

**The Socio-Economic Philosophies of Adam Smith and
John Maynard Keynes: A Biblical Critique**

Marshal H. Wright and James R. Russell

Abstract

Worldwide, capitalistic societies base their socio-economic philosophies upon the theories of Adam Smith and John Maynard Keynes. This paper critiques these two theorists' socio-economic philosophies from a classical/Biblical worldview contrasted with a modern natural law worldview. Both were found to be grounded in a modern closed system natural law worldview that fails to appropriately account for human depravity and the need for divine intervention. Christians should not infer that either Classical or Keynesian economic philosophies systematically operate in accordance with the classically/Biblically mandated moral responsibilities of human socio-economic interaction. Rather, they must foster the proposition that there is an external (and higher) objective standard of human conduct and interaction that must be considered when entering into socio-economic activity.

The Socio-Economic Philosophies of Adam Smith and John Maynard Keynes: A Biblical Critique

Capitalistic market-based economies are becoming more numerous and important. In efforts to improve economic productivity, Eastern Europe, the old Soviet Union, China, most South American countries, and some African and Asian countries have moved in that direction. The amount of macroeconomic research concerned with explaining and managing capitalistic economies has exploded. Various macroeconomic theories including Classical, Keynesian, Monetarist, Neo-Classical, and Neo-Keynesian have emerged. Secular and religious universities offer courses in macroeconomics incorporating some or all of these theories. Government and business institutions use these same theories to stimulate or slow economies with varying degrees of success.

Biblical compatibility of the capitalistic system has been examined. North (1973) argues that a free-market system is the only economic system endorsed by the Bible. Atherton (1992) and Griffiths (1984) suggest that a market economy is compatible with Biblical principles. Capitalism is strongly defended by Novak (1993), defended with moderate reservations by Preston (1991), and criticized by Duchrow (1987) and Goudzwaard (1979). Much of the literature agrees that capitalism can be compatible with Biblical principles if modifications are made to promote ethical conduct, to insure care for the poor and disadvantaged, and to protect the environment.

This paper presents a Biblical critique of two of the most influential economists of the modern era, Adam Smith and John Maynard Keynes. Although the differences found in their economic models are profound, governments, businesses, and educational institutions around the

world have used their theories, and variants of them, to explain and manage modern capitalistic economies and direct socio-economic activity. Their alternative theories and the resulting economic actions, which they respectively suggest, tend to bracket the range of socio-economic philosophies and policies of capitalistic societies. These two economists were selected because of their long-standing influence on the business, governmental, and educational institutions of capitalistic societies; the wide differences in their economic policy prescriptions; and, for the similar foundational flaws found in their socio-economic philosophies as evaluated from a classical/Biblical worldview perspective.

This paper will first outline a classical/Biblical worldview compared and contrasted to the modern natural law worldview. Next, a general overview of both Smith's and Keynes' basic economic models will be presented. Then, the paper will conceptually present the underlying socio-economic modern philosophy that supports each model and provide a Biblical critique of each of the two economic theoretical models within this conceptual framework. Finally, concluding remarks will be made.

Classical/Biblical Worldview

“There is a transcendent reality beyond this world, to which this world owes its meaning” (Veith, 1994, p. 31). In this statement is seen the underlying philosophical perspective of the open systems classical/Biblical worldview that the world was created according to an external divine order which is discoverable by observing the creation (Veith). In accordance with this divine order there exist objective absolute standards by which life and morality are to be conducted and judged (Whitehead, 1982).

According to Nash (1992) this worldview is distinctly theistic “in the sense that it believes in the existence of one supremely powerful and personal God” (p. 34). In that sense,

Nash would agree with Veith (1994) that there is a universally identifiable structure that the transcendent God has placed into being and that man may observe and comply with. “Because there is a God-ordained order to the creation, human beings can discover that order” (Nash, p. 34).

This concept of a God-ordained order, discoverable by humankind, has existed historically in a pluralistic context and should not be confused with the modern natural law worldview that holds “The material universe is the sum total of reality” (Gaede as cited in Nash, 1992, p. 116). This statement (in direct contrast to the classical/Biblical worldview) demonstrates the ultimate underlying natural law philosophical perspective of the modern worldview—the denial of the existence of a divine being and creator that personally interacts with, and is yet external to, the created world system (Veith, 1994). This worldview, referred to as structuralism (Slife, 1995), naturalism (Nash), or logical positivism (Veith), holds there are systematic self-contained underlying structures guiding the realities observed in the material world (Slife) and results in a belief that societal systems are both focused toward the material and are deterministic. Nash, in explaining this self-contained systems philosophy, writes:

Nature is a self-explanatory system. Any and every thing that happens within the natural order must, at least in principle, be explainable in terms of other elements of the natural order. It is never necessary to seek the explanation for any event within nature in something beyond the natural order. (p. 120)

The Two Economic Models: Smith and Keynes

Adam Smith and John Maynard Keynes are clearly two of the most influential economists/philosophers of the modern era. Either one or the other of their respective theories (or a variant thereof) is considered foundational to the philosophical socio-economic courses of

action taken by the business, governmental, and educational institutions of nearly every current-day capitalistic society. While they are not contemporaries, they are bound together and portrayed as the competing champions of two fundamental, yet opposing, socio-economic capitalistic theories.

The Adam Smith model. Adam Smith is known as the father of modern economics (Arnold, 2001; Tucker, 2001; Sexton, 2002). His book, An Inquiry into the Nature and Causes of the Wealth of Nations, first published in 1776, was immediately popular and still guides much economic thinking. The classical and current neoclassical schools of economic thought have evolved from his theories (McConnell and Brue, 2002; Samuelson and Nordhaus, 2001).

The 1700's, when Smith was first published, was a period in which the Western world was experiencing a shift in philosophical thought (toward "natural law" philosophy) that appeared to be at odds with the realities of day-to-day living in a world of turmoil (Heilbroner, 1999). In the midst of this tension between philosophy and reality, Smith proposed a self-contained systematic socio-economic model that would sufficiently reconcile "How...man, who is a creature of self-interest, can form moral judgments [that become actions] in which self-interests are held in abeyance or transmuted to a higher [common good] plan" (Heilbroner, p. 47). These two dynamics (self-interests and higher common good) appear to be diametrically opposed and irreconcilable. However, for Smith reconciliation lay in viewing self-interest as the catalyst that drives a nation toward socio-economic competition whereby the self-contained systematic laws of the market (demand, supply, and pricing) will automatically and naturally counter-balance self-interests, creating alignment and an outcome "which is most agreeable to the interests of the whole society" (Smith, as cited by Heilbroner, p. 54). His model implies a

self-correcting economy with little need for or advantage to significant government interference in a market economy.

The John Maynard Keynes model. John Maynard Keynes' extraordinary socio-economic influence began in the 1900's during a period of sustained Western economic depression that confounded the major socio-economic (classical) theorists. In this context, Keynes proposed a socio-economic model that was revolutionary (Tucker, 2001, p. 311) to the established modern mindset—it proffered that the systematic economic dynamic was inherently flawed (Keynes, 1936). Keynes asserted that “there was no automatic safety mechanism” (Heilbroner, 1999, p. 270) self-contained within the societal economic sub-system; and as a result, concluded that a sustained downturn in the economy (depression) “might not cure itself at all” (Heilbroner, p. 270) due to the fact that investment savings would severely contract (Sargent, 1979). Thus, there would be no economic shot-in-the-arm to spur a recovery (Beare, 1978). For Keynes, the answer to this dilemma lay in increasing aggregate expenditures and decreasing unemployment through “the deliberate undertaking of government spending to stimulate the economy” (Heilbroner, p. 274). This would provide the economic impetus needed in two ways: a) It would “sustain the buying power of the otherwise unemployed,” and b) It would allow for “a resumption of private business expansion” by providing investment capital (Heilbroner, p. 275).

A Biblical Critique

An assessment and critique of both Smith's and Keynes' socio-economic theoretical models from a classical/Biblical worldview framework reveals some foundational philosophical flaws.

A critique of Smith's model. The fundamental essence of Smith's socio-economic model is found in his view of humanity within a modern natural law worldview construct. For Smith,

humanity acts out of self-interest within a self-contained closed natural law system. “We address ourselves, not to their humanity, but to their self-love, and never talk to them of our necessities, but of their advantages” (Smith as cited by Heilbroner, 1999, p. 55). This is not to suggest that Smith did not have somewhat of an appreciation for the fallen nature of humanity and the depravity of self-interest. Rather, he recognized the inherent dangers of self-interest, but proffered that the “invisible-hand” of competition, self-contained within the system, is sufficient to restrain (and possibly even synergistically redeem) the inherent evil of self-interest to allow for socio-economic transmutation to a higher plan for the common good. This clearly modern natural law worldview of the restraint/redemption of fallen humanity is Biblically flawed. It is lacking in its understanding of the complete fallen nature of humanity, the inability of the system to correct itself, and the incomparable necessity of the work of an external transcendent God in restraining and redeeming humankind.

Scripture clearly communicates that humanity, as a result of sin and the fall, is depraved and there is no sufficient restraint or redemption apart from the shed blood of Jesus Christ and His resurrection (Romans 3:10-18, Romans 3:23, Psalm 14:1-3, Matthew 19:17, Romans 3:21-26, Romans 5:6-21). Thus, in accordance with a classical/Biblical worldview (and in contrast to the modern natural law worldview) it must be acknowledged that the system is not self-contained and is unable to inherently restrain or redeem fallen humanity sufficiently enough to ensure a socio-economic transmutation toward a higher plan and for the common good. This requires the merciful intervention of a personal, external, transcendent God that has, and is, revealing Himself to humankind through the created order, causing all things to work toward the ultimate good (Romans 8:28).

A critique of Keynes' model. Similarly, Keynes' socio-economic model rests upon his view of humanity within a modern natural law worldview construct in that he believes the socio-economic actions of humanity will normally operate according to predictable natural law systematic processes within a self-contained system. However, Keynes differs from Smith in that he also believes there is a fundamental flaw in the economic sub-system. It does not have an "automatic safety mechanism" (Heilbroner, 1999, p. 270) that will make corrections toward systematic economic equilibrium for the common good. Thus, for Keynes, the fundamental essence of the economic problem is not found in the tension between human morality and the system, rather it is found in a mechanical flaw in the economic sub-system that exists regardless of the intentions or morality of the overarching (and still self-contained) socio-economic human system. Thus, the appropriate corrective action is found in the temporary systematic interventions of government through "abnormal" expenditures that are seen "as lending a helping hand to a system that ha[s] slipped and [is] struggling to regain its balance" (Heilbroner, p. 276). This theory clearly rests upon a modern natural law worldview that the larger socio-economic system (which contains the economic sub-system) is self-contained—the systematic corrective action is still internally generated.

This view of humanity and the socio-economic system is also Biblically flawed. Keynes fails to recognize the need for the intervention of God in the socio-economic system and he discounts the depravity of man on two counts. First, he fails to recognize that depraved human nature negatively impacts the system and that the problem is greater than a mere "mechanical flaw." Secondly, and of greater significance, Keynes fails to understand the nature of human depravity relative to power and governmental interventions. Government is not a mechanical tool that operates morally and rationally (and temporarily) in response to the system's demands.

Rather, it is comprised of individuals that, according to Biblical principles, are morally depraved and subject to the unique temptations encountered when positions of power are obtained.

Powelson (2000) articulates the problems of power succinctly, comparing the exhilaration power provides to the addictive “‘high’ of a stimulating drug and concludes that the two rules of socio-economic power are: a) “Power expands until other power stops it,” and b) “Holders of excessive power accumulate resources excessively and prevent the economy from functioning optimally” (p. 33).

Scripture provides a basis for Keynes’ fundamental flaws. Romans 3:10-18, Romans 3:23, Psalm 14:1-3, Matthew 19:17, Romans 3:21-26, and Romans 5:6-21, cited previously, clearly communicate the depravity of man and the need for God’s redemptive intervention through the work of Jesus Christ. As to the unique temptations associated with positions of power, Scripture also provides instruction. The story of David and Bathsheba, chronicled in 2 Samuel 11:1 to 12:23, demonstrates the inherent danger of unrestrained and unredeemed power and influence. In Ezekiel 45:8 God addresses oppressive power in the hands of a ruling authority and admonishes that it must be restrained. “Enough...! Remove violence and plundering, execute justice and righteousness...” The Scriptures are full of other similar examples.

Conclusion

Adam Smith and John Maynard Keynes are two remarkable economists/philosophers that attempted to create socio-economic models that would explain and predict the dynamics of systematic capitalism. Their contributions are valuable, noteworthy, and useful to capitalistic businessmen, policymakers, and educators. However, both have flawed foundational philosophical modern worldviews. They are both grounded in a modern closed system natural law worldview that fails to appropriately account for the complete depravity of humankind, the

need for divine direction and favor, and the need for an external Savior found in the person of Jesus Christ. Christian business men and women, policymakers, and educators should not infer that either Classical or Keynesian economic philosophies will inherently and systematically operate in accordance with the classically/Biblically mandated moral responsibilities of humankind toward one another for the common good as they interact together from a socio-economic perspective. Rather, they must understand and foster the proposition that there is an external (and higher) objective standard of human conduct and interaction that must be considered when entering into any socio-economic activity. Thus, while capitalistically based socio-economic systems may be favored from a classical/Biblical worldview, it must be recognized that these systems must be restrained by applications of principled moral behavior. For Colson (1999) this is done by recognizing the responsibilities of societies' citizens and institutions to encourage humankind to work toward a classical/Biblical worldview model of socio-economic interactions.

A classical/Biblical worldview in a pluralistic context, as viewed and applied across the societal institutions of business and economics, civil government, education, and religion is one that recognizes the existence of an absolute order directing the actions of a moral humanity. Without this classical/Biblical worldview foundation, society will operate according to a relativistic model that “provides no foundation for a safe and orderly society” (Colson, 1999, p. 374). With the classical/Biblical worldview foundation, society will operate through the collective effort of the jurisdictional authorities of government, family, church, and other attending mediating structures (including business and economics) to bring about a common good based upon concepts of “a firm sense of right and wrong and a determination to order one’s life accordingly” (Colson, p. 382). A principled moral society acts according to this ideology:

Not out of a grim sense of duty, but because it is what fits with our created nature and makes us happiest and most fulfilled. When men and women act in accord with their true nature, they feel a sense of harmony, contentment, and joy. This is happiness, the fruit of virtue. (Colson, p. 382)

Accordingly Eberly (1994) provides that a classical/Biblical socio-economic worldview is one that reaches across all sectors of society to “improve the social and moral infrastructure” (p. 22). In business and economics, this is accomplished by working for the economic common good by emphasizing “ethics and quality” in commercial enterprise; in government, by restoring “the integrity and competence” of public institutions; in education, by emphasizing “character and classical virtue;” and, in religion, by “serving hungry souls and deseculariz[ing] public life” (p. 23). “He has shown you, O man, what is good; And what does the Lord require of you, But to do justly, To love mercy, And to walk humbly with your God” (Micah 6:8, p. 1054).

References

- Arnold, R. A. (2001). *Economics*. Cincinnati, OH: South-Western College Publishing.
- Atherton, J. (1992). *Christianity and the market: Christian social thought for our times*. London: SPCK.
- Beare, J. B. (1978). *Macroeconomics: Cycles, growth, and policy in a monetary economy*. New York, NY: Macmillan Publishing Co., Inc.
- Colson, C. & Pearcey, N. (1999). *How now shall we live?* Wheaton, Illinois: Tyndale House Publishers, Inc.
- Duchrow, U. (1987). *Global economy: A confessional issue for the churches?* Geneva: WCC Publications.
- Eberly, D. E. (1994). *Restoring the good society: A new vision for politics and culture*. Grand Rapids, Michigan: Baker Books.
- Goudzwaard, B. (1979). *Capitalism and progress: A diagnosis of western society*. Grand Rapids, MI: Wedge Publishing.
- Griffiths, B. (1984). *The creation of wealth*. London: Hodder and Stoughton.
- Heilbroner, R. L. (1999). *The worldly philosophers: The lives, times, and ideas of the great economic thinkers* (7th ed.). New York, NY: Simon and Schuster.
- Holy Bible: The new King James version*. (1985). Nashville, Tennessee: Thomas Nelson Publishers.
- Keynes, J. M. (1936). *The general theory of employment, interest, and money*. London: Macmillan.
- McConnell, C. R. & Brue, S. L. (2002). *Economics: Principles, problems, and policies* (15th ed.). New York, NY: McGraw-Hill Irwin.

- Nash, R. H. (1992). *World-views in conflict: Choosing Christianity in a world of ideas*. Grand Rapids, MI: Zondervan Publishing House.
- North, G. (1973). *An introduction to Christian economics*. Nutley, NJ: Craig Press.
- Novak, M. (1993). *The Catholic ethic and the spirit of capitalism*. New York, NY: The Free Press.
- Powelson, J. P. (2000). *The moral economy*. Ann Arbor, MI: The University of Michigan Press.
- Preston, R. (1991). *Religion and the ambiguities of capitalism*. London: SCM.
- Samuelson, P. A. & Nordhaus, W. D. (2001). *Economics* (17th ed.). New York, NY: McGraw-Hill.
- Sargent, T. J. (1979). *Macroeconomic theory*. New York, NY: Academic Press, Inc.
- Sexton, R. L. (2002). *Exploring economics* (2nd ed.). Cincinnati, OH: Thomson Learning, Inc.
- Slife, B. D., & Williams, R. N. (1995). *What's behind the research? Discovering hidden assumptions in the behavioral sciences*. Thousand Oaks, CA: Sage Publications.
- Smith, A. (1776). *An inquiry into the nature and causes of the wealth of nations* (reprint 1937). New York, NY: Random House.
- Tucker, I. B. (2001). *Survey of economics*. Cincinnati, OH: South-Western College Publishing.
- Veith, G. D., Jr. (1994). *Postmodern times: A Christian guide to contemporary thought and culture*. Wheaton, IL: Crossway Books.
- Whitehead, J. W. (1982). *The second American revolution*. Elgin, IL: David C. Cook Publishing Co.