On The Margin

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CREDO Economists Headline Lumen Christi Conference

6th annual conference on Economics and CST examines the human person

The 6th Annual Lumen Christi Conference on Economics and Catholic Social Thought provoked a thoughtful discussion on conceptions of the human person within economics and theology, and CREDO members played an instrumental role in the conference. CREDO's own Mary Hirschfeld (Villanova) gave the keynote address at the conference on April 1 at the University of Chicago, and she was joined by fellow CREDO member Jesus Fernandez-Villaverde (Penn), as well as Francis Cardinal George of Chicago, economist Rachel Kranton (Duke), and philosopher Russell Hittinger (Tulsa).

Francis Cardinal George and Mary Hirschfeld

Cardinal George, in his last conference as acting Archbishop of Chicago, opened the event by emphasizing the importance of conversation between economists and bishops. He noted that past conversations were often difficult because of different anthropologies. "Are we as man, a free contracting individual, and is that enough to think about as you develop an economic or political theory? Or is man a social being, always enmeshed in relationships, obligations, and mutual duties?" posed the Cardinal.

Hirschfeld – well-qualified with a Ph.D. in Economics from Harvard and a Ph.D. in theology from Notre Dame – focused her talk on what the different fields could learn from the other. She noted that while the economic view of man, *homo economicus*, is often much broader than what theologian's caricature, it nevertheless has a very different understanding of the good: utility models the good as a insatiable ladder by which one climbs up to higher levels of good in this life, whereas a Catholic view emphasizes balance by ordering temporal goods well, and mirroring God's ordering through the exercise of virtue. (See extracts of Hirschfeld's talk on p. 4)

Fernandez-Villaverde vigorously defended economic modeling, emphasizing the importance of precise language in economics. He argued that decision theory, not rational choice theory, is at the heart of economics, and he emphasized some of the broader appli-

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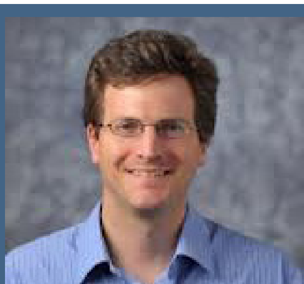
Welcome to the Second issue of our CREDO newsletter.

A great deal has happened since our last issue in the Spring

Welcome to the second issue of our CREDO newsletter. A great deal has happened since our last issue.

In the spring, Thomas Piketty's book, *Capital in the 21st Century* became a New York Times bestseller, creating excitement, controversy and much discussion in the economics community but probably moreso in the Church, media, and broader society. The focus of the book is, of course, wealth and income inequality, and we have decided to give some focus to the issue in the current issue. CREDO vice-president Jesus Fernandez Villaverde has contributed a thoughtful review of the book, an abridged version of a review published in the Catholic magazine, *First Things*. Piketty's book focuses on the advanced economies of the world. To complement this, Quy-Toan Do, a World Bank research economist and member of CREDO's advisory panel, and his colleague, Christoph Lakner, have contributed a nice summary assessment of what we know about inequality trends in the developing world.

I recently read a talk that U. of Chicago economist John Cochrane gave in a conference in honor of Gary Becker at Hoover Institution on the topic of inequality. He was largely dismissive of inequality as a concern, but I found it an interesting read. It occurred to me that economists and Catholic social thinkers approach the topics in vastly different ways.



Joseph Kaboski, David F. and Erin M. Seng Foundation Professor of Economics University of Notre Dame

Like most economists, Cochrane talked about the issue of poverty as perhaps related to but nonetheless distinct from inequality per se. Why does it matter if some people have more, if the poor are not made worse off, for example? Economists largely consider inequality if it might lead to poverty directly, for example, or might lead to bad institutional outcomes such as crony politics that disrupt competition, large scale redistribution that distorts incentives to work and invest, or civil conflict that can bring entire economies crashing down. Our concern is the poverty, or the bad institutions; the inequality is only instrumental.

On the other hand, Catholic social thinkers often use poverty and inequality interchangeably. (This is a frustration to economists!) Some of it stems from sloppy thinking, but some of the mixing of terms is because the two are closely connected in their approach. In *Evangelii Gaudium*, for example, Pope Francis uses words like "alienation", "marginalized", and "exclusion". He is interested in a spiritual poverty. It is a real poverty, but this poverty is connected with disparity or distance in human and social relationships. Ultimately, in Pope Francis' mind, inequality per se is both a reflection and cause of a lack of communion.

CREDO has been successfully growing in many dimensions. Membership has grown 50 percent since the beginning of the year, and our membership has grown in Chile and Portugal. We hope to continue to grow internationally. In May, CREDO Advisory member Jim Sullivan presented our state of knowledge on poverty and inequality to the US Conference of Catholic Bishops, and I was later appointed to a three-year term as a committee consultant to their Committee on Domestic Justice and Human Development. This past fall, CREDO members also participated heavily in the 2nd Social Congress II, which gathered scholars and leaders from around the world.

Last April, CREDO members participated heavily in the Lumen Christi Insitute's 6th annual conference on Economics and Catholic Social Thought, as our lead article describes. We are also playing a leadership role in the Lumen Christi Institute's upcoming conference entitled "Family in the Changing Economy", with Advisory Panel members Joe Hotz and Valerie Ramey co-organizing the program. The program looks fantastic.

Despite our leadership role, I should emphasize: these conferences are sponsored by the Lumen Christi Institute not CREDO. The first day is always a public event. Given the presence of the bishops and the goal of open discussion, the second day is necessarily small group and by invitation only. If you have a special interest in attending, however, please email me, and I can pass your request on. Ultimately, the Lumen Christi Institute has final authority though.

Joseph Kaboski
President of CREDO

Deep cuts to food assistance a moral scandal

Bishop Oscar Cantu

The Most Rev. Oscar Cantu
Bishop of Las Cruces, NM

During Labor Day weekend we take time to reflect on what allows us to "put food on the table." In my line of work, as a pastor, I encounter people regularly who have to make difficult choices that no one should have to make: do I buy food or do I pay my rent? Many of our churches, synagogues, schools and community centers try to lend a hand to families in need. In many cases, the aid is appreciated but insufficient to get the family to a position of self-sufficiency.

It is during this time when so many Americans struggle to find work and put meals on the table that lawmakers in Washington are cutting a vital lifeline -- food assistance -- that protects vulnerable families from falling into poverty. This is a moral scandal that betrays our nation's best values and highest ideals.

The U.S. House of Representatives is targeting the Supplemental Nutrition Assistance Program (SNAP), formerly known as food stamps. SNAP is widely regarded as the nation's most effective anti-hunger program. It kept more than 4 million people out of poverty in 2011, according to the non-partisan Center on Budget and Policy Priorities, and reduced the number of children living in extreme poverty that year by half. The House is proposing to slash $40 billion over the next decade from this successful program -- double the amount lawmakers considered earlier in the year. This would have a devastating impact. Basic food support for up to 6 million Americans would be eliminated. Struggling working families, children and our elderly would be at particular risk. Earlier this summer we heard the disturbing report that New Mexico rated first among states in childhood hunger.

Even worse, these harsh cuts come on top of automatic reductions to food aid that will begin in November because of an expiring provision in an economic stimulus bill. This fall 442,000 people in New Mexico will see a cut in their food assistance benefits. Among those impacted are the 42 percent of children in New Mexico who receive SNAP benefits. Anti-poverty experts and religious leaders are speaking out against these draconian cuts. In New Mexico this will be devastating to children who already rank first in hunger! The U.S. Conference of Catholic Bishops called food "a fundamental human right that is integral to protecting the life and dignity of the human person," in a letter to House members this summer. SNAP, the bishops wrote, "helps relieve pressure on overwhelmed parishes, charities, food banks, pantries and other emergency food providers across the country who could not begin to meet the need for food assistance if SNAP eligibility or benefits were reduced!

> No one who has a job and works an honest day should have to choose between paying rent and buying food.

When I listen to parishioners' stories, I hear the pain in parents' voices when they work overtime or even hold down two jobs to make ends meet, but still have trouble feeding their children. No one who has a job and works an honest day should have to make a choice between paying rent and buying food. The U.S. Conference of Catholic Bishops noted in a recent statement timed for Labor Day that half the jobs in our country pay less than $27,000. Over 46 million people live in poverty, including 16 million children. Pope Francis recently lamented the "cult of money and the dictatorship of an economy which is faceless and lacking any truly human goal." We must never forget that budgets and public policy decisions are ultimately moral choices about what we value as a society.

Elected officials and citizens have a reasonable concern about our national debt. We must be prudent stewards of fiscal resources. However, it is inhumane and ultimately irresponsible to squeeze savings from effective programs that help people from falling into poverty.

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applications currently in the literature, including temptation: "What is temptation? I'm going to the gym at 6:30 in the morning, and I see Ace 10 bagels, and I say, 'let me stop and get a couple of bagels.'"

"Every man has his price… This means that people value money, but they also value other things such as integrity and social norms," explained Kranton. Social norms and ideals are closely linked to our social identities, whether given like race or chosen like profession, and these help determine the economic choices we make.

Hittinger posed the strength and limits of thinking like an economist as an important questions. Citing Pope Francis' *Evangelii Gaudium* description of the economic point of view as an 'absolutized point of view', Hittinger noted, "It is unclear whether our [the CST] tradition confronts the economic method as yet another ideology in the sequence of ideologies to which we have had to respond over two or three centuries."

The second day of the conference involved talks by CREDO members Dan Finn (St. John's), Joe Kaboski (Notre Dame), Andrew Yuengert (Pepperdine), economists Carol Graham (Brookings), and Serge-Christophe Kölm (Les Ecoles des Hautes Etudes en Science Social).

The conference was especially honored by presence of the president of the USCCB, Archbishop Joseph Kurtz, and Bishop Marcelo Sánchez Sorondo—chancellor of the pontifical academies of sciences and the Pope's personal representative for the new anti-slavery Global Freedom Network. On a sad note, Gary Becker, who was originally scheduled for the public panel, had to unexpectedly withdraw. He passed away a month later on May 3.

Full videos from the conference are available at: https://www.youtube.com/watch?v=wgee9rvN2SI&index=1&list=PLaAlnD2mRjw6dNOYcxWl5DuekGTl4OF5Q

At the Sixth Annual Conference on Economics and Catholic Social Thought in Chicago [TOP LEFT] Serge-Christophe Kölm (Les Ecoles des Hautes Etudes en Science Social) gives a presentation [TOP RIGHT] nearly 500 people attended the public symposium at the University of Chicago on April 1 [BOTTOM] Archbishop Joseph E. Kurtz (Louisville), Archbishop Timothy Broglio (US Military Services), and Bishop Stephen E. Blaire (Stockton, CA) [Left to Right] listen to a presentation.

A Brief Extract from the Keynote Address at the Lumen Christi Conference on "The Human Person, Economics, and Catholic Social Thought

Mary Hirschfeld

Non-economists often falsely assume that *homo economicus* is somehow isomorphic with *homo avidus*, greedy man. The charge is unfair and confuses pursuit of the goods one desire with pursuit of narrow self-interest. Although the charge is unfair, it does capture some real reasons to be uneasy with the economic approach to the human person. The difficulty can best be seen by considering the alternative view of the human person we find in Catholic thought. The sketch that follows derives from Thomas Aquinas, whose thought is central to the Catholic approach.

Some Key Points about the Human Person in Catholic Social Thought

From the perspective of Aquinas, the first question to ask about the human person is in what sort of world does the human person find herself? And the answer is that we find ourselves in a world created by God. The God in question is transcendent – not some powerful guy with a beard off in some corner of the universe we haven't quite managed to discover yet. This transcendent God is the one necessary being, who freely chose (and chooses) to create the universe, ex nihilo, out of nothing. It is a creative act that reflects God's essential infinite ultimate goodness. Thus the good that we find in this world is good that is reflective of God's goodness which is the ultimate source of all good. And this gives us our first key point: ***We live in a world with an objective moral order – an objective order of the good.***

A second key point follows immediately: ***The human person is built to desire and seek the good.*** Notice that like economists, Aquinas holds that human action is directed towards the desirable or the good. The difference lies in our disparate account of what that good actually is. In Catholic thought, since the ultimate good is God, our ultimate happiness lies in knowing and loving God. But this is only possible in our eternal lives. In the here and now, we seek a temporal reflection of the ultimate good we will know in God. We thus need to think about the relationship between the temporal good of the created world and the ultimate good to be found in God.

The short answer about how to relate the two ends of human life – the temporal good and the eternal good – is that they are related analogically. By that I mean that they are neither completely disparate, such that the joys of earthly life bear no relationship to the joys of heaven; but neither are they completely the same, such as we might imagine if we thought that heaven was just a ginormously large quantity of earthly goods. Rather, the earthly good reflects the good we hope to know as best a finite creation can reflect the infinite God. On this account, the goods we seek in this life are genuinely good – but largely because they are a foretaste of the joy that is to come. The analogy I like to use is to think of our feelings about our lovers and the love letters we have from them. If we are separated from our lovers, we treasure the letters we have from them. But we never mistake the letter for the lover.

Mary Hirschfeld, Assistant Professor of Economics and Theology in the Department of the Humanities at Villanvoa University

The world is God's love letter to us! But an accumulation of letters would never get us to the joy of actually being with our lover. And that brings us to a crucial third key fact: ***Our desire for the infinite good can only be partially satiated in the temporal world; and then only by understanding that we are aiming to mirror the infinite good, not build a ladder to it.*** The distinction between a mirror and a ladder is important. Economists and Catholics share an idea that humans have a desire for the infinite good. The difference is in how the 'infinite' is conceived. Does it cash out as a desire for more? This is implicit in the view economists take of the matter. The rational choice model posits an array of bundles of goods that stretches out indefinitely, with our task being to attain the most desirable bundle given our constraints in time and income. If only we had more time or income, we could have more of the desirable goods, and thus get a better bundle. That probably sounds like the most ordinary thought in the world. But on the Catholic view, the reason it sounds so natural to us is because in the wake of the fall, idolatry is ubiquitous; and idolatry is essentially the mistake of projecting our desire for the infinite good onto finite goods, thinking in terms of accumulation (whether of material goods or a string of experiences) rather than perfection. But such an approach to the good can never work, because these temporal goods can never satisfy – no matter how many of them we might acquire.

So we need to think about how a finite universe can manifest the infinite unbounded transcendent good of God. There can be no one thing in a finite world that reflects God, so God created a universe with an array of qualitatively distinct creatures that each carry with them some essential aspect of God's goodness. The appleness of the apple tells us one thing, the orangeness of the orange something else. But because God is also one, these diverse heterogeneous beings are ordered to one another, weaving together the dense set of relationships that make of this a coherent universe and not a random scattering of atoms. And here we have a fourth key point: ***We pursue the good in this life by respecting the diversity of goods, and ordering them well; life is a matter of art, not calculation (though calculation may play a valuable subordinate role).*** We don't approach the infinite good by piling up a lot of finite goods or stringing together a lot of wonderful experiences; rather we approach it by reflecting the infinite good in a manner appropriate for finite goods. The painting of a tree best reflects the tree by judicious arrangement of paint, not by an accumulation of more paint. Both approaches – building a ladder to the infinite good or mirroring it entail picking the most "desirable" bundle – the difference is that on ladder view, it is a relaxation of the constraints of money or time that allow us to get to better choices; on the mirror view, the only thing that can move us to a better position is an improvement in our ability to judge or discern well what is to be done.

Because we are finite beings who reflect God somehow, our essential happiness lies in realizing or fulfilling our natures as fully as possible. The apple is as close to God as it can get when it achieves perfection as an apple. Just so, the essence of human happiness lies in the full exercise of our human nature. But with humans it is a bit more complicated. An animating principle of Catholic thought is that while creation as a whole mirrors or reflects God, human beings do so in a particular way. We are made in the *imago dei*. There are two approaches to understanding this (which I see as being ultimately closely connected). The first is that just as God's triune nature is essentially relational, so too is human nature. Our highest excellence or happiness is found in relationship with others and especially with God. Here we have a fifth key point: ***the human person cannot be viewed as an essentially atomistic individual.*** We are not subsumed to the collective, but our lives as individuals would be radically incomplete, and, indeed, unintelligible apart from our relationships with others. One concrete consequence of this point is that when we think about the human person, we must also attend to the cultural milieu that he both informs and is informed by.

The second approach to the doctrine of the *imago dei* is that we are in the *imago dei* insofar as we are rational creatures, with both intellect and will. Unlike other created beings we are the "principles of our own actions", i.e. we are able to discern the good and move ourselves towards it, with our ultimate fulfillment lying in the fullest expression of our capacity to know and to love – a fulfillment that occurs when our object of knowledge and love is the infinite truth and goodness that is God. In this life, we find our fulfillment by exercising our powers as fully as is possible in this life. Here we have a sixth key point: ***Human happiness in this life essentially consists in the perfection of human nature, which is the practice and cultivation of virtue.*** As John Paul II puts it in *Centesimus Annus,* human progress or advance is not an advance in having – it's an advance in being, i.e. actualizing our potentials as fully as possible.

Virtue is the perfection of human nature, acquiring the ability to be human in an excellent way. In the classical tradition there are seven core virtues: the theological virtues of faith, hope and charity and the cardinal virtues of prudence, justice, fortitude, and temperance. Here I want to focus just on the cardinal virtues. The virtues of fortitude and temperance perfect our passions, our fears and desires respectively, which we share with the animals. This perfection entails learning to fear and desire in accordance with the judgments of reason. Moderation is the key – it is not a question of fearing nothing, or always refraining from taking pleasure in the goods of the world, but rather learning to respond to adversity or to enjoy the goods of the world, in measured and appropriate ways. The virtue of justice perfects our will, specifically perfecting our relationship with others, with a central focus on rendering to others their due. Finally, the virtue of prudence, which is the master cardinal virtue, perfects our practical reasoning, allowing us to discern what is to be done in light of general principles and our particular circumstances, and to perform it. It is the virtue of prudence which helps us to make a coherent whole out of the disparate goods we seek in this life. A seventh key point: ***Prudence is the counterpart in CST to the rational choice model in economics, differing from rational choice in its conformity with key points 1, 3, 4, 5, and 6.*** Note that prudence guides us towards our happiness, but insofar as our happiness comprises all the virtues, including justice, it would be a mistake to associate prudence with narrow self-interest.

These virtues, like all virtues, are acquired through habituation. As anyone who has met a two-year-old can recognize, we come into this world with a mass of desires and fears that aren't ordered to reason. If we take on the project of becoming virtuous, i.e. better versions of ourselves, we begin to try to master our desires and fears, ordering them to the discernments of reason. Some of us are incontinent – we aim at the virtuous, but our passions tend to win out. Others are continent – they struggle to do the virtuous thing, and they succeed. But their desires and fears aren't fully on board. The truly virtuous person is the one whose desires and fears are in full accord with the judgment of reason. Since most people fall in the incontinent-continent range of the spectrum, we have an eighth key point: ***Most people have two sets of preferences, one based on their rational (prudential) judgments, the other based on their as-yet-un-mastered passions.*** A ninth key point immediately follows: As a corollary, ***there are two forms of reason that go hand-in-hand with the two sets of preferences.*** The rational preferences issue from the discernments of prudence, while a lower form of reason, which we share with animals, weighs the costs and benefits (measured largely in terms of pains and pleasures as judged by our untutored passions) of a given action and chooses accordingly. The rational choice model thus well accounts for the form of reason that is in service of our untutored passions; though it can also play a proper subordinate role in the pursuit of rationally formed desires.

One consequence of having desires and fears that aren't ordered to reason is a tendency to desire material goods in a disordered way. Although the Christian tradition has always valued asceticism, it has also always recognized that most people are called to secular lives rather than lives of renunciation, and it recognizes material flourishing as a desirable feature of such secular lives. The key thing to note is that material goods are purely instrumental goods. They are goods insofar as they are ordered to life, and to life well-lived. This gives us a final key point: ***Insofar as material goods are instrumental goods, our desire for them should be measured by the ends the material goods are meant to serve.*** To use the classic example, medicine is an instrumental good. The amount you need of it is measured by the end of health. If it takes two aspirin to cure your headache, you want two aspirin, not four or ten. Just so for material goods taken as a whole. Depending on the ends, which are set by our practical judgment of how the exercise of virtue would work given our situation in life, we might need a few or we might need many goods. What we do not need nor should we rationally desire is an indefinite expansion of income. Virtuous desire for economic goods is properly bounded or satiable.

Of course, most people think they do want an indefinite expansion in their incomes. For some, there might be a genuine insufficiency of economic goods, i.e. a lack of the goods needed to support life, or life well-lived. But many desire an expansion of income beyond what is needed. There are many reasons for this widespread disorder. One of them is that to the extent that we allow the lower form of reason predominate, we focus on pursuing our untutored desires. Those untutored desires tend to pursue the good as a random string of ends, rather than as an ordering of the good as dictated by the exercise of genuine prudence. If we think of the good as an indefinite string of ends, we will naturally desire an indefinite expansion of income to pursue the never-ending succession of ends.

Two Distinct Views of the Human Person: Can they be Reconciled?

It should be clear by this juncture that Catholic thought and economics have substantially different conceptions of the human person. They share a belief that humans act in order to pursue happiness. They differ on the questions of whether the goods pursued are objective goods or subjective determinations; on the form of the good (finite perfection or an indefinite string of goods); on the nature of rationality (rational choice or prudential judgment); on the nature of our desire for material goods (insatiable or properly satiable); and on the status of the individual (atomistic individual though capable of concern for others or intrinsically social.)

An economist might look at these differences and make the following claim: Economists are in the business of describing human nature as is, using their models primarily to generate predictions about human behavior. Their enterprise is fairly successful in that light. They might further suggest that the outline of the human person I have given here is quite nice, but it belongs properly to the realm of the normative. It is a discussion of what humans ought to be. Indeed, they might suggest that this is the perfect division of labor. Economists busy themselves with descriptions of what is, while devotees of Catholic thought busy themselves with normative appeals to people about what they ought to do.

From the perspective of Catholic thought, this is partially true. Economists do indeed have valuable insight into how human beings actually behave. The problem lies in their deployment of their insights. One key objection is that economists' description of human beings has a normative dimension. To tell students in an introductory economics course that the rational choice model is the model of human reason is to tell them that in order to be rational, they should model their decision making on the rational choice model. Indeed, I have never encountered any economic textbook in which teaching students to "think like economists" was not an explicit goal. But from the perspective of Catholic thought, while the rational choice model may issue in useful descriptions of human behavior, it ought not be prescribed as the way to behave rationally. Students should be encouraged to reflect on what should be rationally desired. More importantly, they should be warned away from the mistake of thinking of the good as an endless succession of "more". Even if we allow that the rational choice model is meant to be nothing more than a formal claim about revealed preference which perhaps can accommodate the notion of perfection as I've outlined it, the language of rational choice and especially the ubiquitous emphasis on constrained maximization plays into the culture-wide tendency to pursue the good as "more" rather than as perfection.

And it is on this point that I think we can find the root of that naïve criticism I mentioned at the start of this piece. Why do so many non-economists falsely think that *homo economicus* is isomorphic with *homo avidus?* I think much of it has to do with *homo economicus*' boundless desire for more. In a world where there is a widespread tendency to see the economic problem as a matter of optimization under constraint, there is a strong pressure to loosen those constraints. We all want higher incomes. We all think economic growth is a first order concern, even for countries that are already very well-off by any objective measure. But this strong emphasis on an indefinite and apparently limitless desire for more economic growth chafes against our deeper intuitions that human life is about more than material goods and services. We know deep down that we should yearn for human excellence and genuine human flourishing, even as we get caught up in the culture's sense that the 'bottom line' is what is ultimately important. And thus many are made uncomfortable by the economic vision, even as they lead lives that are reasonably well-described by it.

Thus, the first and perhaps most important summary point: ***the practice of economics is not merely descriptive, and its normative dimension is problematic.*** What about the descriptive power of the model? In terms of the basic practice of trying to model human behavior so that one can predict human behavior, the Catholic view simply observes that individuals are motivated by both their sets of preferences. However well humans are described by models based on the sort of reason that best serves the pursuit of ones untutored passions, humans are even better described by models that take into account that humans sometimes act on the basis of the exercise of their higher reason. Over the last few decades, the discipline has begun moving in this direction. Through the work of behavioral economics especially, there is an increased appreciation for the fact that social norms matter for understanding human behavior. I am quite excited to see how the discipline will unfold as it moves to increasingly embrace the fact that there are two modes of human behavior, not just the one. This opens up interesting questions with respect to policy -- how can one craft policies that take into account the reality that most people are guided by incentives, without inadvertently weakening their ability to be guided by their higher reason? There's room for much fruitful exchange between economics and theology on this point. For example, theologians interested in virtue ethics should think more about how virtue and our responsiveness to incentives interact.

The discipline of economics would benefit from thinking about the limits of our own models. A greater appreciation for the normative dimension of any discussion of human behavior might help inoculate economics from some of the unfair criticisms it attracts. And insofar as economics remains the best way for understanding the aspects of human behavior that are incentive-driven, it would be good for economists to craft their message in a way that could be fully heard by those who need to hear it.

Fairness in the 21st Century

Jesus Fernandez-Villaverde

After the score of reviews already written about Thomas Piketty's *Capital in the Twenty-First Century* over the last few months, it is futile to rehearse the same arguments about the economics of the book yet one more time. Suffice it to refer the reader to the reviews of Debraj Ray, Larry Summers, or Per Krusell and Tony Smith. However, the readers of this newsletter may find of some interest to reflect not on the book itself, but on the reasons of its success and why those reasons point out to the challenges that Catholic economists need to address to help building a fair society in the twenty-first century.

We must start from a fundamental observation: The world economy has changed dramatically over the last several decades, and it is bound to change even more. These changes are reshaping our societies in profound ways.

First, the rise of China and other emerging nations has thoroughly reorganized how we produce, trade, and consume. The consequences of this rearrangement are just starting to be felt. If, for example, Africa has really turned a corner since 2000—as some perceptive observers claim—our cars in 2030 might be manufactured in Tanzania or Kenya.

The world economy has changed dramatically over the last several decades and it is bound to change even more

Second, the fall in the price of computers is spawning a new technological age. The $2,000 MacBook Pro on which I am writing this review is more powerful than the multimillion-dollar supercomputer I used for my Ph.D. dissertation in the late 1990s. Indeed, chances are you will not be driving your 2030 African car: A sophisticated computer will do it. As Google has shown, the engineering problem of driverless cars has been solved. All that remains is for society to adapt to it. But while driverless cars will bring more comfortable morning commutes, they also mean that our grandchildren will add truck drivers to stagecoach drivers in the same group of professions that appear only in old black-and-white films.

But technological innovation is not only about replacing workers with capital (truck drivers with computers). And globalization isn't just about companies searching for low-cost labor. It is also about raising the rewards of those whose skills complement technology and whose products appeal to larger populations of consumers.

Soccer players, the ultimate international workers, illustrate this point. In 1897, Aston Villa was the most successful professional soccer team in the world. Its star, Charlie Athersmith, was earning around $55,000 in today's money, making him either the best or among the best-paid soccer players of his time. Athersmith played at Villa Park, which had opened that same year and could hold up to 40,000 spectators (although a normal crowd was closer to 20,000). Without radio or TV, only those at Villa Park or the stadiums Aston Villa visited could pay to see Athersmith.

Real Madrid is the Aston Villa of our time: the most valuable soccer team in the world. Its star, Cristiano Ronaldo,

Jesus Fernandez-Villaverde, Professor of Economics at the University of Pennsylvania

earns around $44 million annually. Often, Ronaldo's games draw global audiences of more than 100 million people. While Ronaldo makes less money per spectator than Athersmith did (making him "cheaper" entertainment), technology has made him fabulously wealthier.

Global economic integration and the technological revolution are positive on the whole. But these powerful forces create winners and losers. Top lawyers, famous professors, successful entrepreneurs, and insightful consultants win. Adjunct professors, paralegals, truck drivers, manufacturing workers, and low-level administrative staff lose. Winners accumulate income and wealth. Losers do not.

Even if we tried to arrest them, these changes are probably unstoppable for any open society. Instead, the real questions are, first, how to think about them and, second, what sorts of policies are most likely to serve the common good. Market economies rely on the participants' beliefs that the outcomes they produce are fair. Without a belief in fairness, economic agents will not engage in productive exchanges. More important, as voters, they will overregulate and stifle markets.

The success of Piketty's book shows that confidence in the fairness of the market economy has weakened, and if we ignore Piketty's allure because we find his arguments wrong and his policy recommendations misguided, we run the risk of being blind to the concerns of a large, increasingly disaffected sector of our society. Many Americans feel that the fortunes made in finance over the last two decades are nothing but rents extracted by a few entrenched firms that enjoy a special relationship with Washington. Workers in many corporations instinctively understand that the compensation of their CEOs has more to do with inadequate governance rules than with the value added by top management. Voters react with horror to the constant spectacle of interest groups determining public policy.

We need to be careful not to deny the obvious. Globalization and technological change are disruptive and rewrite the rules of economic success and failure so rapidly that many people are disoriented—and frustrated. Although there are many factors, by my reckoning these fundamental forces, which have gathered momentum in recent decades, explain the stagnation of the incomes of most Americans. This economic reality will surely influence politics. Voters will sooner or later gravitate toward those who offer an alternative, no matter how unwise.

A society's institutions must be judged by their ability to help humans flourish. Excessive income and wealth inequality strongly suggest that too many Americans cannot lead productive, fulfilling working lives. This in turn indicates that many of our institutions are failing to adapt to new economic realities. In these circumstances we must undertake a vigorous program of reform. What, then, should we do?

The first order of business is to transform our educational system to provide as many children as possible with the abilities required by the new economy. Too often when we discuss our inadequate schools, we talk about inner-city schools. Yes, the status of inner-city schools should cause moral outrage. But we forget the extent to which our educational system also fails the middle and the upper-middle class. A recent international study demonstrates that the son of an American with a professional degree does worse in math, on average, than the son of a janitor in Shanghai.

Excessive income and wealth inequality strongly suggest that too many Americans cannot lead productive, fulfilling

The second priority must be to slow the rise in health care spending. We spend around 18 percent of national output on health care. Much of the income stagnation of the middle and working class in the U.S. can be accounted for by the growth in health costs.

Third, we need to ensure that the rules of the economic game are the same for all. The government should not help well-connected industries, in particular financial services firms. Market economies and many of the inequalities they create are felt to be legitimate when the outcomes they produce are thought to be fair. That's hard to sustain when the rules are crafted or bent to favor the well-connected.

Fourth, we must decide, in an honest way, how much of the current entitlement state we want to keep and how we are going to pay for it.

As Nobel laureate James Heckman and his coauthors have reminded us, the seeds of productive lives are the non-cognitive abilities (self-discipline, patience, curiosity, creativity, fidelity) instilled by families during early childhood. More than ever, we must foster an environment where families can play their role as the fundamental cells of our society. Our national policy over the last several decades has forgotten this lesson, often neglecting the need to provide economic support for families.

Today we need to revise the tax treatment of married couples, mandate more generous maternity leave and child care facilities, and otherwise think about how to structure government and employer-mandated benefits to better serve the interests of families.

Americans are increasingly anxious about the fairness of our society. Many are losing faith in our institutions. Piketty has tapped into such discontent. The buyers of his book are expressing, in a slightly more intellectual fashion, the same anxieties as the voters who support populist candidates on the right and on the left. The liberal Piketty reader in Seattle and the libertarian, "abolish the Fed" agitator in North Carolina seem very different. But at the deepest level, they share the same instinctive sense that the old social contract in America is under a great deal of stress. They both are looking for an alternative to a system that doesn't seem to work well for most people. The problem is that both are misled by the wrong solutions. It's up to us to work to find the right ones.

This review is a excerpt of the review "Anxieties of Fairness" by the same author, published in *First Things*, August/September 2014.

Inequality in Developing Countries: What Do We Know?

Quy-Toan Do and Christoph Lakner

The defining challenge of our time

In a December 4 2013 speech, Barack Obama referred to inequality as the "defining challenge of our time"; in an April 28 2014 tweet, the Pope declared inequality to be "the root of social evil". According to a World Economic Forum survey, *severe income disparity* is one of the ten global risks of highest concern in 2014. Thomas Piketty's book, *Capital in the Twenty-First Century* attracted considerable attention, particularly on this side of the Atlantic. By presenting a number of facts on inequality over the past 200 years, it forcefully documents the almost-uninterrupted increase in the concentration of wealth that took place within the wealthiest nations. An intense and often passionate debate ensued on what these facts meant for economic development in general and what policies were warranted. While the countries included in Piketty's analysis are exclusively the wealthiest ones, one wonders about the extent to which these observations and the broader lessons derived from them are applicable to the developing world (Milanovic 2014).

> If the developing world is considered as one single country, inequality would be found to have declined between 1980 and 2010

Data are still limited for measuring inequality in developing countries.

The main issue when trying to extend the discussion to the developing world is and has always been data availability. Extremely little data are available on wealth, so we focus exclusively on income inequality, but these data are still limited. In most low-income countries, household surveys are the main source of information about inequality. The coverage of these surveys has improved substantially over the last two decades. However, it remains limited in the Middle East where less than 50 percent of the regional population is represented by the surveys while in Sub-Saharan Africa, coverage reaches around 80 percent. One limitation with household surveys, in every setting, is their limited ability to capture the very top of the income distribution, in part because the very rich are more likely to under-report their income if they participate in the survey at all (Korinek, Mistiaen, and Ravallion 2007).[1] As pointed out in a recent blog post, with regards to developing countries, "[w]e are still ignorant about trends in the high income share in developing countries".

On average global inequality within the developing world has fallen due to less inequality between countries.

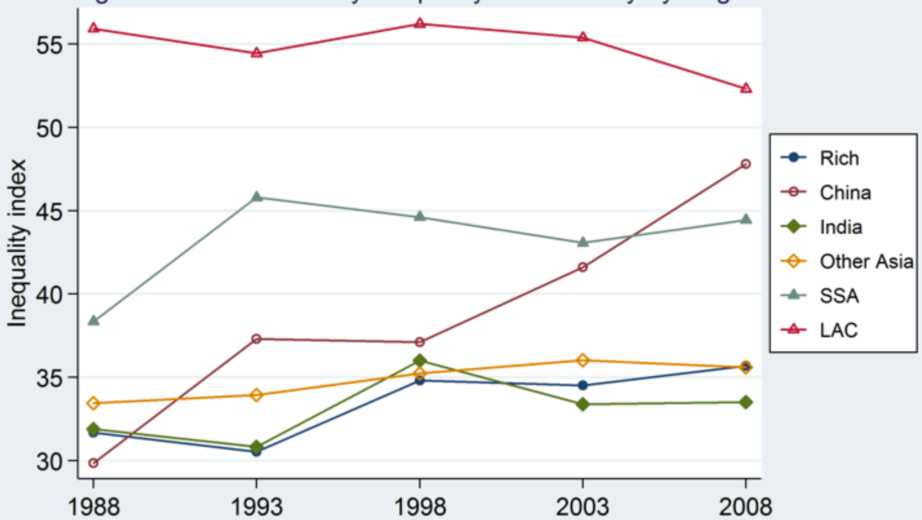
If the developing world is considered as one single country, inequality would be found to have declined between 1980 and 2010 (Ravallion 2014). Looking at the sources of such trend, overall inequality can be broken down into inequality within countries –inequality between citizens in a given country— and inequality between countries. The result of such a decomposition shows that the fall in total inequality is largely explained by a fall in the inequality between countries. On the other hand, within-country inequality increased steadily until the mid-1990s and has remained flat since. Analyses that look at both rich and poor countries together find similar patterns (see Lakner and Milanovic 2013).

Quy-Toan Do, World Bank
Christoph Lakner, World Bank

Within-country inequality across the world: a tale of many countries.

Far from telling a uniform story, however, Figure 1 suggests that individual countries have had sharply different experiences vis-à-vis income inequality over the period 1988-2008.[2] For instance, inequality in Latin America, while still the highest in the world, has sharply declined in recent years. On the other end of the spectrum, China was markedly equal in 1988 and is now

Figure 1: Within-Country Inequality Trends Vary by Region



Notes: Inequality is measured by the Gini index. Population-weighted averages. China, Latin America (LAC) & rich countries: mostly income surveys; India, other Asia & Sub-Saharan Africa (SSA): mostly consumption. Rich countries: high-income according to World Bank during 1988-2008 plus Portugal & Greece.
Source: Data used in Lakner and Milanovic (2013).

reaching levels close to today's Latin American countries. In comparison, inequality in the rest of the developing world has remained roughly stable, at relatively low levels in the rest of Asia while substantially higher in Sub-Saharan Africa.

Shared prosperity varies across countries.

A different take at the changing distribution of income over time, Figure 2 [Next Page] looks at how the income of the relatively poor (i.e., poorest 40 percent of the population) grew compared to the national average. In each of the panels (i)-(vi), each dot represents an individual country. The dotted line indicates the level at which the incomes of the poorest 40 percent grow at the same rate as the economy; a dot below the line indicates that their income grew less than the national average, while a dot above indicates it grew more. The fact that the data track this line somewhat, indicates that the incomes of the lower 40 percent generally increase when overall growth is high. While panel (i) shows every country for which data were available, the discussion becomes more interesting when we look at each group of countries separately. Panel (ii) looks at rich countries and, consistently with Piketty's findings, shows that in most of the rich countries in this period of 1988-2008, the poor have not benefitted as much from economic growth as the rest of the country. This is even more the case for China (label CHN), as panel (iii) illustrates. While the country as a whole grew at an average rate of 7.5 percent over the period 1988-2008, the bottom 40 percent of its population experienced a mere 4.3 percent growth rate. This is certainly in line with the earlier observation we made on the sharp increase in overall inequality in China. We also argued earlier that inequality fell in Latin America. Panel (iv) suggests that there is however substantial variation across countries within the continent. In particular, the poor in Brazil (BRA) grew significantly faster than the average, while in Venezuela (VEN), they suffered relatively less as the country contracted. Finally, echoing Dollar and Kraay (2002) who documented that "Growth is Good for the Poor", a common pattern emerges whereby growth is indeed more likely to be inclusive for countries that experience higher growth in the first place.[3]

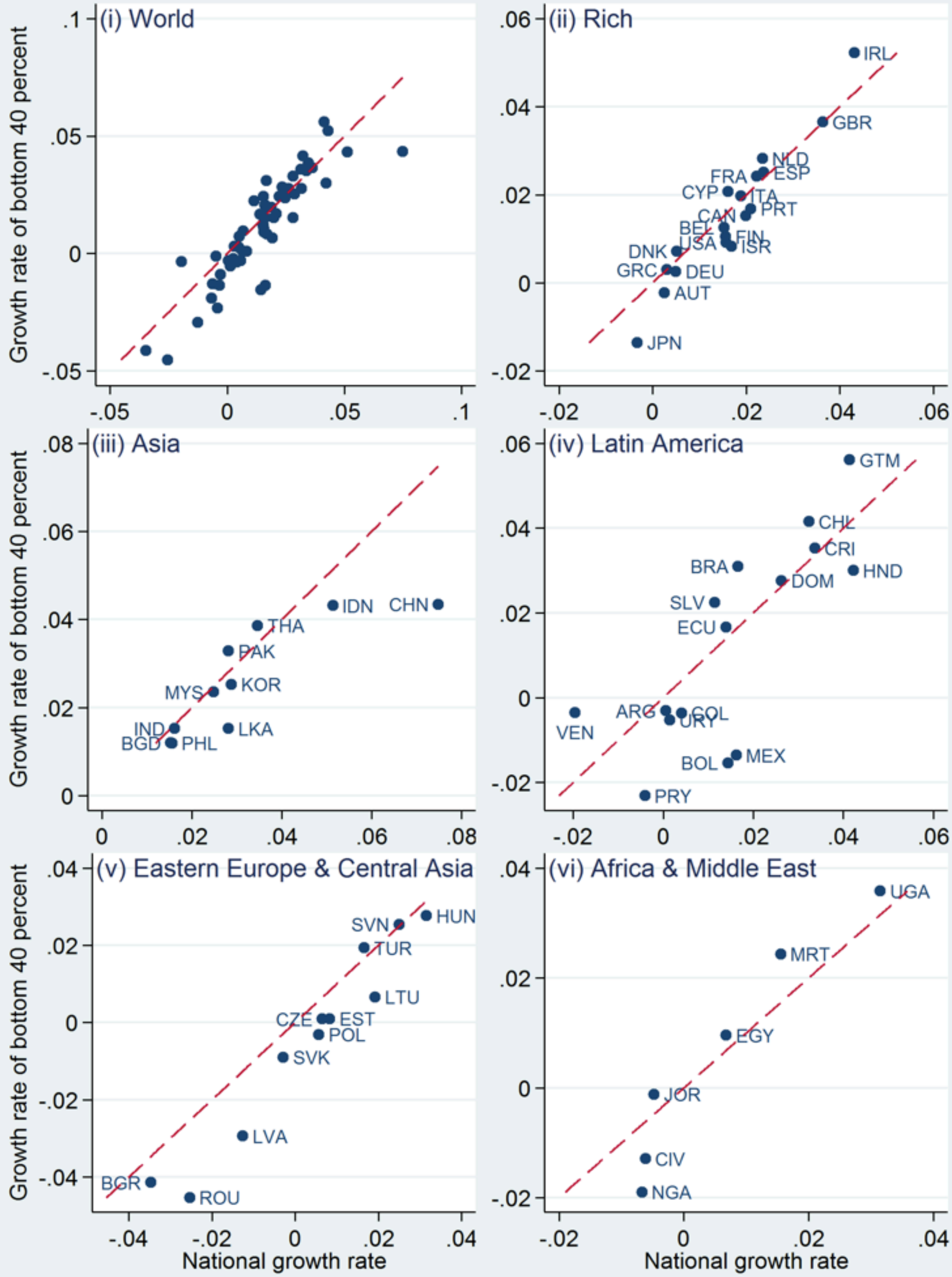
How much should we care about inequality?

More striking also is the fact that countries diverge more by how fast they have been growing over the period 1988-2008 rather than how inclusive that growth was. This observation has prompted an on-going debate on whether inequality in the developing world is properly measured and whether or not inequality per se should be a source of concern in the first place.[4,5] Apparently, that debate is not going to abate any time soon.

FOOTNOTES

1. The relatively recent literature on top incomes that makes use of tax records has therefore shed a complementary light on the evolution of income inequality over time (see World Top Incomes Database).
2. We use the Gini Index as our measure of inequality. The Gini ranges from 0 to 00, where 0 would indicate that everyone's incomes are equal (i.e., complete equality), while a 100 would mean that one person earned all the income, while everyone else earned none (i.e., complete inequality).
3. This pattern is robust for the sample of all countries in the world but China.
4. See Alvaredo and Gasparini (2013) and Lakner and Milanovic (2013), for example.
5. See Dollar, Kleineberg, and Kraay (2014), Atkinson and Brandolini (2010), and Ravallion (2005), for example.

Figure 2: Growth and Shared Prosperity (1988-2008)



Notes: See definitions in Figure 1; source: Data used in Lakner and Milanovic (2013)

Letter to the Editor

Dear Editor,

I had the opportunity to participate in the April 2014 Lumen Christi Institute conference on Catholic Social Teaching and Economics and it was wonderfully stimulating and encouraging. However, I was surprised to realize afterward that I had not heard mention of Pope Francis's Nov. 2013 *Evangelii Gaudium* (EG hereafter) in the talks, nor had I thought to bring it up in conversation even informally. This was especially surprising because the meeting organizers had provided excerpts of EG ahead of time to all participants, the only prep work that was suggested. This absence is understandable to a point, since the focus of the conference was scholarly work. Yet I felt it as a lost opportunity for us economists to engage with theology.

Of course, one aim of CREDO is to encourage engagement in the other direction, for theologians to listen to economists more. For instance, I found it somewhat discouraging that Archbishop Wenski would submit an op-ed to the inaugural CREDO newsletter suggesting a simplistic understanding of how the labor market works, and I hope that he will benefit from reading the responses in the same newsletter written by economists. (Archbishop Wenski correctly highlights two urgent goals, more jobs and dignified incomes, but he presents no coherent understanding of how policy can further those goals. He demands an increase in minimum wages, which would tend to make the first goal more difficult. Moreover he disparages a policy which can further both goals, wage subsidies, as "corporate welfare" because it provides incentives for employers to hire the most disadvantaged workers.) Yet, just as theologians often make basic errors about economics, economists may be prone to fundamentally misunderstand theology.

For instance, when Pope Francis describes the effects of consumerism as "the desolation and anguish born of a complacent yet covetous heart, the feverish pursuit of frivolous pleasures, and a blunted conscience" (EG 2), what is an economist to think? Is the pope merely describing different preferences, in which case most economists would reject this statement as baseless moralizing or value judgments? Behavioral economists might be able to say something about "pursuit of frivolous pleasures," but how can we make sense of "the desolation and anguish born of a complacent yet covetous heart" or "a blunted conscience"? If he is describing something real about human well-being, it is something that my economics training has made it rather difficult to understand.

Consider also: "The Holy Spirit can be said to possess an infinite creativity, proper to the divine mind, which knows how to loosen the knots of human affairs, even the most complex and inscrutable" (EG 178), a quote from John Paul II. It may sound silly to ask how the Holy Spirit fits into the economic way of thinking about the world, and it may sound sanctimonious like a chaperone scolding students to "leave room for the Holy Spirit" at a middle school dance. Yet, economist Daron Acemoglu can conclude an essay on spiraling mistrust and conflict in his native Turkey with a seemingly desperate plea, "we badly need a Turkish Mandela." (http://whynationsfail.com/blog/2013/6/12/stemming-polarization.html) Why, then, should it feel so out of place for a Catholic economist to pray for the Holy Spirit to resolve persistent political and economic problems?

Here is the passage I personally found most challenging: "No one must say that they cannot be close to the poor because their own lifestyle demands more attention to other areas. This is an excuse commonly heard in academic…circles." (EG 201) These words suggest that even an economist who devotes all her research effort to addressing poverty and moreover gives all of her income to effective charities is not doing enough if she is not personally "close to the poor." Why? I personally would really like to discuss it.

Tim Huegerich

CONTRIBUTORS

Bishop Oscar Cantu is the ordinary of the Diocese of Las Cruces, New Mexico. The son of hardworking Mexican immigrants, he grew up in Houston with his seven siblings. While still a seminarian, he was involved in a committee to develop, promulgate, and promote a plan for Hispanic ministry. He was ordained a priest in 1994, and as a parish priest in Houston and a teacher at the University of St. Thomas in Houston, he was involved in the Christian Family movement and the Metropolitan Organization (TMO), which publicly addresses important social issues such as fair housing, immigration, education. He was named an Auxiliary Bishop of San Antonio in 2008 and the second bishop of Las Cruces in 2013. He is the incoming Chair of the USCCB Committee on International Justice and Peace.

Quy-Toan Do is an economist in the Research Department of the World Bank. His research has looked at the relationship between economic and political institutions and the distribution of wealth. He's studied the implications of globalization for poverty and inequality. He holds a Ph.D. in economics from the Massachusetts Institute of Technology. He is a member of CREDO's Advisory Panel.

Jesús Fernández-Villaverde is the Vice-President of CREDO, Senior Fellow at the Collegium Institute for Catholic Thought and Culture, and Professor of Economics at the University of Pennsylvania. His research is in macroeconomics and econometrics. Most of his papers deal with the solution and estimation of non-linear dynamic equilibrium models and with business cycles. He received his Ph.D. in Economics from the University of Minnesota and, before that, he graduated from E-3, a joint program between the Law School and the Business School of ICADE, a Jesuit institution from Madrid, Spain. On Sundays evenings, he attends Holy Mass at the Saint Thomas of Villanova Church, but on weekdays he tries to find time away from lunch seminars to go the Penn Newman Center.

Mary Hirschfeld is Associate professor of economics and theology in the department of Humanities at Villanova University. She earned her Ph.D. in economics from Harvard University in 1989 and her Ph.D. in theology from the University of Notre Dame in 2013. She is a fellow of the Dominican School of Philosophy and Theology, and serves on the Board for the Program of Catholic Social Thought at the Lumen Christi Institute. Her recent publications are on the boundary between economics and theology. Currently she is working on her book, *Toward a Humane Economy: Aquinas and the Modern Economy*, which develops an approach to economics rooted in the thought of St. Thomas Aquinas.

Joseph P. Kaboski is the President of CREDO and the David F. and Erin M. Seng Foundation Professor of Economics at the University of Notre Dame. His research is in the area of economic growth, development, and international economics. In 2012 he was awarded the prestigious Frisch Medal for his research on microfinance in Thailand. He has consulted for Catholic Relief Services on poverty programs in East Africa, and is a consultant to the USCCB (U.S. Bishops Conference). He teaches a course on economics and Catholic social thought. Kaboski earned his Ph.D. in economics from the University of Chicago. He and his family attend St. Pius X Catholic Church in Granger, IN.

Christoph Lakner works as an Economist (ETC) in the Development Research Group (Poverty & Inequality team) at the World Bank. He holds an MPhil and BA from the University of Oxford, where he is also completing a DPhil in Economics. His research focuses on inequality, in particular on issues related to global inequality, top incomes, and the implications for poverty reduction and economic growth.

UPCOMING EVENTS

2015 ASSA Meeting of CREDO

Our annual membership meeting will be held at the upcoming 2015 ASSA meetings in Boston.

On Sunday, January 4 at 8:00 am, Bishop Arthur Kennedy will say Mass for the group at St. Cecilia's Church (one block from the conference headquarters at the Sheraton Boston). Because it is a Sunday Mass, we will have only a brief meeting with light breakfast afterward, and we will be joined by Bishop Kennedy. The meeting/breakfast will begin around 9:15 am in the Gardner Room of the Sheraton Boston.

7th Annual Lumen Christi Conference on Economics and Catholic Social Thought

Thursday, April 30th, 2015 at 4:00 p.m.
International House at the University of Chicago

Title: "The Family and the Changing Economy"
Keynote Speaker: Joseph Kurtz, Archbishop of Louisville and President of the USCCB
Respondents: Pierre-Andre Chiappori (Columbia University), William Evans (University of Notre Dame), Christine Firer-Hinze (Fordham University), Valerie Ramey (University of California – San Diego)