

Prices, Incentives, Markets, and Scripture

Address to the Grove City College
Summer Institute on Religious Faith and Economics
June 22-26, 1998

E. Calvin Beisner

I have been asked to speak to you regarding prices, incentives, markets, and Scripture. My plan is to focus principally on what we can learn from Scripture about incentives and our economic activity, on the assumption that the implications of this for prices will be fairly obvious. In looking at incentives, I shall begin with personal incentives that drive individuals' economic choices and then look at more systemic incentives that underlie competing sorts of economic systems.

Personal Incentives for Economic Action

Christian ethics requires not only that we do the right thing but also that we do it for the right motives. "The underlying contention of Christian ethics," wrote Carl F. H. Henry in his *Christian Personal Ethics*, is that every want of conformity to God is sinful and wicked. This includes both lack of conformity in action and in motive and affection. The deepest recess of the heart is judged equally with any external deed."¹

An insight of free market economics—that the necessity of trading for mutual advantage to some degree mitigates the *effects* of man's innate selfishness—must not be misunderstood as an argument that somehow the free market makes selfishness good. The insight, rooted in eighteenth-century moral philosopher Adam Smith's doctrine of the "invisible hand"—which was for him not a mere rhetorical device but an affirmation of the real providence of God in turning the evil intents of men to the common good—relates solely to the objective outcome, not to the subjective intentions, in economic relationships.² Far from Smith's justifying selfishness, he condemned it, holding that the properly formed conscience could approve of nothing less than self-denial for the sake of others. "And hence it is, that to feel much for others, and little for ourselves, that to restrain our selfish, and to indulge our benevolent, affections, constitutes the perfection of human nature; and can alone produce among mankind that harmony of sentiments and passions in which consists their whole grace and propriety. As to love our neighbour as we love ourselves is the great law of Christianity, so it is the great precept of nature to love ourselves only as we love our neighbour, or, what comes to the same thing, as our neighbour is capable of loving us."³ While, for Smith, the "invisible hand" could effect a just and peaceful society of mutual benefit using solely men's motives for personal gain, a society of "grace and propriety" could come about only through self-denying love.

Before we consider particular incentives directly, let me remark that I find it increasingly difficult, as I study both economics and Biblical ethics, to distinguish at all between economic and noneconomic activity. Every minute of our lives we all choose among various alternative, mutually exclusive ways of allocating scarce resources—time, energy, attention, material possessions, and so on. And that is the very definition of economic activity. I therefore find it difficult, if not impossible, to confine my considerations here to our incentives and actions solely in the "workplace" or the "marketplace."

From the Christian perspective, *all* of life is the workplace: the workplace of the servant of God. Neither the temptations that assail us nor the opportunities that present themselves to us on the job, during a sales call, or in any of the other situations normally thought of as "economic," are truly

¹Carl F. H. Henry, *Christian Personal Ethics* (Grand Rapids, MI: Baker Book House, [1957] 1977), p. 184.

²Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, ed. Edwin Cannan (Chicago, IL: University of Chicago Press, [1776] 1976), vol. 1, p. 476 [Bk. IV, Ch. ii, sec. (2)].

³Adam Smith, *The Theory of Moral Sentiments* (South Holland, IL: Liberty Fund, 1976; Oxford, England: Oxford University Press, 1976), 71-2.

distinct from those we encounter in all of life. Perhaps this will make what follows seem less specifically helpful to those who struggle with ethical questions about incentives in “economic” activity. But perhaps, instead, it will make what follows helpful to a broader audience, and ultimately more broadly helpful even to the narrower audience, if it encourages the latter to view paid work, buying, and selling as simply facets of service to God rather than isolated, “economic” aspects of life that operate under rules different from those for “noneconomic” life.

Gratitude and Love. The Heidelberg Catechism (1563) “sums up all Christian ethics under this heading—‘Gratitude.’”⁴ “Since, then, we are redeemed from our misery by grace through Christ, without any merit of ours, why must we do good works?” the Catechism asks (Q. 86). It answers, “Because Christ, having redeemed us by his blood, renews us also by his Holy Spirit after his own image, that with our whole life we may *show ourselves thankful* to God for his blessing, and that he may be glorified through us; then, also, that we ourselves may be assured of our faith by the fruits thereof, and by our godly walk may win our neighbors also to Christ” (emphasis added).

The emphasis on gratitude reflects the setting in which God gave the Ten Commandments. He introduced them with a reminder of His saving work for Israel, for which He expected Israel to respond in grateful obedience: “I am the LORD your God, who brought you out of Egypt, out of the land of slavery” (Exodus 20:2; Deuteronomy 5:6). The New Testament, too, sees gratitude as the foundation of Christian service: “Therefore, since we are receiving a kingdom that cannot be shaken, *let us be thankful*, and so worship [Greek: *latreuomen*, literally, “serve”]⁵ God acceptably with reverence and awe” (Hebrews 12:28, emphasis added). Even love itself is the response of gratitude to God, not a primary, i.e., underived, motive in the human heart: “We love because he first loved us” (1 John 4:19).

Love that springs from gratitude to God is neither undefined nor autonomous, but defined and law-directed. It is defined by the moral Law revealed in the Ten Commandments, of which it is the complete summary and fulfillment (Romans 13:8-10; Matthew 22:37-39).⁶ It works itself out in generous giving in mimicry of the grace that excites the gratitude from which it springs (2 Corinthians 9:6-10; cf. 8:8). And it replicates itself in its beneficiaries, in whom it engenders a new generation of love-producing gratitude to God (2 Corinthians 9:11-15). Thus grateful love inspires gracious service by which the Kingdom of God grows as more and more people experience the King’s love and respond in grateful, loving service.

The distinction between gratitude and service makes apparent a difference in outlook between responsive and prospective motives. Gratitude is responsive: it focuses on the past, on benefits received. Service is prospective: it focuses on the future, on benefits to be bestowed on others, and particularly on the growth of God’s Kingdom. Between and uniting the two stands love, which is both responsive and prospective: it both expresses gratitude and looks for ways to pass on to others the benefits that gave it rise.

Seeking First God’s Kingdom. The growth of God’s Kingdom, and by it the glorification of God, is the great aim of all Christian activity (Matthew 6:33). Grateful love in response to God’s grace produces not an aimless service but a service wholly consumed by passion for the glory of God displayed in the increasing breadth and intensity of His reign in and over and through men and women everywhere. This is the overriding passion of the grateful Christian: that God’s Kingdom should come, that His will should be done, on earth as it is in heaven (Matthew 6:10).

Thus, furthering God’s Kingdom, and by that glorifying Him, is the highest prospective incentive for Christian service. It is a covenantal activity, undertaken in grateful response to the King for deliverance from bondage and bestowal of privileges. As such, it is rooted in the two primary

⁴*Ibid.*, p. 530. See The Heidelberg Catechism, Third Part, in Philip Schaff, *Creeeds of Christendom*, three volumes (Grand Rapids, MI: Baker Book House, [1877] 1977), vol. 3, pp. 338ff.

⁵Walter Bauer, *A Greek-English Lexicon of the New Testament and Other Early Christian Literature*, 2nd ed., trans. William F. Arndt and F. Wilbur Gingrich, rev. F. Wilbur Gingrich and Frederick W. Danker (Chicago, IL: University of Chicago Press, 1979), p. 467.

⁶See E. Calvin Beisner, “Love as Fulfillment and Summary of the Law” and “A Biblical Critique of Situation Ethics,” unpublished papers, University of Southern California, 1976.

relationships of the redeemed to the King: sonship and priesthood. These two facets of Christians' identity and of our relationship with God should shape all of our activities. To the extent that we understand and act them out rightly, we will act with right motives; to the extent that we misunderstand them and act them out wrongly, we will act with wrong motives.

Let's look, then, at how sonship and priesthood should shape our activities in furthering the Kingdom of God, and consider how the motives and actions that grow from them can be corrupted, particularly in our jobs and other environments typically thought of as "economic."

Dominion: The Exercise of Sonship. The redeemed of God are, by our new birth, adopted as sons of God. Our sonship, in which we are made "heirs of God and co-heirs with Christ," replaces a spirit of fearful slavery with a spirit of royalty that promises a share in the glory of the Redeemer (Romans 8:14-17).

In Christ Jesus, God is restoring and perfecting that rule over the earth that He gave to Adam but that Adam corrupted in the fall (Genesis 1:26-30; 3:17-19; Psalm 8:3-8). This rule was intended to be exercised in humble submission to God, and it is to this humble submission that Christians are reborn. We are intended to share in this restoration of proper rule to the Second Adam and His brothers.

It is from the perspective of participating in and advancing this godly rule, or dominion, that all of our acquisitive activities should be undertaken. Our desires to get wealth, power, or honor should be harnessed to this underlying motive: the expansion of the Kingdom of God and the extension of its benefits to more and more people. So long as these desires are so harnessed, they will seek only godly ways of fulfillment. Thus, for instance, Paul condemns stealing as a means of acquiring wealth, but commends acquiring wealth if it is done for the purpose of serving others: "He who has been stealing must steal no longer, but must work, doing something useful with his own hands, that he may have something to share with those in need" (Ephesians 4:28). Similarly, the *Westminster Shorter Catechism* (1647) says, in explaining the positive implications of the eighth commandment ("Thou shalt not steal"), "The eighth commandment requireth the lawful procuring and furthering the wealth and outward estate of ourselves and others."

Not only refraining from violating a neighbor's property, then, but also lawfully producing and acquiring our own property to be used for our own and others' benefit, is Biblically proper. The Christian who works hard and wisely to provide goods and services economically to others and is rewarded for this service with wealth should be looked upon not as greedy but as effectively fulfilling his calling as a steward of God's household (Matthew 25:14-30; cf. Luke 19:12-27). God presents it as a matter of course that He will enhance the prosperity of those who exercise faithful stewardship.

The desire for wealth, then, must not be condemned in itself. Whether it is laudable or damnable in a specific individual depends on the purpose for which the wealth is desired and on the means by which he is willing to get it. If he seeks wealth for the sake of self-aggrandizement and luxurious living, his desire is wrong; if he seeks it as a means of serving others, his desire is right. If he seeks wealth by taking advantage of others, his desire is wrong; if he seeks it by serving others, his desire is right. Frequently man, who looks on the outside but cannot see the heart, is a poor judge of another's true motives. Often enough it is more than sufficient challenge for us to ascertain and control our own motives without judging others'.

How might an individual assess his own motives in his attempts to get wealth? Clearly, any violation of others' trust and property betrays moral rottenness. Not only outright theft violates the eighth commandment, but also, as the *Shorter Catechism* puts it, "all wicked tricks and devices whereby we seek to draw to ourselves our neighbor's goods, whether by force or with show [i.e., pretense] of right, such as unjust weights, ells,⁷ measures, wares, coins, usury,⁸ or any means

⁷The ell was a measurement of length based on the distance from elbow to base of hand.

⁸The Bible does not prescribe maximum interest rates on loans. Neither does it prohibit all interest. Rather, it prohibits interest on loans to the poor but leaves rates of interest on other loans open to mutual agreement. See Beisner, *Prosperity and Poverty*, pp. 215, 276-277 (notes 21, 24), 258 (note 19).

forbidden of God; so, moreover, all covetousness, and all useless waste of his gifts.”⁹

In our economic affairs, then, we must ask ourselves constantly, “Am I doing this for my own benefit alone, or also—even predominantly—for the benefit of others?” Ruthless honesty alone can answer adequately, and more often than not it will drive us to confession and repentance, humbly asking God to forgive us for self-centeredness and cause us to know and emulate “the grace of our Lord Jesus Christ, [who,] though he was rich, yet for [our] sakes he became poor, so that [we] through his poverty might become rich” (2 Corinthians 8:9).

Service: The Exercise of Priesthood. In Christ, believers are made not only children of God but also priests—a “royal priesthood” (1 Peter 2:9), “a kingdom and priests to serve our God, and . . . reign on the earth” (Revelation 5:10). As priests we are called to a mediatorial function, bringing the grace and blessings of God to others. This we do through service.

Yet service has its own danger, for the more effectively we serve the more likely we are to be rewarded with honor, position, and property. The comment of the master in the parable of the talents, “Well done, good and faithful servant! You have been faithful with a few things; I will put you in charge of many things” (Matthew 25:21, 23), is no fabrication of Christ’s. It reflects not only God’s response to faithful spiritual service but also the world’s response to faithful material service. Good workers rise through the ranks; bad ones don’t.

Not that it’s dangerous to be rewarded with honor, position, and property. No, the danger is that we will make those, not gratitude and love, the driving motives behind our service. That way lies sycophancy, fawning, toadyism. The difference between servanthood and servility is more than a matter of spelling. Whoever serves for the sake of preferment makes himself vulnerable to every temptation to forsake right to get might, to abandon the good for the sake of the goods, to behave dishonorably to gain honor. Christian servants must remember that our priesthood is royal and so must do nothing unbecoming the royalty displayed in Christ’s own service.

This does not mean, however, that we should do no service on which the world looks with contempt. Jesus made foot washing—a task of the lowliest household servant—the pattern for our servanthood (John 13:1-17). It is the motive underlying our service, not necessarily the act itself, that makes the difference. A Fortune 500 corporation’s president is guilty of sycophancy if he runs his company solely with the aim of currying favor with the board of directors, while the janitor cleaning a gymnasium’s rest-rooms is performing royal service if he does it “with sincerity of heart . . . not only to win [his employers’] favor when their eye is on [him], but like [a slave] of Christ, doing the will of God from [his] heart” (Ephesians 6:5-6).

There is, in short, no obvious and foolproof way to discern, by looking at outward actions, whether our motives are right or wrong. The same deeds may flow from diverse incentives. What is crucial for Christians is that we pursue economic (and all other) goals not as ends in themselves but as means of fulfilling our calling as sons and priests of God, a calling to lead through service.

When the world’s systems call us to pursue wealth, power, or honor as an end in itself rather than a means of bringing more of this world into submission to God’s gracious rule or of acquiring more tools with which to serve others, they tempt us to abuse our princely calling as sons of God. When they call us to serve for the sake of personal advancement rather than as a grateful, loving response to God’s grace or as a means of bestowing grace on others, they tempt us to abuse our calling to service as priests. Instead, we must hear Jesus, who says to us, “[W]hoever wants to become great among you must be your servant, and whoever wants to be first must be your slave” (Matthew 20:26-27).

Our gratitude for God’s grace should fuel in us a love for others that reaches out to them in selfless service. Ultimately, quiet examination of our own hearts in prayer will be of more use to us in the world of God’s business than reading any number of books on success or attending any number of motivational seminars.

⁹Heidelberg Catechism, Q. 110.

Biblical Incentives and Economic Systems

Because all of life involves choices, it should be no surprise to find that incentives are pervasive in human life. Even the most superficial reading of any historical or biographical material reveals, to those who have the subject in mind, a wide variety of incentives operative in the lives of those involved.

A quick survey I did of the first twenty-one chapters of Genesis revealed nearly fifty incentives at work in people's lives, including such things as biological reproduction, the desire for food, embarrassment, peer pressure, malevolence, gratitude, and obedience to God's command.¹⁰ Obviously, some incentives are good, some bad. The Apostle Paul's descriptions of "the acts of the sinful nature" and "the fruit of the Spirit" include many of each kind: "sexual immorality, impurity and debauchery; idolatry and witchcraft; hatred, discord, jealousy, fits of rage, selfish ambition, dissensions, factions and envy; drunkenness, orgies, and the like" are evil incentives; "love, joy, peace, patience, kindness, goodness, faithfulness, gentleness and self-control" are good ones (Galatians 5:19-23). But even these lists are not exhaustive. Incentives can be as varied as the facets of the richly varied human psyche, made in the glorious image of God yet sadly corrupted.

The complexity of incentives is no surprise to modern economists, who understand economic value not as objective (inherent in the thing or act valued) but as subjective (attributed to a valued thing by the valuing person). Because human psyches are so multifaceted, because every person differs from every other person, and because one person's own needs and desires change constantly over time depending on his circumstances, economists recognize that incentives must also vary greatly from one person to another and over time. An incentive sufficient to elicit a certain action from one person might not elicit the same action from another, or even from the same person at a different time. (This understanding, by the way, lies at the root of many economists' objections to wage and price controls as countereffective and inconsistent with the subjective theory of economic value.)

Our particular interest here is in how incentives affect our economic choices, that is, our choices among *alternative, incompatible uses of scarce resources* for the production, distribution, and consumption of *wealth*, and wealth is simply anything that people value, whether time, money, power, food, clothing, shelter, knowledge, relationships, or other material or non-material goods. What we must keep firmly in mind, however, is that *all* incentives affect our economic choices; any division between economic and non-economic incentives is artificial.

Modern economists see all incentives as varieties of self-interest. Many Christians think this means that economists approve of selfishness, but that misunderstands the term. Self-interest, in economics, refers simply to whatever a given person (self) is interested in doing or having done, getting or giving. The degree of sacrifice—the amount of energy, time, money, natural resources, etc.—that he is willing to invest to achieve his goal measures the value he places on that goal. Someone who, because he values the spread of the gospel, gives money to Bibles For the World to support its program of mailing Bibles to people in hard-to-reach lands, is acting as much out of his

¹⁰Forty-six incentives that I found revealed in Genesis 1-21 are: biological reproduction and rule over the earth (Genesis 1:28; cf. 8:17; 9:1, 7; 16:2; 19:32); preservation of life (2:17; cf. 3:3; 6:13, 14; 19:15, 17; 20:3, 7); marital union (2:24); knowledge and self-determination (3:5); food (3:6); aesthetics/beauty (3:6); wisdom (3:6); embarrassment (3:8); fear (3:10; cf. 3:24; 4:15; 9:5, 6; 12:12, 13, 18-20; 16:6; 18:15); peer pressure (3:12, 13; cf. 13:17); malevolence, or simple evil (3:14; cf. 6:5; 8:21; 13:13); hatred of evil, love of righteousness (3:15); will to power (3:16); desire for eternal life (3:22); desire to gain God's approval (4:3, 4, 7); anger (4:5); desire to master or defeat sin (4:7); jealousy (4:8; cf. 13:7; 16:5; 20:10); self-centeredness, neglect of others (4:9); discontent (4:12); resentment and vengeance (4:23; cf. 9:25); sexual lust (6:2; cf. 19:5); benevolence, or simple righteousness (6:9); disrespect for parents (9:22); respect for parents (9:23); gratitude (9:26, 27); fame (11:4; cf. 12:2); ethnic/cultural preservation, unity, and pride (11:4); desire to gain God's blessing (12:3); desire to avoid God's curse (12:3); obedience to God's command (12:4; 17:23); physical necessity (13:6); peacemaking (13:8; 21:22-24); greed (13:10; cf. 14:11, 12); family loyalty (14:14ff -- or is this justice? or both? cf. 20:11); honor to God's spokesman (14:20); integrity (14:22-24); faith (15:6); unbelief (16:1; cf. 18:12); pride or contempt (16:5); cowardice (16:6; cf. 20:2); reverence or fear of God (16:6; cf. 17:3); doubt (17:17); hospitality or generosity (18:3-8; cf. 19:2); laziness (19:19); security (21:22-24).

own self-interest, as economists define the term, as someone who, because he values the thrill of fast driving, buys himself a new Corvette. A lawyer who, because he believes everyone deserves justice, takes on charity cases at no fee, is acting as much out of self-interest as one who takes on no case in which he expects to earn less than \$50,000.

Some self-interest, in other words, is directed toward others' benefit, some toward one's own. Normally our self-interest takes both others' and our own benefit into account. At the very least we may say that even the most altruistic person rarely sacrifices something of great value to himself in order to confer on someone else something he knows the recipient values little.

TWO TYPES OF ECONOMIC INCENTIVE. Biblical precept and example indicate that there are two chief types of economic incentives: reward and punishment. While we will isolate the two types here for theoretical purposes, we must remember that, given every person's varied needs and desires, his multifaceted relationships, and the corruption of man's heart, it is rare for anyone to do anything on the basis of only a single type of incentive; more frequently, motives are mixed. As Nobel Prize-winning economist James Buchanan points out, economists who see man as nothing more than a monetary profit-calculating machine grossly distort the real choosing process in man. "The elementary fact," writes Buchanan, "is . . . that *homo economicus* does exist in the human psyche, [but only] along with many other men, and that behavior is a product of the continuing internal struggle among these."¹¹

These two types of incentives, or motives, for economic action derive from outside the choosing person. That is, the promise of reward or threat of punishment comes from someone other than the actor himself, and he responds to the promise or threat based on his evaluation of each. Thus reward and punishment may be spoken of as *external* incentives, though they always appeal to *internal* value judgments.

That is why the same rewards—external incentives—will not always produce the same choices in different people. Our differing likes and dislikes result in differing responses to rewards and punishments. Someone might entice me to work for him by promising me a day of uninterrupted study in a library; he might prevent your destroying his property by threatening the same thing!

Reward. The first type of incentive is *reward*, or the promise of reward, in return for specified actions. God frequently promises reward for obedience to His commands and so uses reward as an incentive for man: "If you follow my decrees and are careful to obey my commands, I will send you rain in its season, and the ground will yield its crops and the trees of the field their fruit" (Leviticus 26:3; cf. Deuteronomy 6:1-3, 17, 18, 24, 25; 7:12-15; 8:1; 1:8, 9, 13-15; 28:1-14).

God offers people many kinds of rewards. Some are largely material, like those promised to Israel on its entry into Canaan, on condition of its obedience (Deuteronomy 28:3-8; Proverbs 2:9, 10). God even offers material rewards as incentives for pursuing moral virtue (Matthew 6:33; Proverbs 2:17, 18). Sometimes the attainment and preservation of moral virtue is itself a reward for attending to godly instruction (Proverbs 5:1-2).

One great reward is approval in God's sight, which is why Jesus warned, "Be careful not to do your 'acts of righteousness' before men, to be seen by them. If you do, you will have no reward from your Father in heaven. . . . But when you give to the needy, [do it] in secret. Then your Father, who sees what is done in secret, will reward you" (Matthew 6:1-4). Christ motivates us to self-denial in *this* life by appealing to our wish for self-preservation in the life *to come*: "For whoever wants to save his life will lose it, but whoever loses his life for me and for the gospel will save it. What good is it for a man to gain the whole world, yet forfeit his soul?" (Mark 8:35, 36). Just so, the command of God that we believe in His Son is accompanied by a promise of eternal life to those who do (John 3:16). Clearly self-interest, even in the simplest sense of seeking our own good, cannot be condemned in principle, since God expressly appeals to it to motivate us to do what He wills. And this should be no surprise to us, if we recall that we belong to God and so have a stewardship of

¹¹James M. Buchanan, "Methods and Morals in Economics," in William Breit and W. P. Culbertson, eds., *Science and Ceremony* (Austin: University of Texas Press, 1976), pp. 163-174, reprinted in Buchanan, *What Should Economists Do?* (Indianapolis: Liberty Fund, 1979), pp. 201-217. The citation is from the latter, p. 207.

ourselves; we *ought* to seek our true good. It is when self-gain is sought *at the expense of others* that Scripture condemns it (cf. James 5:1-6).

The greatest reward of all is God Himself. Asaph, after bemoaning the seemingly unmitigated wickedness around him, concluded, “Whom have I in heaven but you? And being with you, I desire nothing on earth” (Psalm 73:25). Augustine’s comment on this passage is profound: “He that seeks any other reward from God, and is willing to serve God for that reason, makes what he wants to receive more precious than God Himself, from whom he hopes to receive it. What then, is there no reward in seeking God? None except Himself. This [the godly man] loves, this he esteems; if he loves any other thing [as an end toward which he aims in loving God], his love is not chaste.”¹² Like the man who marries a woman for her money, so is anyone who serves God solely to gain any reward—money, power, wisdom, even eternal life—other than God Himself. God must never be seen as a means to an end, but always as the great End of all means, our All in all.

Punishment. The second type of incentive is *punishment*, or the threat of punishment, in response to specified actions. God frequently threatens punishment for disobedience to His commands, and so uses punishment as an incentive for obedience (Leviticus 26:14-17; cf. Deuteronomy 6:14, 15; 7:25, 26; 8:19, 20; 11:16, 17; 28:15-68).

Like rewards, punishment might be physical or spiritual. God threatened capital punishment to those who committed murder (Genesis 9:6), and the New Testament confirms the state’s authority to execute lawbreakers (Romans 13:4). Just as material prosperity may be the reward for wise and righteous living, so material poverty may be the punishment for foolish and wicked living (Proverbs 23:20, 21). And just as God Himself is the greatest reward, so being cast eternally from God’s presence is the greatest punishment (Mark 8:37, 38; Matthew 25:41-46).

Minimum Standards and Striving for Excellence. While rewards and punishments have important similarities, there are also significant differences between them beyond the simple fact that one offers something we desire and the other threatens something we loathe.

First, rewards better motivate people to make sacrifices (contract costs, expend effort) beyond the minimum than do punishments. If you have children, think of a time when you told your child to stay out of the kitchen, warning that he’d get spanked if he didn’t. If he was like most children, his toe strayed little from the line that marked the beginning of the kitchen. He did the bare minimum to avoid a spanking. But if you promised him something he greatly valued—extra dessert, or a trip to the lake to feed the ducks—if he stayed in the play room and picked up his toys, the results, more often than not, were markedly different. Punishments restrict behavior to certain minimum standards; rewards motivate people to reach beyond minimum standards.

People readily expend great effort, even at great personal sacrifice, to gain rewards—whether fame, fortune, power, moral satisfaction, or treasure in Heaven—because they know the magnitude of the reward depends partly on the magnitude of the achievement, which in turn depends partly on the magnitude of the investment of knowledge, time, labor, capital, and natural resources. But avoiding punishment requires no great sacrifice; one merely refrains from doing what is wrong. Thus the threat of punishment as an incentive is inherently limited in its effects, while the promise of rewards is inherently expansive in its effects.

Second, rewards are granted for behavior beyond the call of basic duty, while punishment is exacted for behavior contrary to duty. That is why Scripture prescribes civil punishments for violating others’ rights but not for failing to love them. It is not for stinginess but for theft that civil government rightly may punish. And rewards go not to those who simply refrain from beating people up but to those who risk life and limb to save innocent victims from angry mobs. Rewards, in other words, serve as incentives to go beyond the minimal standard of basic justice and to rise to the standard of self-sacrificial service.

Adam Smith distinguished thus between justice and beneficence when he wrote:

¹²St. Augustine, *Expositions on the Book of Psalms*, on Psalm 73:25; paraphrased from A. Cleveland Coxe’s translation in Philip Schaff, ed., *A Select Library of the Nicene and Post-Nicene Fathers of the Christian Church*, Series Two, Part One (Grand Rapids, MI: Eerdmans, 1979), 8:341.

Society may subsist among different men, as among different merchants, from a sense of its utility, without any mutual love or affection; and though no man in it should owe any obligation, or be bound in gratitude to any other, it may still be upheld by a mercenary exchange of good offices according to an agreed valuation.

Society, however, cannot subsist among those who are at all times ready to hurt and injure one another. . . . If there is any society among robbers and murderers, they must at least, according to the trite observation, abstain from robbing and murdering one another. Beneficence, therefore, is less essential to the existence of society than justice. Society may subsist, though not in the most comfortable state, without beneficence; but the prevalence of injustice must utterly destroy it.

Though nature, therefore, exhorts mankind to acts of *beneficence*, by the pleasing consciousness of deserved reward, she has not thought it necessary to guard and enforce the practice of it by the terrors of merited punishment in case it should be neglected. It is the ornament which embellishes, not the foundation which supports the building, and which it was, therefore, sufficient to recommend, but by no means necessary to impose. *Justice*, on the contrary, is the main pillar that upholds the whole edifice. If it is removed, the great, the immense fabric of human society . . . must in a moment crumble into atoms. In order to enforce the observation of justice, therefore, nature has implanted in the human breast that consciousness of ill desert, those terrors of merited punishment, which attend upon its violation, as the great safeguards of the association of mankind, to protect the weak, to curb the violent, and to chastise the guilty.¹³

The threat of punishment, then, is used properly only to motivate people to live up to the minimum standard of human relations, namely, not to violate one another's rights. It should not be used to motivate people beyond that minimum standard. The appropriate incentive for that is reward.

THE ROLE OF COMPETITION IN ECONOMIES. Rewards and punishments, then, are closely tied to the roles of *competition* and *compulsion* in economic activity, for competition occurs in the pursuit of rewards, and compulsion occurs (at least properly) in the administration or threat of punishment. Competition for rewards, therefore, is essential to a productive economy, meaning that the condemnation or prohibition of competition is economically counterproductive.

Idealists sometimes wish that society could survive and prosper based on pure altruism without regard to external incentives, primarily because the pursuit of rewards creates competition, something they consider innately evil. But society is made up of fallen human beings, and so it seems hardly likely that such a utopia will ever develop.

If a society is deprived of competition[, wrote Russell Kirk], it is forced to rely either upon altruism, the unselfish efforts of men and women who work without reward; or upon compulsion, force employed to make people work without reward. Now the number of utterly unselfish men and women always is very small—insufficient to provide for the wants of the mass of society. And the use of compulsion to enforce work and a semblance of industry, thrift, honesty, and ingeniousness is slavery—incompatible with a free society and the concept of the dignity of man. Therefore a society without economic competition either falls into a dismal decay, because there are not enough unselfish people to do the world's work; or else it falls into slavery, the degradation of human nature and civilization.

. . . In essence, it is not competition which is ruthless; rather, it is the lack of competition that makes a society ruthless; because in a competitive economy people work voluntarily for decent rewards, while in a non-competitive economy a few harsh masters employ the stick to get the world's work done.¹⁴

TWO CHIEF ECONOMIC SYSTEMS. We are ready now to look at the two chief sorts of economic

¹³Smith, *The Theory of Moral Sentiments*, pp. 166f, emphasis added.

¹⁴Russell Kirk, *The American Cause* (Chicago: Henry Regnery, 1957, 1965), pp. 103f. Even religious attempts at noncompetitive societies that renounce private property have, historically, led almost inevitably to tyranny. See Thomas Molnar, *Utopia: The Perennial Heresy* (New York: Sheed and Ward, 1967), especially pp. 189-192.

systems and how they work. That done, we will be prepared to compare how well their dominant driving forces comport with Biblically legitimate incentives.

The two chief economic systems are the controlled economy and the free market. The two chief distinguishing factors between the free market economy and the controlled economy are not the different relationships between capital and labor, for both require both, but the different conditions under which capital, labor, and resources are brought together and allocated to one or another of various alternative uses. Those conditions may be understood under the headings of the two key words *free* and *market*, both of which stand opposed to the one word *controlled*.

Under the free market economy people are free to choose for themselves how to employ their capital, labor, and resources, and toward what ends. Their private, uncoerced choices as consumers in the market determine prices, which in turn determine profits (rewards), which in turn determine how producers allocate capital, labor, and natural resources for production. That is, consumers control the direction of the economy by exerting demand (offers of reward) for desired products, and producers respond to consumers' demands by allocating the factors of production toward meeting their demands.

The functional terms are *free* and *market*, and it behooves us to define these carefully to avoid misunderstanding. When we speak of a *free* market economy, we mean not that things are available at no cost (economics by definition deals with choices of allocation of scarce, and hence costly, resources), but that the agents in the market—consumers and producers, investors and managers and laborers—choose what to produce, buy, and sell apart from the threat of arbitrary force (punishment).¹⁵ This definition is particularly important because the concept of freedom often is confused with three other concepts: (1) political self-determination (the ability of a national population to determine, through some form of elections, those who rule); (2) ability to do whatever one chooses without regard to natural or economic restraints; (3) absence of moral restraints and their enforcement.

The Teutonic root of the English word *free* described “a protected member of the community;” it distinguished between those who were enslaved to others and those who were their own masters. Similarly, the Latin *liber*, from which the English *liberty* derives, and the Greek *eleutheros*, both referred to the same distinction between slave and freeman.¹⁶ Properly understood, then, the *freedom* of the free market is neither that of political self-determination (free market economies can thrive under monarchies as well as in representative democracies, and some representative democracies have fairly strictly controlled economies) nor that of ability to do whatever one chooses (that is, the absence of natural and economic restraints on human action), nor the absence of moral restraints and their enforcement (Paul argues in Romans 6 that real freedom is freedom from sin and slavery to righteousness), but freedom from arbitrary coercion by others. Ludwig von Mises described it thusly:

This, then, is freedom in the *external* [note the importance of this qualifier] life of man—that he is independent of the arbitrary power of his fellows. Such freedom . . . did not exist under primitive conditions. It arose in the process of social development and its final completion is the work of mature Capitalism. The man of pre-capitalistic days was subject

¹⁵This does not mean that there is absolutely no place for the threat of force in the free market economy. A free market does not mean the same thing as anarchy. There should be *no* market in criminal acts such as murder, mayhem, pornography, prostitution and other forms of sexual perversion, theft, or fraud (see the Sixth through Ninth Commandments). Civil government may rightly prohibit and punish fraud, theft, and violence. The threat of punishment, then, may properly be used to deter violations of people's rights, and punishment itself may (indeed must) properly be used in response to actual violations of rights. But these mark the full extent of the use of force, and civil government, not the individual, is invested with the monopoly of such coercion. This is consistent with Jesus' insistence that private persons not execute their own vengeance (Matthew 43ff), echoed by Paul (Romans 12:17-21) and based on Old Testament Law (Deuteronomy 32:35; cf. 17:8-13), and with Paul's doctrine that governing authorities exist to punish evil as ministers of God's vengeance (Romans 13:1-4). On the proper role of civil government in the economy, see Beisner, *Prosperity and Poverty*, Chapter Eleven, “Stewardship and Limited Government.”

¹⁶See Friedrich A. Hayek, *The Constitution of Liberty* (South Bend, Indiana: Gateway Editions, Ltd., 1960, 1972), p. 422, notes 5, 6.

to a ‘gracious lord’ whose favour he had to acquire. Capitalism recognizes no such relation. It no longer divides society into despotic rulers and rightless serfs. All [economic] relations are material and impersonal, calculable and capable of substitution. With capitalistic money calculations freedom descends from the sphere of dreams to reality.¹⁷

Under feudalism, freedom was strictly limited in part because the serf (the word comes from the Latin *servus*, a slave) could own no productive property but was bound in feudal servitude to his master’s land and was transferred with the land when a new lord took possession of it. The growth of towns, peopled by men and women who belonged to no feudal lord but who earned their livings by trade instead of by agriculture, paved the way for the recognition that with ownership of productive property came freedom from servitude (serfdom). Thus freedom and property are closely linked, so much so that in the Fifth Amendment to the United States Constitution they are bound together as two of three fundamental rights (the third is life) that cannot be taken by the state apart from due process of law.¹⁸ The Marxist claim that freedom comes with the abolition of private ownership of capital, then, is nothing more than an appeal for the resurrection of feudalism, for it is precisely through private ownership of capital that serfdom ends.¹⁹

This proper definition of freedom is critical in light of such modern movements as liberation theology, which confuses economic freedom with both political self-determination and the ability to fulfill one’s wishes. Because of this confusion, liberation theology trades real economic freedom for economic slavery in hopes of obtaining political self-determination and increased prosperity. In practice it gains neither of its goals and loses the one sense of freedom with which it begins, for, as Kirk points out, “In the modern industrial world, it really is not possible to buy economic security at the price of liberty. It is possible only to surrender freedom in exchange for total planning—which relieves most people of the necessity for making their own choices in life, but also relieves them of their prosperity and their birthright as human beings.”²⁰

When we speak of a free *market* economy, we mean an economy in which the market—the vast set of relationships among freely choosing buyers and sellers of producer goods, consumer goods, labor, information, capital, etc.—guides the direction of economic activity rather than governmental planners backed up by the threat of force.

Because the market efficiently processes information about people’s subjective valuations of various alternative goods and services, it provides essential information about the most efficient allocations of resources. By communicating this information to producers, the market enables consumers’ choices to guide the whole action of the free market economy. Under a free market economy, producers know that they must meet consumers’ demands if they are to earn profits (rewards). Thus the market facilitates people’s choosing freely to serve others.

The controlled economy stands in stark contrast to the free market economy on both of these essential factors.

First, under the controlled economy, planners employed by the civil government instruct people how to bring capital, resources, and labor together, and toward what ends. Their plans are based on their own assumptions about people’s wants and needs, as well as on the goals of the government they represent—goals that do not by any means necessarily coincide with the best interests of the

¹⁷Ludwig von Mises, *Socialism: An Economic and Sociological Analysis*, trans. J. Kahane, second edition, 1951, 1969), p. 194, brackets added.

¹⁸This transition from feudalism to the free market economy and its ties to the growth of towns and trading, along with the growing recognition of the connection between private property ownership and freedom, is chronicled ably in Rosenberg and Birdzell’s *How the West Grew Rich*, especially Chapter Two, “The Starting Point: The Middle Ages,” and Chapter Three, “The Growth of Trade to 1750.” The historical and philosophical connections between private property and freedom are ably set forth in Gottfried Dietze’s *In Defense of Property* (Baltimore and London: Johns Hopkins University Press, 1963, 1975).

¹⁹Friedrich A. Hayek’s seminal warning against the destruction of western liberties through socialism, *The Road to Serfdom* (Chicago: University of Chicago Press, 1944), hinges on this very understanding of the relationships between property and liberty, on the one hand, and between lack of property and serfdom (servility, slavery), on the other hand.

²⁰Kirk, *The American Cause*, pp. 107f.

population. Those who refuse to comply with the planners' instructions face sanctions (punishment). This means that the controlled economy seriously curtails *freedom*, while the market economy both presupposes and enhances it. It also means that the controlled economy misuses the Biblical incentive of punishment by applying it to actions not prohibited by Biblical justice.

Second, under the controlled economy, planners determine prices based on their computations of costs of production or on their pre-determined goals, which might be to redistribute income from one part of the economy to another, to build a powerful military force, to increase exports, to increase the nation's supply of hard money (the goal of mercantilism), or any mixture of a wide variety of goals.

Determining prices on the basis of presumed costs of production runs exactly opposite the method of the free market, in which consumers' expression of subjective economic values in the form of willingness to purchase at certain prices and unwillingness to purchase at other prices determines price and so determines the costs producers are willing to incur in meeting consumers' demands. The controlled economy's adoption of prices higher than those most consumers are willing to pay necessarily causes surpluses of the goods and services affected, since the higher prices crowd marginal consumers out of the market and some of the goods and services go unsold. Its adoption of prices lower than most producers' costs of production necessarily causes shortages of goods and services by driving marginal producers out of the market.²¹ It also contributes to the inflexibility and lack of innovation in controlled economies since it removes incentive to find less costly methods of production.

Determining prices based on predetermined national goals sacrifices people's needs and desires to those of the bureaucratic apparatus and easily leads to widespread slavery. It also fails to take seriously the inability of finite human beings to predict the future adequately to set nationwide goals that will seem as worthwhile in retrospect as they did in prospect, whether they're achieved or not.

The controlled economy is, therefore, inherently inefficient and incapable of the fundamental task of economic calculation.²²

Evaluating Our Options

Our brief and necessarily curtailed discussion of the two chief types of Biblically legitimate incentives and of the two chief kinds of economic systems leads us to some definite conclusions.

First, the two types of incentives properly apply to very different types of behavior. Reward applies to behavior that surpasses the minimum standard of justice; punishment applies to behavior that transgresses (or fails to achieve) that minimum standard. Rewarding injustice and punishing people for anything but injustice are both condemned in Scripture (see, for example, Ezekiel 18).

Second, the two types of incentives have very different sorts of effects on human action. Rewards elicit behavior beyond minimum standards; punishments elicit behavior that barely meets them. Rewards, then, are more conducive to the production of wealth beyond the level of subsistence than are punishments.

Third, because the free market emphasizes rewards (incentives best suited to eliciting behavior beyond minimum standards) it facilitates the production of goods and services of greater value to consumers than does the controlled market, which emphasizes punishments (incentives best suited to eliciting behavior barely conforming to minimum standards).

Fourth, the free market is more consistent with the Biblical principle of human freedom

²¹Of course if an official price coincides with a market price, it is redundant. The unavoidable creation of surpluses and shortages by any official prices not identical to market prices leads many economists to condemn price controls as counterproductive as well as contrary to fundamental freedom. See Beisner, *Prosperity and Poverty*, Chapter Twelve, "Stewardship and Economic Regulation: Price Controls."

²²This discussion necessarily oversimplifies for the sake of brevity. For a more thorough discussion of the impact of price controls on product availability, see Beisner, *Prosperity and Poverty*, Chapter Eight, "Value and Price," and Chapter Twelve, "Stewardship and Economic Regulation: Price Controls." See also von Mises, *Socialism: An Economic and Sociological Analysis*, Part II, Section I, Chapter ii, "The Organization of Production Under Socialism," especially section 2, "Economic calculation in the socialist community."

(essentially the reservation of coercion solely to the enforcement of justice rather than to forcing behavior conforming to the arbitrary whims of a ruling class) than is the controlled economy.

Fifth, the free market processes price information—that is, information about the subjective values of consumers—more efficiently than does the controlled economy, and so more efficiently meets consumers’ demands through more efficient allocation of resources. The controlled economy’s attempt to do away with the market pricing mechanism results in misallocation of resources and more unmet consumer demands than occurs in the free market.

Sixth, the free market economy relies primarily on rewards to influence economic behavior, reserving its resort to punishment only to actions that violate the minimum standard of justice. As such, the dominant driving force of the free market economy is consistent with Biblically legitimate incentives.

Seventh, the controlled economy relies primarily on punishments to influence economic behavior. Insofar as it resorts to rewards at all, those generally are offered not for exceptional service to consumers in terms of their own preferences, but for exceptional service to the state—whatever that service might be, even if it consists in violating others’ rights. As Leon Trotsky put it in one of his more candid moments, “In a country where the sole employer is the State, opposition means death by slow starvation. The old principle: who does not work shall not eat, has been replaced by a new one: who does not obey shall not eat.”²³ The dominant driving force of the controlled economy, then, is inconsistent with Biblically legitimate incentives.

Scripture, in short, permits the state to use its monopoly of force only to prohibit, prevent, and punish violations of human rights by transgression of the sixth, seventh, eighth, and ninth commandments; to provide such public goods as are requisite to that function (e.g., the building, regulation, and maintenance of a system of roads, or the provision of streetlights as security against crime); and to collect such taxes as are necessary to the performance of such duties. Any use of coercion by the state for other purposes violates Biblical limits on the state and thus violates the human rights protected in the very commandments the state is ordained to enforce. A state, therefore, that allows market freedom within the constraints of moral law is, in that respect, functioning according to Biblical prescription, while one that controls the economy beyond those bounds functions contrary to Biblical prescription.

Admittedly there exists in the real world no absolutely free market and no absolutely controlled market. The latter is impossible granted the essential limits of man’s knowledge and power; the former, whether possible or not, has never yet been achieved, in part because confusions about such fundamental concepts as justice, freedom, and economic value have led people to restrict economic freedom far more than appears necessary given Biblical ethics. Nonetheless real economies do occupy places on a continuum from most controlled to least controlled. The more an economy tends toward one end of the continuum or the other, the more it tends to use rewards and punishments correctly or incorrectly. The more an economy tends to use rewards as incentives for economic achievement rather punishment, the more productive it tends to be. Conversely, the more an economy tends to use punishment as an incentive for economic achievement and to minimize rewards, the less productive it tends to be.

A THIRD WAY? It might be objected to this entire analysis that I have falsely dichotomized free market and controlled economies, forgetting that there is a third way—the “mixed” or “interventionist” or “guided” market economy. Might such an economy properly use Biblically legitimate incentives?

Though thorough treatment of the question would take more space than is available here, the answer must, ultimately, be no. As Ludwig von Mises argues demonstratively in his *Planned Chaos*, and Friedrich Hayek in *The Road to Serfdom* and in *Unemployment and Monetary Policy*,

²³Cited in Ludwig von Mises, *Planned Chaos* (Irvington-on-Hudson, New York: Foundation for Economic Education, 1947, 1965), p. 87. Reprinted from von Mises, *Socialism: An Economic and Sociological Analysis*, second revised edition, Epilogue, p. 589; von Mises found the quotation in Friedrich Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1944), Chapter IX.

interventionism leads logically and, in practice, almost inevitably to ever-increasing control of the economy by civil government. Interventionism negates the essential pricing and allocating functions of the market, causing increasing economic chaos. Historically, this normally has led to the institution of dictatorship as the only apparent remedy. The only means of avoiding that result is reducing or, preferably, abandoning interventionism.

The logical and historical progression from the “mixed economy” toward total control occurs because every intervention of civil government into the free market other than to prohibit, prevent, and punish violations of God-ordained rights is necessarily self-defeating, occasioning more problems to which interventionists respond with more intervention. Most pertinent to our subject today, however, is the fact that every state intervention in the economy involves the threat of punishment (the minimizing incentive) for those who violate it. It is this coercive activity that most signally distinguishes the driving force of a “mixed” economy from that of a free market economy; and it is precisely the same as the driving force of the controlled economy, from which it differs in practice only by degree and in principle not at all. The driving force of the “mixed” economy, therefore, is not compatible with the legitimate applications of Biblically legitimate incentives.

The choice is not between a chaotic, unplanned free market economy and an orderly, planned economy. That false dichotomy stems from the failure of critics of the free market to recognize that there is nothing automatic about it. It, too, is planned—but planned piecemeal and by private individuals whose only means of influencing others are persuasion and reward, rather than wholesale and by government bureaucrats whose chief means of influencing others is the threat of punishment. Wrote von Mises:

The dilemma is not between automatic forces and planned action. It is between the democratic process of the market in which every individual has his share and the exclusive rule of a dictatorial body. Whatever people do in the market economy, is the execution of their own plans. In this sense every human action means planning. What those calling themselves planners advocate is not the substitution of planned action for letting things go. It is the substitution of the planner’s own plan for the plans of his fellowmen. The planner is a potential dictator who wants to deprive all other people of the power to plan and act according to their own plans. He aims at one thing only: the exclusive absolute preeminence of his own plan.²⁴

E. Calvin Beisner is national spokesman of the Cornwall Alliance for the Stewardship of Creation (www.CornwallAlliance.org) and a former associate professor of interdisciplinary studies at Covenant College (1992–2000) and of historical theology and social ethics at Knox Theological Seminary (2000–2008). He is the author of *Prosperity and Poverty: The Compassionate Use of Resources in a World of Scarcity* (1988; 2002) and ten other books.

²⁴Ludwig von Mises, *Planned Chaos*, p. 29. This work is included as an epilogue to von Mises’ *Socialism: An Economic and Sociological Analysis*, second revised edition, where this paragraph appears on p. 538.