DO YOU BELIEVE?
A BOOK SERIES FROM RATIO CHRISTI

CAPITALISM VERSUS SOCIALISM

AN ECONOMICS PERSPECTIVE

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RATIO CHRISTI

FAITH & REASON are at odds in our culture. For many, faith has come to mean little more than wishful thinking and blind belief. Such a concept is completely foreign to the pages of Scripture and historical Christianity. As Edward Feser notes, "In short, reason tells us that there is a God and that he has revealed such-and-such a truth; faith is then a matter of believing what reason has shown God to have revealed. In that sense faith is not only not at odds with reason but is grounded in reason."

WHAT IS RATIO CHRISTI?

Ratio Christi, Latin for the reason of Christ, wants to help reverse this trend of anti-intellectual Christianity. We organize apologetics clubs at colleges, universities, and even for high school groups in order to strengthen the faith of Christian students and faculty and challenge the rampant atheism and secularism on most campuses. Our mission is to fill the intellectual gap, to make Christianity something worth thinking about, both personally and in the public square.

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INTRODUCTION

The debate over whether America should move to full-blown socialism intensifies each day, and Christians seem to be highly confused about what the Bible says. To many, socialism is fairer than capitalism and not dominated by ruthless competition and greed. Under socialism, the poor are better cared for and everyone is treated the same. Capitalist systems are characterized by inequality. In light of these considerations and the emphasis of the Bible on caring for the poor, the Bible must be telling us that socialism is the right choice.

Not so fast. There is another side to this issue which involves the following: the Bible respects the right of individuals to choose; it respects private ownership of property; it also has a positive view of work and a dim view of those who choose not to work and expect others to provide for them.

Still, the Bible repeatedly expresses concern for the poor and commands us to care for them.

And yet, it needs to be noted that the Bible does not prescribe any particular economic system. And while this is true, it does have quite a bit to say about the individual pillars upon which any economic system is built. There are four questions which serve as these pillars which are discussed below.

The answers to the following questions serve as the pillars of any economic system, whether it is capitalist, socialist, or something else:

1. Who *owns property*—be it for personal or productive use?
2. Who decides what is to be produced?
3. Then, who decides *how* things are produced?
4. Finally, *how are the things that are produced distributed* among members of the population (that is, income distribution)?

Capitalist and socialist systems differ greatly on the answers to these questions.

In examining alternative economic systems, it is important to keep in mind that no economic system can achieve the ideal—utopia. This is a consequence of living in a fallen world riddled with sin. In particular, both the vices of sloth and greed directly relate to the theme in this booklet: for a society to operate well, people need to work, and they also need to be unselfish. On the virtue side of things regarding human rights, the principle of individual freedom speaks to the difference between socialism and capitalism because when we cede decisions to government in all areas of our lives, we give up our freedom to make decisions for ourselves. This gives government coercive power over us—something not to be taken lightly.

CLASSIFICATION CRITERIA

To investigate the alternative economic systems, we address the four criteria. These are shown below (note that communism is regarded as a variant of socialism):

	Property ownership	What is produced?	How is it produced?	How are goods distributed?
Socialism/ Communism	State	State	State	State
Fascism	Private	State	State/Private	State/Private
Market	Private	Private	Private	Private

Socialism

In the traditional notion of socialism, property is collectively owned. It can be thought of as owned by the state on behalf of all citizens. Decisions regarding what gets produced are made by a body that is supposed to represent the collective—a state planning agency. That agency also has responsibility for deciding how each item gets produced. Distribution is made by the collective entity based on some norm—which could be equal amounts for each.

Market-based Systems

In a market-based or capitalist system, property is privately owned. Individuals make decisions based on their self-interest—as consumers and as workers.[1] Likewise, businesses make decisions based on their self-interest, but instead as producers of goods and services (and as employers). It is a bottoms-up system unlike the others that are top-down. That is, individual consumers and businesses—not central planning

1 Note the use of the term market-based, which is preferred to capitalism. Capitalism was the favored term of Marx and Engels. Capitalism is freighted with visions of a deep-seated class struggle between workers and their overlords, capitalists, who routinely exploit them. This characterization was an exaggeration of conditions during Marx's time and hardly applies to the situation today.

agencies—make decisions that are coordinated by market forces. Production and distribution are guided by prices and wages. These prices and wages also have a lot to do with differences in standards of living among individuals.

Welfare States

Welfare states are a variant of market economies and have become pervasive today. They are based on private ownership of property and are fueled by privately owned businesses that are highly competitive. Governments change the distribution of income by heavy taxation—especially upon those with higher incomes. They then use the proceeds to assist lower-income persons by providing various services such as health care. The Scandinavian countries fall into this category, and therefore are not be deemed to be socialist as alleged by some.

Communism

Communism is a form of socialism. Based on an ideology associated with Karl Marx, communism is seen to be the outcome of a bitter class struggle between workers (the proletariat) and their employers (the bourgeois, or capitalists). It envisions the state owning property and utilizing a central planning agency in order to decide what to produce, how to produce it, and the means of distribution. But Marx also envisioned that in time the state would wither away and would no longer be needed for achieving the goals of an idyllic society. In his utopian world, individuals would undergo complete transformation and would become motivated by the interests of the collective in contrast to the self-interest of the old way. They would willingly share property, produce those goods and services that contribute the most to the group as a whole, and take for themselves only what they need. In this utopian world, all members of society in some mysterious way would work in harmony and there would be enough for everybody.

Fascism

Ironically, fascism (including Nazism) is also an offshoot of socialism. Fascism differs from the socialist systems already mentioned in that property is mostly privately owned. However, owners of property are not free to use their property as they wish, but rather are directed by the state. Like other forms of socialism, production is centrally directed by a state planning authority. Wages and prices are set by the planning agency, not by market forces. Many advocates of socialism today—such as Bernie Sanders and Alexandria Ocasio-Cortez (AOC)—seem to favor something more akin to fascism.

They advocate a highly taxed and highly regulated economy, but have not made a big pitch for widespread state ownership of property.

WHAT DOES THE BIBLE HAVE TO SAY?

Let's look into what the Bible has to say about the four pillars listed above.

Collective Ownership

In a fundamental sense, all property belongs to God. However, as described in Genesis 1:28, God delegated responsibility to humans to subdue the earth and take dominion over it and all living creatures.

Portions of the book of Acts might be viewed as supporting collective ownership of property, as in a socialist system. Acts 2, 4, and 5 describe how some of the early believers in Jesus, being filled with the Holy Spirit, sold their possessions and pooled the proceeds. From these common resources, the economic needs of each member of the community were satisfied. In Acts 2: 44-47 we are told: "And all who believed were together and had all things in common. And they were selling their possessions and belongings and distributing the proceeds to all, as any had need (ESV)."[2]

These were euphoric times and a strong sense of community and caring for each member of the community prevailed among followers of Christ. It is important to note that members of this community gave up their personal property to share with others voluntarily—indeed, cheerfully. Coercion is not suggested. Thus, these passages, by themselves, cannot be viewed as justifying compelling the haves to provide for the have-nots, as occurs through government programs today. Some biblical commentators believe that this early church experience is to be viewed as a foretaste of what to expect once the Messiah returns.

Private Ownership

Possessions often are treated in Scripture as a blessing from God. In Psalm 112:1-3 we are told, "Blessed is the man who fears the LORD, who greatly delights in his commandments…. Wealth and riches are in his house." In Genesis, we learn that Abraham had great wealth (private property); God also blessed his son Isaac, and his grandson Jacob, with great wealth. Elsewhere, Job was given double his possessions as a blessing from God after his lengthy, excruciating testing.

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2 *The Holy Bible: English Standard Version.* (2016). Wheaton: Standard Bible Society. Biblical quotations in this essay are from the English Standard Version (ESV).

This should not be seen as the so-called "prosperity gospel" in which, if one professes faith in God, he or she will be blessed with wealth. Implicit in this view is the notion that one relates to God merely as a means to getting one's desires. But we know from Scripture, including the first four of the Ten Commandments (Exodus 20), that God is to be the end—or goal—of our desire and not merely the instrument for getting what we want.

It should also be recognized that even when God is the end, a person might not be blessed with wealth. Indeed, a person may face considerable hardship. With respect to wealth, a sovereign God is free to choose how each believer is to be treated, and an omniscient God knows what is eternally in our best interest.

God was very explicit about inheritance of property, specifying how property was to be passed down from one generation to the next in ancient Israel. This is spelled out in Deuteronomy 21:15-17 and Numbers 27:8-11. Clearly, this presupposes private ownership of property.

Other commandments from the Ten Commandments confirm that people are allowed to own property—and property rights are to be taken seriously. The eighth commandment tells us that we are not to steal from our neighbor. Moreover, the tenth commandment instructs us not to covet those things belonging to our neighbor.

The Capacity of Individuals as Consumers and Workers

A key issue is what the Bible says about the fundamental nature of humans. Does the individual have the capacity to make decisions that promote his or her well-being? If so, we can trust individuals to make sound economic decisions regarding what they buy and what kind of work they do. If not, there must be others who should make those decisions for them.

The Bible in Genesis 1:26 -28 tells us:

> *Then God said, "Let us make man in our image, after our likeness. And let them have dominion over the fish of the sea and over the birds of the heavens and over the livestock and over all the earth and over every creeping thing that creeps on the earth."*

These verses imply that God created humans with the capacity to reason and make good decisions. After all, He charges humans with the responsibility to subdue His earthly creation and to have dominion over other living creatures. Managing such a project requires intelligence, knowledge, sound reasoning, and keen judgment. Moreover, He calls on each individual to make the most important decision in his or her life: The decision of whether to accept the gift of eternal salvation. All of this tells us that individuals are capable of making decisions that bear on their well-being.

Enabling individuals to be free to make economic choices—a fundamental principle underlying market-based economies—naturally extends to individuals making political decisions in the form of self-governance. This is known as democracy. Such freedom was expressed in the Declaration of Independence, which refers to the Creator endowing individuals with certain unalienable rights—namely, life, liberty, and the pursuit of happiness. Included is self-governance. In view of these considerations, it is not surprising that political democracies and market-based economies typically go together.

The Capacity of Individual Producers

Much the same can be said about individuals who manage businesses that utilize valuable resources in producing goods and services. The Bible does not suggest that only a few elites have this capacity and thus should be the sole arbiters of production decisions. Jesus' disciples were ordinary fisherman, but they made their own decisions about when and where to fish and to whom to sell their catch.

Distribution: The Poor and the Rich

In contrast, the Bible does have a lot to say about the poor and about the responsibility of the wealthy. The Bible is replete with passages that illustrate God's concern for the poor—those unable to provide sufficiently on their own. In Deuteronomy 15:11, God says, "For there will never cease to be poor in the land. Therefore, I command you, you shall open wide your hand to your brother, to the needy, and to the poor, in your land." In Psalm 41, King David says, "Blessed is the one who considers the poor! In the day of trouble, the LORD delivers him; the LORD protects him and keeps him alive…."

It is noteworthy that, while exhorting us to care for the poor, Jesus reaffirms that the poor will always be with us (Matthew 26:11). This tells us that each generation will be faced with the challenge of heeding God's commandment to care for the poor. It further implies that the utopian goal of vanquishing poverty will not be achieved until this age has come to a close.

Also, biblical injunctions to care for the poor address this as an individual's responsibility and do not suggest it is a collective responsibility through the state. We please God as individuals by caring for the needs of the poor and others whom He loves and by doing this out of love—and cheerfully. Paul, in 2 Corinthians 9:7-9, says "Each one must give as he has decided in his heart, not reluctantly or under compulsion, for God loves a cheerful giver."

It can be inferred that God is also pleased by corporate giving through the church or other faith-based organizations. Indeed, Paul encouraged churches in Corinth, Macedonia, and Achaia to take collections for those who were struggling in Jerusalem. The key is whether giving is done voluntarily and cheerfully.

The Challenge Faced by Those With Wealth

Many see the encounter of Jesus with a rich young man in Matthew 19 as a prime example of how those with wealth are obligated to dispose of that wealth and give the proceeds to the poor as an imprimatur for the state to undertake redistribution. The young man asks Jesus what he must do to have eternal life. Jesus answers that he needs to follow the fifth through the ninth commandments, as well as love his neighbor as himself. The young man replies that he had done all these. Then Jesus tells the him to sell all of his possessions, give the proceeds to the poor, and follow Jesus. This might be seen as Jesus using this occasion to teach us that wealth should be more evenly distributed. However, note that Jesus did not ask the young man about whether he had adhered to the first four commandments, dealing with his relationship with God. A more proper interpretation is that Jesus saw into the young man's heart and that his wealth stood between him and God.

In Luke's version of this encounter (Luke 18:18-27), Jesus says, "How difficult it is for those who have wealth to enter the kingdom of God. For it is easier for a camel to go through the eye of a needle than for a rich man to enter the kingdom of God." But then he goes on to say, "What is impossible with men is possible with God," alluding to it being God's grace that provides salvation.

In other teachings, Jesus conveys that as a person becomes wealthier, the temptation to trust in one's wealth grows, creating a barrier to a right relationship with God. In the parable of the sower (Mark 4:18-19), Jesus tells of the seed that fell among the thorns and eventually was choked out by them. He explains, "And others are sown among thorns. They are those who hear the word, but the cares of the world and the deceitfulness of riches and the desire for other things enter in and choke the word...." Thus, while the Bible commends wealth as a blessing from God, it also warns against greed, calling it idolatry (Ephesians 5:5). The point of Scripture is that people deserve to be rewarded for their work, and to give glory to God in all things, seeking not selfish desires, but the Lord and his kingdom (Matthew 6:33).

The Value of Work

The production of goods and services requires labor—work. We tend to look at work as a requirement for having income to cover daily necessities. At issue is whether the economic system requires work in return for being able to acquire those items. Some recently have argued that everyone should have a guaranteed basic (minimum) income, regardless of whether they elect to work. Socialist thinkers have been divided on whether work is required as a *quid pro quo* for being able to partake in the output produced in the economy or whether it is optional.

The Bible has something to say about work. The psalmist in Psalm 128:2 tells us that work is something of value: "You shall eat the fruit of your labor of your hands; you shall be blessed, and it shall be well with you." This point is made emphatically in 2 Thessalonians 3:7-12 where Paul says, "For even when we were with you, we would give you this command: If anyone is not willing to work, let him not eat. For we hear that some among you walk in idleness…. Now such persons we command and encourage in the Lord Jesus Christ to do their work quietly and to earn their own living." Paul seems pretty clear that able-bodied people ought to work, and those who choose not to work are not entitled to receive the necessities of life from others.

On a related matter, Jesus' parable about the landlord who hired workers for his vineyard (Matthew 20:1-16) has implications for the discretion permitted for employers. In this parable, the owner of the vineyard went out early in the day to hire workers for his vineyard and agreed to pay them a denarius for their labor—the going market wage for a day's work. As the day progressed, he hired more workers and offered them the same wage. These included even those hired an hour before quitting time. The workers hired earlier in the day grumbled about the employer not being fair because those hired at the end of the day received the same pay for only one-twelfth the time spent laboring in the vineyard. The point of the parable was the employer had the right to pay each worker the same, despite the difference in time spent working. Each worker had voluntarily agreed to compensation of one denarius and had no reason to complain. Of course, the deeper meaning of the parable is that it is God's sovereign right to dispense the grace of salvation on those whom He chooses, even latecomers to faith.

Market Prices in Relation to Value

The Bible does not seem to question the validity of prices determined in the marketplace. For example, when Mary, sister of Lazarus and Martha, anointed Jesus with expensive nard (John 12), Jesus did not question the value of the nard, said to be worth a full year's wages. Similarly, in the parable of the pearl of great value (Matthew 13), Jesus made the point that the merchant valued the fine pearl so highly that he was willing to sell everything he had to buy it. In other words, the Bible seems to find that prices determined in the competitive marketplace are acceptable, even when they are very steep.

MARKET-BASED SYSTEMS

General Principles

We begin by looking at capitalism—market-based systems. This is the system that has characterized the American experience, and the one most people have first-hand experience with. It is also a system for which there are well-articulated economic principles that describe how the system works in practice and how it stacks up against an ideal. Accordingly, we will treat a market-based system as a benchmark for evaluating socialism.

Interactive system. A market-based system is one in which buyers and sellers interact, be it in the market for goods and services, such as milk or hair styling, or the market for labor, such as auto mechanics or web designers. A market can be highly organized and centralized, as with the New York Stock Exchange, or it can be fragmented and informal, as with the local market for lawn care.

We are using the term "market-based" to characterize this system instead of "capitalist" (a term favored by Marxists). The latter tends to stir emotions and conjures up images of workers being subjugated by employers in an ongoing struggle between business owners (capitalist employers) and workers. Today however, ownership of businesses is widespread. Included among owners are employees, whose ownership takes the form of direct ownership of stock and indirect ownership through pension funds and mutual funds. Also, managers of most large businesses typically have only limited ownership in the enterprise and, in essence, are hired by the shareholders to pursue shareholder interests. Employers know that a satisfied employee is a more productive employee and will be less inclined to bolt for the next available job. In other words, efforts to exploit employees will, in the end, prove to be counterproductive in a competitive labor market.

A market-based system is one in which individuals make choices regarding what they will purchase. They have a budget based on their income and they face prices in the marketplace that must be paid in order to get the goods and services they want. Individuals also enter the marketplace when they seek employment. The choice regarding employment determines how much they earn, which in turn determines the size of their budget.

Individual producers also decide what they will produce and how they will produce it. The carrot at the end of the stick is earnings—how much profit they can make. Entrepreneurs seek market opportunities that will provide the highest profits. In doing so, they must decide how many workers they will need, their required skill sets, and what they are willing to pay. Producers also put up some of the funds that are required for the production facilities (capital—plants, machines, software, and research and development) used to make the good or service. For this and the risk they face, they expect to be rewarded.

Importance of competition. Key to the functioning of a market system is competition. And key to competition is the ability to enter and exit markets. Profits act as a signal of whether to enter a market. When profits are to be earned, this signals that more output is needed.[3] If there are barriers to entry, then shortfalls in production and upward pressure on prices will develop and persist. However, when new producers are free to respond by entering that market, supply will expand and more supply will push down the price to a level commensurate with costs.

Also, this desire to make profits serves as an inducement to innovate—to improve existing products, to introduce new products, and to lower production costs. This plays a key role in improvements to the standard of living of all members of the economy.

Based on efficiency principles accepted by economists, the outcome in a competitive market will be the most efficient one. Without going into great detail, one can summarize the competitive market outcome as one in which consumers value the last unit of the good that they consume at an amount that just matches the cost of producing that item—the sacrifice of other goods and services resulting from using the resources to produce this last unit. Up to that point, the consumer's valuation of each unit of the good exceeded the consumer's valuation of the goods that had to be foregone to get that unit. Also at the market outcome, producers will receive compensation for their efforts that represents the market value of their time, a competitive return on the funds (capital) that they have put into their business, and compensation for the risks they confront.

Note that a competitive market-based economy does not imply a zero-sum game. Producers who reap more profits are not taking them out of the hides of workers. Instead, when they earn more profits, they have added to the overall value of output produced (the size of the pie) and their profit can be viewed as their reward for doing so. The value of extra output that they create typically exceeds the extra profit they receive, meaning they also have added something that benefits others.

Role of government. There is a common notion that market economies are characterized by laissez-faire in which government sits on the sidelines and has little to do. However, in practice, the government plays a very important role in the success of a market system. It establishes the rules that govern private transactions and provides an adjudication system for dealing with disputes. This entails providing competent and impartial arbiters and enforcement officials. This encourages the pursuit of worthwhile

3 The term profit means remuneration for producers of goods and services that exceeds the amount of compensation that they require for the time and effort they put into the business, for the capital that they provide to the business, and for the risks involved. Competition tends to eliminate this excess, as the entry of more producers drives the price down until it converges to the cost of production.

economic ventures and is especially important for longer-term arrangements that contribute greatly to growth in living standards.[4] Beyond contributing to a conducive setting for a market economy, governments have a responsibility to provide those things that will not be provided adequately by the market, such as security of its citizens from domestic and foreign threats.

The Invisible Hand and role of self-interest. Adam Smith, an eighteenth century Scottish moral philosopher, has come to be regarded as the father of modern-day economics. He published *An Inquiry Into the Nature and Causes of the Wealth of Nations* in 1776, which laid the groundwork for our current understanding of how market economies function. In this book, Smith made the statement "It is not from the benevolence of the butcher, the brewer, or the baker that we expect to get our dinner, but from their regard to their own self-interest."

Note that Smith used the term "self-interest" and not "greed." He did not see the pursuit of self-interest to be immoral or tantamount to avarice. Indeed, he saw it as critical to survival. It can be viewed to be similar to the way that we respond to pangs of hunger to ensure that our bodies get essential nourishment or how we respond to pain, which alerts us that something is wrong with our body and requires prompt attention. In other words, self-interest is to greed as satisfying ordinary hunger pangs is to gluttony.

Smith saw support for this in the teachings of Jesus, especially His commandment to love our neighbor as ourself (Matthew 22:38). For Smith, this meant not only that we need to have compassion for others, but also that it is okay to pursue our self-interest—in loving ourselves.

Smith saw human interaction resulting from the pursuit of self-interest as producing remarkable outcomes—such as ensuring that our dinner is available each day. He saw this process working as if individual human action was guided by an "Invisible Hand." Each person, in pursuing self-interest, becomes part of a much broader process that, in the end, leads to social good—indeed, the best social good. This is not a zero-sum game in which one person's benefit comes at the expense of anyone else. Whenever a person pursues his or her self-interest, the size of the pie expands sufficiently so that others benefit as well.

The market process coordinates production in a highly decentralized manner, but in a way that results in us getting the food we want at a price in line with its cost. Moreover, the pursuit of profit ensures that costs are held down because lower costs boost the profits of sellers. In other words, from the contributions of Smith we can infer that there is an underlying order in the sphere of social interaction, much like that underlying the natural sphere as revealed by the fine tuning of the cosmos and the massive and detailed information contained in the genome.

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4 A growing body of evidence demonstrates that economies with sound legal infrastructures—favorable laws, fair adjudication mechanisms, and stable, supportive political systems—perform appreciably better than others.

Current Understanding

These days, our understanding of how a market-based system works is not very different from that articulated by Adam Smith, although the contributions of the past two and a half centuries have helped to fill in a lot of gaps.

The essential role of prices. What ensures the favorable outcome in a market economy is that both consumers and producers are responding to price signals. That is, prices serve as a signal to expand or contract production. When people want more of a product, producers will be induced to move more resources into this sector by the higher price that emerges. This results in higher profits, which serve as the inducement for more production. As production expands, the price of the item will retrace its increase and move back into alignment with costs as excess profits disappear. Conversely, if people want less of a product, its price will fall, leading to a decline in profit and a cutback in production.

Prices also serve to ration the amount that is produced among the various consumers. Because scarcity is a fundamental fact of life in any economy, there must be some way of allocating the existing amount of goods and services among those wanting them. Using prices tends to ensure that those wanting or needing them the most get them. As will be noted, socialist systems use other methods of allocating scarce items.

The role of price signals can be seen in the making of a simple BIC ballpoint pen. The pen contains plastic produced in the Netherlands, tungsten from Bolivia, brass from Chile and Australia, and ink compounds from other places.

Clearly, many businesses and individuals from all around the globe were involved in producing a single pen! It was prices that coordinated their efforts. If people wanted more pens, the mobilization of resources to produce them would be initiated by the pen manufacturer ordering more pen inputs, putting upward pressure on their prices. This would be a signal for production to be ramped up or for the inputs to be diverted from other, now less valuable, uses. Underlying this decentralized process is a high degree of coordination, but not one that is fully understood by any of the individual participants. Thus, a competitive market system entails a considerable amount of order and harmony, despite the appearance of fragmentation and disarray.

Note further that all the information bearing on the production of this pen that is extant is being drawn into the production of this item. It is in the best interest of producers and consumers to utilize all information. No central planner is needed to achieve this outcome. No system involving central planning could incorporate this information in as complete and timely manner as a market system.

The role of the price mechanism in coordinating production becomes progressively more important as the complexity of products and their components grows. Increasing complexity is a natural feature of advancing economies. In contrast, this is a mounting challenge to centrally directed (socialist) economies and a huge headwind limiting their development. It is extremely hard for a central planner to be aware of all of the pieces of the puzzle and to keep up with the inevitable changes that are always occurring up and down the production process.

Common criticisms. Some find aspects of the price system to be concerning. The complaint often is that *those willing to pay the most* are the ones who get the item. Let's look at this carefully. Consider a Christian musical entertainer whose popularity has skyrocketed as she has become better known. As a consequence, the demand for her to put on concerts has grown well beyond the time she has available.

How should she decide which invitations to accept? If she does not raise her fee (price), the number of requests will far exceed the number she can perform. She will need some other method for deciding which to accept (rationing her time). If she accepts invitations by drawing from a hat or by utilizing the first come-first served method, it is likely that some of those she accepts will be for relatively small numbers of attendees or from venues that will be attended by lukewarm concertgoers.

By raising her fee per concert to a level that will bring demand in line with the number of concerts she is willing to perform, she can be better assured that more people will be able attend and that those who attend will be more enthusiastic. To some, this will be seen as a Christian entertainer charging what the market will bear, but, in practice, it is a way of ensuring a sensible allocation of her precious time. If she is uncomfortable with the extra earnings, she can donate them to charity.

Critics of market systems also point out that such systems are characterized by *cutthroat competition*, implying that members of a market economy are highly vulnerable to losing their means of support—workers can abruptly be thrown onto the streets and businesses can go belly-up overnight.

In the labor market, those allegations are overblown. Jobs are available and people find work. In normal times, ninety-five percent or more of the labor force is employed and many of those not working are transitioning from one job to another. Job turnover in a rapidly changing economy is high. However, even in bad times, employment is available for the bulk of people seeking employment.[5]

Turning to businesses, those involved in new businesses are certainly engaged in risky activities, especially those seeking to be highly innovative. The failure rate for businesses is high, but those who succeed usually do pretty well—well enough for large numbers of prospective entrepreneurs to want to give it a shot. Moreover, failure in one endeavor usually does not mean that subsequent efforts will end the same. God uses setbacks to help mold us into the person He wants us to be.

Critics have also mentioned that businesses that *follow Christian business practices will not be able to survive* in a market economy characterized by cutthroat competition. Rivals will undersell them with shoddier products having lower costs, they will misrepresent

5 For those having difficulty finding work, safety nets have been established in the United States and other market-based economies. The social safety net includes unemployment insurance and programs such as food stamps (Supplemental Nutrition Assistance Program or SNAP).

the quality of those products, and they will lower costs by keeping their labor costs down by shortchanging their employees. Christian businesspeople, by contrast, will not be willing to compromise on the quality of their products and will want to be fair to their employees. However, experience tell us that, if you cut corners on quality, the word will get out and future sales will be impaired. Moreover, when repeat sales are at stake, customers who feel cheated will not return to unscrupulous sellers. On the labor side, we know that contented workers are more productive and less inclined to leave. Thus, employers who show more care for their employees and compensate them fairly find such practices to be good for the bottom line.

Still another criticism involves the *environment*. It is argued that market economies have been poor stewards of God's creation. Disregarding the impact of one's actions upon the environment is seen to be good for the bottom line in a capitalist economy. Thus, it is concluded that capitalist systems are major contributors to environmental degradation. However, the incentives to ignore environmental costs have been recognized for some time, and public policy in market-based systems has been quite effective in altering incentives so that businesses better align their actions with the public interest. Indeed, Western market-based economies overall have among the best environmental ratings in the world today.[6] Near the bottom are current and former communist and socialist nations. Decision-makers in these systems have had similar incentives to ignore the environment, and these regimes can get away with it.

A frequently mentioned problem is *inequality of income and wealth*. Market-based systems have yielded marked disparities in these latter qualities of life. When it comes to labor earnings, people get paid in keeping with their productivity—the value of what they contribute in the production process. Much of the differences across people can be explained by:

- **Age.** More experienced and mature people are more productive and have accumulated greater savings, which generates more income for them.
- **Industriousness.** Some people worker longer and harder than others. This can be a big factor in one's productivity.
- **Education**. Some people are more productive because they have acquired more formal education. Moreover, schools vary markedly in how well they prepare students.
- **Nurture**. Many have gotten help in acquiring habits and skills that are valued in the marketplace from parents or others. Attitudes toward work and risk also are important and can be nurtured.
- **On-the-job training.** Such training is more practical—hands on—than formal education, but contributes greatly to one's productivity.

6 See 2020 Environmental Performance Index, Yale Center for Environmental Law & Policy (Yale University) and Center for International Earth Science Information Network (Columbia University).

- **Health**. Healthy workers are more productive and work more hours. In some cases, they are healthier because they have taken better care of themselves. In others, they have been endowed with healthier genes.
- **Risk**. Some jobs entail more risk and workers in those occupations get compensated for the risk. Police and firefighters are examples of physical risk. Entrepreneurs are examples of financial risk.
- **Appeal of the work.** Some jobs are perceived to be very pleasant and others much less so. Musicians, who love to perform, often are willing to do so for meager compensation, while over-the-road truckers require greater compensation to compensate for being away from home and for the long hours and tediousness of the job.
- **Physical and mental ability.** Some have been blessed with more than others. A gifted professional athlete or entertainer can earn a fortune in a single season.
- **Inheritance**. Some have inherited more wealth than others.

Are differences in income and wealth resulting from these factors acceptable? If so, the resulting inequality associated with a market-based economy is not to be regarded as a shortcoming. However, there are other factors that can lead to inequality—such as racial or ethnic discrimination—that are intolerable (many of these differences can be attributed to inequality of educational opportunities).

Some statistics on income distribution can be disturbing. For instance, the income of the bottom one-fifth of the population is less than five percent of the total for all Americans while the top one-fifth receives fifty-five percent of total income. It needs to be noted that these figures represent a snapshot at a point in time and some of the people at the top end and the bottom end in one period appear elsewhere in the income distribution in other periods. Also, a large segment of those at or near the top are older, but earlier in their lives were in lower ranges. In other words, only a portion of those in the lower rungs at any one point in time are stuck there throughout their lives.

Public policy in market economies has sought to bring about more equality through tax systems that hit people with higher incomes more heavily while providing various types of assistance to those with lower incomes.[7]

Often overlooked is that competitive market systems have a considerable amount of social mobility, enabling those born into the lower rungs of the income distribution to work their way up to the higher rungs. This fluidity of the U.S. system is unmatched elsewhere.

It should be noted that differences in income are not confined to market economies.

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7 The Congressional Budget Office estimates that federal tax and transfer (income support) policies have had a significant impact on distribution. This has been done through programs that raise the means of low-income persons appreciably and reduce the means of higher-income groups. The raw data on income distribution show inequality becoming greater over time in the United States. However, when adjusted for public tax and transfer programs, there is not much of a trend. See, The Distribution of Household Income, 2017. October 2, 2020.

All types of economic systems experience sizable differences in income, though in many cases those differences have been masked.

Market imperfections are conditions under which a market-based economic system will fall short of the ideal. But God has provided us with cognitive abilities to address these problems and to improve outcomes (as noted above regarding the environment).

Corporations. Corporations in the United States produce around three-fourths of total business output, playing a dominant economic role. There is a common view that corporations are distinct from individuals. However, individuals own corporations. Moreover, this ownership has become widely dispersed among individuals over recent decades, especially as more workers have pension plans and place their savings in mutual funds that hold stock in corporations. More than half of all households own corporate stock, either directly or indirectly—such as through pension and mutual funds.

There also is a common view that, if you favor a market-based economic system, you will naturally be pro-business (especially large corporations) and will favor policies that favor businesses. Policies that provide for a level playing field and competition for businesses lead to better outcomes for individuals as consumers and workers. However, business leaders often seek policies that favor their businesses at the expense of others. Such policies work against the favorable outcomes of a market economy. Thus, policies that are favorable to the performance of a market system are going to be policies that promote competition and do not tip the scales one way or another—whether those policies are seen as pro-business or not.

Innovation. Innovation is among the types of change that routinely affects economies, regardless of the type of economic system. However, market-based systems have greatly outperformed other systems in terms of the innovation that they spawn. There are potentially huge rewards for coming up with new or better products or lower-cost production methods. This has been especially true of the tech sector where a couple of decades ago there were no smart phones, tablets, or social media, and the Internet was just developing. Today, pioneers in these areas dominate the lists of the wealthiest people on the planet.

Joseph Schumpeter, one of the more prominent economists of the twentieth century, referred to this process of innovation in which new and better items replace older ones as "creative destruction."[8] He saw this as an inherent feature of market-based economies. However, he also recognized that this process disrupts the status quo and results in losers—those businesses and workers getting displaced.

The United States is leading innovation in the global economy. Much of this innovation is happening in the information technology and biotech sectors. This, along with globalization, is affecting the distribution of income, benefiting those with technical skills who can create or utilize new technologies.

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8 Joseph A. Schumpeter, *Capitalism, Socialism and Democracy*, (New York: Harper and Row, 1950), pp. 81-86.

SOCIALIST SYSTEMS

Traditional socialist systems are characterized by collectively owned property and collective decisions regarding what gets produced, how it gets produced, and how it gets distributed. This is done by a planning agency, and hence socialist economies are frequently labeled centrally planned economies.

It is noteworthy that, while there are well-developed and time-tested theoretical underpinnings of market-based systems, the economic theory underlying socialist systems is at best sketchy. The absence of coherent underlying principles for a socialist system can explain why proponents of socialism often have difficulty defining what a socialist system actually is. It happens to be what's in the eye of the beholder, and that varies widely.

Today in America it has become somewhat fashionable to label oneself as a socialist along the lines of Bernie and AOC. However, these self-proclaimed socialists have not spelled out what they mean by the term. They have been much clearer about wanting to use government to foster wholesale income redistribution, transferring substantially more from the rich to lower income persons. They also have been advocates of draconian environmental measures. Whether they intend this to be achieved through heavily regulated private producers or whether they intend the state to take over the means of production broadly—as in traditional views of socialism—has yet to be spelled out.

Current-day socialists also emphasize social class divisions— notably critical theory—along the lines of the capitalist-worker struggles under Marxism. Instead of this old-school economic approach, they cultivate divisions based on race and sexual orientation.

Biblical Basis

Proponents of socialism often refer to the account of the early Christian community in Acts 4, discussed above, as biblical support. Private property was transformed into communal property. This episode has inspired social experiments among Christian groups, such as the Amana colonies in Iowa.[9] It evidently also inspired Karl Marx to claim that in a utopian communist system, "From each according to his ability, to each

9 The Amana colonies in Iowa were an outgrowth of a German Christian group that left Germany as a result of persecution. They settled for a time in New York State, before moving to Iowa. The colonies established a constitution that specified the terms under which members would live as a commune. This system lasted nearly a century, until the 1930s. By then, a growing number of community members wanted to strike out on their own and no longer be constrained by the communal system.

according to his needs," which evidently is a paraphrase of Acts 4:35. As noted, the Bible does not prescribe common ownership of property but supports private property rights.

The other biblical account that frequently gets mentioned as an endorsement for redistribution policies is the encounter between Jesus and the rich young man. But as noted, the reason for Jesus telling the young man to sell his wealth and give to the poor was that Jesus saw that trusting in his wealth was keeping the young man from trusting in God.

On balance, it is hard to see how the teachings of the Bible support socialism. But the Bible is very clear about the importance of caring for the poor and others in need.

Economics of Socialist Systems

Some proponents of socialist systems have argued that these systems can replicate the efficiency of market systems. Others have argued that individuals, left to their free will, will select things in the marketplace that are not in their best interest, such as junk foods over more healthy vegetables and fruits. Some other advocates of socialism have argued that socialist systems create a better sense of togetherness, as individuals are not competing with one another and can be more focused on the common good.

As noted, there is no underlying blueprint for socialism, as there is for a market economy. Some have contrived schemes aimed at replicating the coordinating role of prices in achieving efficient outcomes. Others have left it up to central planners to come up with methods for guiding production and distribution. A major issue in a socialist system involves whether such a system can be designed to replicate the coordinating role of prices in a market economy. But the Invisible Hand is short-circuited under socialism and it is foolish to think that a socialist system can come close to matching the performance of a market system.

A common argument made by proponents of socialism is that things should be free, at least items such as college, health care, and housing. The problem with this idea is that inevitably the amount demanded will exceed the amount produced. When the price of something goes down, the amount people want invariably goes up. When the price falls to zero, demand grows to the saturation point. And more of that item needs to be produced to avoid a shortage. If no price is to be charged for these items, the economy will, even under the best of circumstances, lack the resources to meet demand. If housing were to be free of charge, everyone would want a large home in a prime location, an impossibility for all to have.

In a market-based economy, it is the job of prices to bring demand into alignment with what gets produced. But if the price is zero, this is not an option. Some other rationing mechanism must be used. The amount available can be allocated in equal portions to all individuals (impossible to achieve in the housing example above).

Alternatively, rationing can take the form of first-come, first-served (queuing).[10] Or it can be done by lottery (leaving the decision of who gets the scarce item to chance) or by placing the decision in the hands of public officials. In the latter case, political considerations often slip in—is the person loyal to those in control? Those with the authority to make the decisions have an enormous opportunity to personally profit. History is filled with such corrupt forms of rationing. Even in the United States, with its more limited national government and greater transparency, there have been numerous scandals in which political friends have been rewarded and enemies punished.

Another issue is whether equality in distribution means that some get more. Should physically large persons get more food than those who are small? If so, how much more? Should they get less of other items in return? If a person works harder, should that person receive more? What about a person who is more gifted and can produce more? What if a person wants to consume more now and is willing to forego consumption in the future? These are situations that will result in inequality in consumption, and likely will impinge on personal freedom to make choices, including those involving one's health or even one's life.

Other Shortcomings

We have seen that socialist systems lack a set of well-articulated principles for how they are to be organized and for how essential decisions are to be made. Moreover, many of the decisions that need to be made are based on personal values, which differ widely among persons. Furthermore, the goal of equality proves to be elusive in practice.

A core issue with a socialist system is whether the collective—the planning agency—is capable of making better decisions than individual members themselves. Do those in control know more about what is best for individuals than individuals themselves? Also, will central planners and plant managers be able to make better decisions about how to produce items than entrepreneurs pursuing their own self-interest? At a minimum, turning over decisions to a central planner comes at the expense of personal freedom.

Beyond this is the issue of incentives. This applies at all levels of economic decision-making. It applies to workers. If all workers are going to be compensated the same, many will decide to do as little as they must and will attempt to avoid taking risks and will avoid tasks that are messy and unpleasant. Some argue that such shirking does not occur. But a great deal of research on actual human behavior demonstrates that when people get income unrelated to work effort, they cut back on the amount of time spent working.

10 In the Soviet Union, consumer goods were rationed through a very cumbersome process. It required individuals to stand in long lines to select the item(s) they wanted, stand in another line to pay a cashier, and then return to the original line to exchange the cashier's receipt for the item. The items had a price, but the price was well below a market-clearing price.

Incentive problems also apply to managers of production facilities—plant managers. What motivation do they have to adopt methods that reduce the resources used in production (that is, lower costs)? If they were allowed to share in the gains from making improvements, this would add to inequality (but enlarge the size of the pie for others). Furthermore, without adequate incentives, adaptation to change will be sluggish at best.

Incentive problems also arise when it comes to innovation, which stimulates change and spurs growth in the standard of living. Entrepreneurs perform this role in market economies by attempting to translate their creativity into something of value that will pass the market test and yield large profits.

Beyond these considerations, mistakes are inevitably going to be made in any economy. In an imperfect world, humans make errors. In a market economy, these mistakes will be translated to the bottom line and, if not addressed promptly, will lead to failure. In a socialist system, there is more scope for mistakes to be perpetuated because there is no such auto-corrective mechanism. Instead, there are incentives to cover them over.

The Record

The historical record of socialism is dismal. The poster child for socialist disaster is Venezuela. For starters, Venezuela had massive amounts of oil reserves, among the largest in the world, and, under an earlier market-based economy, had one of the highest standards of living. Venezuela moved to a centrally directed economy in fits and starts over several decades. And, as it did, stagnation set in. In the early years of this century, Hugo Chavez, then president, sharply stepped up the move to socialism and the Chavez agenda was continued under his hand-picked successor, Nicolas Maduro. As central control gripped tighter, the economy contracted and shortages of essentials—food and medicine—ballooned, as did crime waves and corruption. The political elite have been spared these deprivations, and have spirited billions of dollars into personal accounts outside the country. Meanwhile inflation has soared to more than one-million percent annually! No wonder so many Venezuelans have fled.

Going in the other direction, a growing number of economies have been transitioning from socialism to emerging market status. These economies had been heavily controlled by central authorities and fallen far behind their market counterparts. At the same time, they were riddled with corruption. To better achieve their potential, these economies have adopted market-based principles and many have taken-off. Among them are India, Indonesia, Argentina, Vietnam, much of Africa, and the former Soviet-bloc countries in Eastern Europe.

Many proponents of socialism have acknowledged that the historical record of socialism has not been favorable. But some argue that the socialist systems up until now have not been properly established and many of the shortcomings can be overcome by better design. And yet, the discussion above is clear that foregoing the coordinating role of prices and incentives means that socialist economies, regardless of design, will under perform market counterparts and will be fraught with corruption. Others argue that the Scandinavian countries serve as a successful model for socialism. However, the Scandinavians are competitive market economies with extensive safety nets for their people—welfare states.

CONCLUDING THOUGHTS

The scrutiny applied here to the issue of capitalism versus socialism clearly favors to the choice of a competitive market system. Biblical teachings, theoretical principles, and a wealth of experience supports this conclusion. Socialism is characterized by stagnation, inequality, class divisions, and corruption. Market systems have an amazing degree of underlying order and harmony. Nonetheless, market economies are not perfect and never will be in our fallen world. They cannot prevent situations in which some persons cannot provide for themselves. And that is where we as individuals and as members of Christ's Church are called upon to step forward with help.

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