A New Testament Perspective on Wage Determination Using the Principle of Spiritual Rewards: A Rejoinder

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The author does not develop a uniquely biblical system that differs from pure economics. What is described is application of a purely *economic* principle of a market economy, that marginal revenue product (MRP) should equal marginal resource cost (MRC) at the point where the last employee is hired. The author makes the case that such a market economy happens to be consistent with Christian principles.

One selection given as a biblical basis is the parable of the workers in the vineyard (Matthew 20:1-15). It is an interesting example of labor compensation but may be inappropriate to posit as illustrative of a perfectly competitive labor market. The standard wage for one day of unskilled labor at the time of Christ was one denarius (A teacher's pay was 180 denarius: hopefully per student!) (Reproduction Roman Coins). The minimum and maximum wage was set by tradition and social pressure as firmly as if legally mandated. On the one hand, an employer who tried to pay less would have been ostracized by both the workers and his/her peers even if the workers were less capable than average. On the other hand, an employer needn't pay more since no one expected it even if the workers were more capable than average. Therefore, the wage couldn't adjust to supply and demand, but the supply and demand accommodated to the wage.

The concept of MRP = MRC at equilibrium depends on the ability of prices to adjust to clear the market. With a wage floor and ceiling set at the same point, equilibrium was unlikely. If the equilibrium wage was higher than the socially determined wage, there would have been a gap with the supply of labor less than the demand — some jobs would have been unfilled. If the equilibrium wage was lower than the socially determined wage, there would have been a gap with the demand for labor less than the supply — unemployment. If either gap were large, it would have caused serious social unrest, so perhaps it can be granted that the result was close to equilibrium.

In the parable, the first workers were offered the socially determined wage and all of the other workers were paid what the first worker was paid. It is correct but misleading to say they were all paid what the last was paid, since it was not the last worker's MRP that determined the wage. That is an important distinction. Thus, the early workers received a normal wage and the later workers were overpaid according to the standard. If the first workers were paid according to MRP = MRC (a questionable assumption given the above), the last workers were given a gift, not paid what they were worth.

In a vineyard managed by its owner, the owner could choose to give a gift out of his or her assets. If the vineyard had absentee owners (like a corporation), a manager making the gift out of the owners' assets would have violated his/her fiduciary duty as a steward of the owners. There is a difference between making a gift out of one's own assets and giving away someone else's assets. The first is charity. The second is theft.

Bypassing the parable of the vineyard, the concept of paying workers according to MRP = MRC raises the important question of what size block of individuals should be paid this way. In the parable, all employees were assumed to be in one wage group. Should all the employees in the vineyard or firm be treated as one block or should small groups of similarly skilled employees be treated separately? If the group is set at one employee, there is no problem. If it contains more than one and skills differ within the group, the last hired is paid according to MRP = MRC while the others are paid less than they are worth. That raises the specter of inequity.

For any group with multiple workers, three types of workers need to be considered: 1) the first ones hired (any besides the last), 2) the last ones hired, and 3) the next ones that are not hired. The first ones hired are hurt by MRP = MRC and would have benefited if fewer workers had been hired. With fewer workers, the last employed would have produced more MRP and thus all those in the group would have received higher wages. These workers would prefer the smallest grouping. Workers of type 2 benefit since they otherwise would not have been employed. Workers of type 3 would have benefited more if wages were even lower so they would have been hired.

This principle is a major component in the ethics of a minimum wage. A minimum wage raises the MRC so fewer are employed. Those on the margin either earn more if their skills produce MRP higher than the new MRC or are unemployed if their skills produce MRP less than the new MRC. Since the minimum wage often is higher than the MRP produced by new, unskilled workers, they become unemployable and never have the opportunity to learn job skills like following instructions, punctuality, courtesy, cleanliness, etc. Is that policy biblical?

In the second paragraph of the section titled "Implications for the Employer and Employee," the author says, "… the employee is compensated based on the value of that output produced by the last employee to the employer. Thus, the employer is not 'exploiting' the employee." The author defines exploitation "in the sense of economic exploitation, which occurs when the wage is less than the MRP." This is true only of the last employee hired. All the ones hired before are paid less than the MRP they produce. They therefore suffer economic exploitation, according to the author's definition. In the subsequent discussion of how a Christian business can generate a profit, the author notes that profit is made on the "exploitation" of those previous employees.

Next, the author notes that the firm can make a profit by paying less than the MRP for capital or natural resources. There are two issues with this claim. The first issue is economic. If owners of capital or natural resources are cheated, their holders won't make their resources available. Various resources are needed to produce output. Lack of some resources would reduce the productivity of the other resources and would therefore cut employment.

The second issue is ethical. The authors claim a distinction between compensating employees and compensating the owners of capital and property. There are others who make this claim. Two potential papal candidates discussed recently have made such statements (Galloni, et al., 2005.) Where is the justification for that distinction found? Is there any biblical support? Why should there be a distinction between stealing from those who provide labor and stealing from those who provide capital or other inputs? Is it because holders of capital and other resources are rich? Does Exodus 20:15 say, "Thou shalt not steal except from the holders of property and capital" or "Thou shalt not steal except from the rich?" Why is there such a distinction? If I were a supplier of electricity or inventory or a building instead of a supplier of labor, why should I be "cheated?" Shouldn't the suppliers of ALL inputs be treated fairly? Wouldn't the same economic principle apply? (Use ALL inputs until the MRP of the last unit equals the MRC.) Wouldn't the same biblical principle apply — "Thou shalt not steal?"

Some have argued that stealing from the owners of property is acceptable since they are rich. The American economy, as observed by President Bush, has become an ownership economy. The workers own the vast bulk of the stock in American corporations either directly or through mutual funds and pension funds. To that extent, the providers of labor and the providers of capital and property are the same.

The monopsony power of unions is also discussed. In a market economy without a union, MRP will equal MRC at the point where the last worker was hired. Just as a monopolist benefits if output is below equilibrium, the union will benefit if the number of employees is fewer than the social optimum. With fewer employees, the MRP of the last person employed is higher so the wage can be higher. The wage paid equates MRC and MRP. However, after deducting union dues, the wage the employees receive is lower than MRP. Some or all of the difference can be appropriated by the union organization. For the employed union members to be better off, the wage received must be larger than what would have been paid and received without the union. For those whose MRP is higher than what the wage would have been without the union but lower than the wage paid with the union, the unemployment line beckons. Does the spiritual benefit of the higher wage received by some employees (plus the new income for the union organizers) outweigh the spiritual pain of the unemployment of the others?

How does the author's system differ from pure economics? It appears that what is described is a purely economic principle that the author shows to be consistent with Christian principles. MRP = MRC is economics. What makes its application to labor a Christian principle? How and why does MRP = MRC applied to labor differ from MRP = MRC applied to capital, electricity, buildings, etc.?

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