement of home ownership for those on low incomes, or the protection of leisure from the pressures of 24-hour/7-days-a-week working.

## Conclusion

The economic model set out in biblical law transcends the persistent debate about whether efficiency or equality ought to be pre-eminent in economic policy-making. By adapting property rights and factor markets, biblical law seeks to maintain universal access to the means of production and a rough equality in their distribution, without introducing state intervention or interfering with economic incentives. As such it represents a radical 'Third Way' that is genuinely different from capitalism and socialism.

The uniqueness and subtlety[17] of the economic model set out in biblical law is a further sign of God's providence and the inspiration of Scripture. Only after 250 years of economic thinking and numerous experiments with various alternatives are we beginning to grasp the depth of its wisdom when applied to the technologies and conditions of its day. It prompts the surprising conclusion that God is, after all, an economist.

15 See 'Roots: Biblical Norm or Anachronism?', Michael Schluter, *Cambridge Papers*, 1995, Vol.4, No.4.

16 E.g. Cambridge Papers on the ban on interest (Vol.2, No.1), rootedness (Vol.4, No.4), the euro (Vol.7, No.4) and limited liability (Vol.9, No.2).

17 For instance, a Jubilee-type of institution is necessary if a stable economy is to operate with no interest on money. For without a discount rate, the value of land tends to infinity because it should provide value to the owner in perpetuity (land is indestructible). Hence, for a viable land market to exist in a non-interest economy, a maximum length of lease is required, as provided by a Jubilee every 50 years.

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