On The Margin

a newsletter of the Catholic Research Economists Discussion Organization

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CREDO's First Meeting a Success

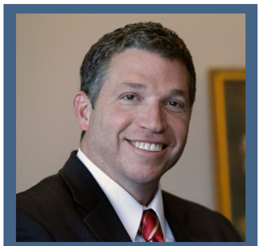
Founded in mid-2013, the Catholic Research Economists Discussion Organization had its first membership meeting on January 4, 2014. The meeting was part of the Allied Social Sciences Association meetings in Philadelphia. CREDO members began with a Mass celebrated by Bishop John McIntyre at St. John the Evangelist's Catholic Church.

The members followed Mass with a breakfast and meeting at the Downtown Marriott, the conference hotel. The breakfast and meeting were partially sponsored by the Collegium Institute for Catholic Thought and Culture. Despite the bad winter weather, approximately 70 members turned out for the breakfast and meeting, including several walk-in new members.

The guest speaker was Jonathan Reyes, Ph.D., Executive Director of the Department of Justice, Peace and Human Development of the U.S. Conference of Catholic Bishops (USCCB). Dr. Reyes gave a brief background of what the USCCB functions and how it might benefit from CREDO members.

As the episcopal conference of the U.S., the USCCB has two functions. First, it is a guiding body for ecclesiastical concerns of the Catholic Church in the United States. Second, it is involved with advocacy and lobbying on issues relevant to the Catholic faith and broader society.

Dr. Reyes explained that he was hopeful that CREDO could play an important role in helping inform the USCCB about the key economic issues involving social and economic policies. Specifically, he noted the need for faithful and objective expertise on pressing issues they are facing.



Dr. Jonathan Reyes
Executive Director of
The Department of
Justice, Peace, & Human
Development, USCCB

Dr. Reyes explained, "The focuses are poverty and the family, prison reform, and education opportunity. We will also continue our focus on the budget and programs that help poor people."

"We occasionally have need to consult with professionals as issues arise and I am grateful for the opportunity to meet all of you in CREDO and hope that I may be able to call upon some of you on occasion to get an assessment of state of knowledge in a field: where the agreement is, and where the disagreement is."

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Welcome to the inaugural issue of the CREDO newsletter.

What do you think of the title?
More importantly, what did it make you think of?

The phrase "on the margin" has many different meanings to many different people. To research economists, we use the phrase to think about the costs or benefits of an additional good consumed, worker hired, etc. We think of phrases like "marginal cost", "marginal product", or "marginal utility". To a finance economist, the phrase might mean buying securities "on the margin", that is, with borrowed money. To businesspersons, the word "margin" might remind them of profit margins. To a person directly engaged with the social ministry of the Church, "on the margin" is a phrase that emphasizes a commitment to those on those people who are sometimes forgotten or neglected members of society, e.g., the poor, indigenous peoples, women and children, the elderly.

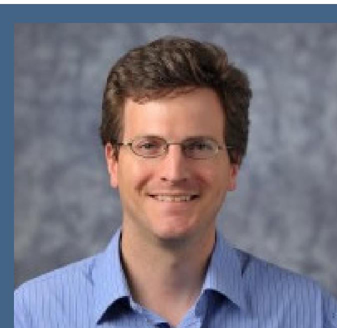
In which sense did we choose the title of the newsletter? It is purposely ambiguous because, in some way, we'd like it to mean all of them. In God's infinite wisdom, all of these groups of people have a role to play in fostering a just and loving society and a sound economy that serves this society. All of the "margins" are therefore important in discussing social and economic policy. Indeed, one of the main barriers to such discussion is limited ability for people of different backgrounds, even though members of the same Church, to speak the same language and understand each other. The different understandings of the term are just one example. The goal of this newsletter is to build common language and common ground to help foster this conversation. Forgive us, if our attempts are marginal.

The issue has elements that we hope to become regular features. First, Archbishop Wenski, current President of the U.S. Conference of Catholic Bishops has contributed an op-ed on the need for just wages. Second, Andy Yuengert of Pepperdine and Mary Hirschfeld of Villanova, two economists who are especially well-versed in Catholic Social Thought, have agreed to alternate writing a regular column explaining some of its key principles in a way that is relevant to economics. Andy begins by explaining the nature of Catholic social thought. Third, Rich Burkhauser and Bill Evans, both accomplished labor economists and members of our Advisory Panel, give two takes on the economics and ethical issues involved in raising the minimum wage. Topical reviews of relevant research like these will continue to be a regular part of future newsletters as well.

The newsletter will be posted on our website at http://www.credo-economists.org/newsletter. If you would like to contribute or respond to the newsletter, please write it up as a thoughtful letter, and send it to contact@credo-economists.org. Select letters to the editor will be posted on the CREDO website and in future newsletters.

The newsletter will also update the activities of CREDO. Founded in 2013, CREDO is a new society, but our membership has grown dramatically over the first year. We grew four-fold from November, 2014 to January, 2015! We have a ways to grow, however. We are still only a tiny fraction of the some 30,000+ economists in RePEC, for example, at least several thousand of whom are surely Catholic. The only way we can grow is if you spread the word, so please do. In trying to reach new people, it is especially important to help spread the word to people (or people with connections) outside of the U.S. and to graduate students, who may not have heard of us but are the future of the society.

Joseph Kaboski
President of CREDO

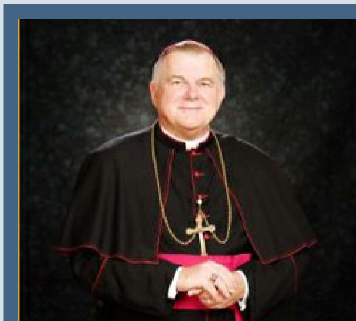


Joseph Kaboski
David F. and Erin M. Seng
Foundation Professor of Economics
University of Notre Dame

Minimum wage/just wage/family wage

Archbishop Thomas G. Wenski

Pope Francis--Time Magazine's Person of the Year--has captured the attention and the imagination of the world. His recent Apostolic Exhortation, *Evangelii Gaudium* (The Joy of the Gospel) has provoked much comment and no little controversy. In it, echoing his predecessors, he laments a consumerism focused on things rather than people. He mourns for the many places where humans serve the economy rather the other way around. He condemns what he calls a "throw away culture" that excludes and marginalizes the weakest and the most vulnerable of our brothers and sisters.



The Most Rev. Thomas Wenski
Archbishop of Miami

His words should provoke reflection--and lead to action--especially in the face of the challenges faced by low-wage workers in our economy today. This year the minimum wage in Florida will rise to a paltry $7.93 an hour. This is hardly enough for a worker to support oneself, much less a family. Many of the working poor, to avoid going hungry, must depend on the limited resources provided by parish food pantries or by government subsidies through various types of public assistance. Some of these subsidies (food stamps) have been rolled back, and none of them really help enhance the dignity of the worker. In many ways, these subsidies represent a type of "corporate welfare"--they benefit businesses and enable them not to pay their workers a living wage. On the other hand, higher wages would reduce dependency on such subsidies, alleviate workers' economic insecurity and help economic recovery by enhancing spending.

Economic problems are complicated and there is no simple or single solution. But today in America, too many families are suffering under the weight of increasing moral, cultural, and economic pressures. Millions of young adults, unable to find decent work, are delaying marriage and starting a family, the "fundamental seed" of society necessary for human flourishing. Most distressing of it all is the loss of hope. Low-wage workers desperate for a fair shake are giving up hope of financial security. Too many parents are less hopeful that their children will grow up to enjoy a better life than they did.

Low wages that do not allow workers to earn enough to pay rent at the end of the month and to put enough food on the table for their kids leads to what the Pope has also called "an economy of exclusion," stunting the lives of the poor for lack of opportunity. Work, which Blessed John Paul II called "probably the essential key to the whole social question," to be worthy of man must afford work "dignity" by allowing the worker to form and support a family.

For a worker to be dignified by his or her work, remuneration must be just. The Catechism of the Catholic Church teaches that workers deserve just wages, wages that allow them and their families to fulfill material, social, cultural, and spiritual needs. The current state and federal minimum wages do not meet that standard. Those who toil to harvest our produce, to cook and serve our food, and to clean our buildings, are our brothers and sisters--and they deserve to enjoy the same dignity in work that others enjoy.

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Florida's poverty rate of 17.1% is among the highest in the nation. Almost one million Florida families live below 200% of the federal poverty level. And looking towards the future, half of the new jobs projected to be added to our economy will be in low-wage occupations. These jobs, to a great extent, will be filled by adults and not, as sometimes suggested, by teenagers who still live at home.

In *Caritas in Veritate*, Pope Emeritus Benedict XVI said, "The dignity of the individual and the demands of justice require, particularly today, that economic choices do not cause disparities in wealth to increase in an excessive and morally unacceptable manner. . . ." The growing gap in wages between the most affluent of our citizens and middle- and lower-income workers needs to be addressed. As Pope Francis has repeatedly said, we cannot tolerate a "globalization of indifference." We cannot rob the working poor of hope.

Why Minimum Wage Increases are a Poor Way to Help the Working Poor

Richard Burkhauser

Recently Archbishop Wenski, on behalf of the U.S. Conference of Catholic Bishops, wrote: "while they are not economists or labor market experts…they see the pain and struggles caused by an economy that simply does not produce enough jobs with a just wage." They do propose one solution—a raise in the federal minimum wage—because currently it fails "to provide sufficient resources for individuals to form and support families. A full-year, full-time worker making the minimum wage does not make enough money to raise a child free from poverty."

Neither the Bishops' concern over the economic plight of the working poor nor the economic policy prescription they support is a surprise. Each is consistent with the views expressed by the American priest John A. Ryan in his 1906 book *A Living Wage*, which includes an introduction by former American Economic Association President Richard T. Ely. The Bishops' support for a liveable minimum wage is also consistent with the views of early 20th Century American progressives, who supported giving the legislature the authority to impose maximum hours and minimum wage laws on the marketplace—something they were excluded from doing by the 1906 U.S. Supreme Court decision in *Lochner vs. New York*, which ruled such regulations unconstitutional interferences with an individual's right to contract. Father Ryan was there when President Roosevelt

Richard V. Burkhauser, Sarah Gibson Blanding Professor of Policy Analysis Cornell University

signed the Fair Labor Standards Act of 1938 achieving the goal of a single federal minimum wage of $0.25 per hour. The legislature can now directly intervene in the marketplace in this way. But when and how should they do so?

In his seminal *American Economic Review* article, future University of Chicago economist and Nobel Prize winner George Stigler used marginalist theory for the first time to argue against further increases in the nominal minimum wage,

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As a Catholic economist, the minimum wage has always presented a conundrum for me.

William Evans

The argument that the minimum wage does not deliver the poverty relief it promises, and that programs such as the Earned Income Tax Credit (EITC) are more efficient, is rather persuasive. However, I worry that the current system does too little to preserve the dignity of work for low-skilled workers. The dignity of the person must be upheld in all aspects of life, including work. As stated in the Catechism of the Catholic Church (CCC),"In work, the person exercises and fulfills in part the potential inscribed in his nature (CCC, 2428)." Worker dignity is preserved in part when one's efforts are "able to draw from work the means of providing for his life and that of his family, and of serving the human community (CCC, 2433)." In an increasingly global economy, the ability for low-skilled workers in the U.S. to provide for themselves and their families has diminished. The Congressional Budget Office reports that the median real hourly wages of workers (in 2009 dollars) without a high school degree fell from $13.30 in 1979 to $9.00 in 2009. The corresponding numbers for a high school graduate were $16.80 in 1979 and $12.10 in 2009.[1] A worker working 40 hours/week for 50 weeks a year at a wage of $8/hour will generate gross income of $16,000, which is only 68% of the 2013 federal poverty level for family of 4.[2]

For many, a solution to the plight of the low skilled worker is a higher minimum wage, which is often presented as an anti-poverty program. When President Obama

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Why Minimum Wage continued from pag 5.

writing, "The minimum wage provisions of the Fair Labor Standards Act of 1938 had been repealed by inflation…and…the elimination of extreme poverty is not seriously debatable." But he then went on to say: "The important questions are rather: (1) Does such legislation diminish poverty? And, (2) Are there efficient alternatives?"

I was one of seven economists the Congressional Budget Office (CBO) asked to read the first draft of their report on *The Effects of a Minimum-Wage Increase on Employment and Family Income* and comment on its assumptions and methods. I urged the CBO to better answer Stigler's two questions. They did so in their final report published in February 2014.

With respect to Stigler's first question, the CBO estimated that a federal minimum wage increase from $7.25 to $10.10 per hour, when fully implemented in 2016, would reduce total employment by about 500,000 workers or about 0.3 precent with a two-thirds chance that the actual value would be between a very slight reduction and 1,000,000 workers. On the other hand, it would increase the wages of 16.5 million workers who remained employed. But would only reduce the number of people (not workers) in poverty by 900,000, or about two percent.

Hence for those most concerned about the working poor, this minimum wage increase is not a very effective mechanism for reducing poverty. That was Stigler's conclusion in 1946 for exactly the same microeconomic reasons given by the CBO. Efforts to artificially increase the wages of low-skilled workers above the wage rate established in the competitive marketplace by the forces of supply and demand will reduce the number of workers employed at this higher wage. The CBO's central demand elasticity estimate for affected teenagers was -0.1. That is, a 10 percent increase in the minimum wage will reduce employment by 1 percent.[1] These elasticities are behind the CBO's prediction that fewer rather than more workers will be employed because of this 39 percent increase in the federal minimum wage rate.[2]

Importantly, the CBO findings are not based on their own causal modelling. Rather the key demand elasticities used in their micro-simulations are based on their view of the best evidence using modern causal models. In 1982, Brown, Gilroy, and Kohen in their *Journal of Economic Literature* review argued that the consensus in the economics profession was that job markets for low-skilled adults and teenagers were competitive and that in such markets, minimum wage increases will come at the cost of modest but significant reductions in employment (demand elasticities in the range of -0.2) of such workers.

Card and Krueger's iconoclastic Princeton University Press book *Myth and Measurement: The New Economics of the Minimum Wage* in 1995 shattered this decade old consensus using innovative difference-in-difference or natural experimental designs. Using these designs they found no evidence of a negative effect on employment—but they did find some evidence of a positive effect. In their MIT Press book *Minimum Wage* in 2008 Neumark and Wascher review the post-Card and Krueger literature using these innovative natural experimental designs, mostly focusing on research using variation in minimum wage increases across states. They conclude that these increases have small but significant negative employment effects close to the previous consensus values. One reason for the change in findings is that the federal minimum wage remained relatively low after 1995; with more states increasing their minimum wage above it, hence allowing for greater variation in the data to identify the effects of this policy. The intense debate has continued in recent years.[3,4]

In contrast, the evidence that minimum wage increases are not very effective in reducing poverty is much less contentious. Card and Krueger (1995) find that minimum wage increases are not related to decreases in poverty rates and argue that this is because most people living in poverty do not work. Neumark and Washer (2008) reach the same conclusions. The movement of families onto the poverty rolls because their wage earnings are negatively affected by minimum wage increases more than offsets the movement out of poverty of families whose wage earnings are positively affected. Sabia and I (*Southern Economic Journal* 2010), using methods similar to Card and Krueger (1995) but for more recent times, also find no relationship between minimum wage increases and poverty rates even for the working poor.[5]

But what about Stigler's second question: Are there efficient alternatives to minimum wage increases? On this issue there is very little disagreement. A much less reported finding of the CBO Report is that the Earned Income Tax Credit (EITC) is a far superior way to provide additional income to workers who live in poor families. In its new report, the CBO refers to its 2007 report, which compared the cost to employers of a change in the minimum wage that increased the income of poor families by a given amount to the cost to the federal government of an EITC enhancement that increased the income of poor families by roughly the same amount. The cost to employers (and the consumers who purchased their products) of a minimum wage increase was much larger than the cost to the federal government (and the taxpayers who provided these revenues) of an EITC enhancement. The reason for this is because most minimum wage workers who gain from an increase in the minimum wage do not live in poor or even in near poor families.[6] And, some workers who do live in poor families have wage rates above the proposed minimum. They just don't work full time.

We could dramatically improve the lives of the working poor if the real economic costs of the minimum wage were instead used to finance an EITC expansion

The EITC is much more target effective policy because it only raises the wage rate of those workers who live in lower income families, and it depends on the number of dependent children in those families. Thus, those living in lower income families receive the vast majority of benefits. We could dramatically improve the lives of the working poor if the real economic costs of the minimum wage were instead used to finance an EITC expansion. In addition, an EITC expansion would have a far less negative effect on the employment of low-skilled workers and the positive macroeconomic effects would be greater since presumably the working poor have the greatest propensity to consume. Furthermore, the negative microeconomic effect on employment would also be less since the EITC is paid for via the federal income tax rather than directly by the employer.

In the language of the Catholic Church, the goal of the "just remuneration" is to provide income "sufficient for the needs of a family", in the words of Pope John Paul II. Pope John Paul saw that grants targeted toward "the specific needs of families", like "the number of dependents" were an alternative for achieving the goals of just remuneration (*Laborem Exercens*, 19). In precisely this way, the EITC is a much more effective way to convert wage rates determined by supply and demand in competitive markets into living wages that lift the otherwise working poor out of poverty, all without reducing employment.

Why it's almost a miracle!

As a Catholic Economist continued from pag 4.

announced the executive order that raised the minimum wage on federal contracts to $10.10/hour, he noted the popular sentiment that "nobody who works full-time should have to live in poverty."[3] From a legislative standpoint, it is easy to support a higher minimum wage. Compliance is high and the outcome is very visible; the legislation provides exactly what it promises – higher wages for workers. In contrast, the key negative effects of the minimum wage, higher prices and the potential of reduced employment, are more difficult to appreciate. While all voters know someone who would benefit from a higher minimum wage, ex ante nobody knows who would lose their job. Given the salience of the benefits and the diffuse nature of the costs, it is no surprise that the minimum wage is very popular with the electorate. A November 2013 Gallup Poll found that 76% of respondents said they would support a hike in the Federal minimum wage to $9/hour.[4]

Contrasting the wide support of the minimum wage among the electorate is its disfavor among economists. Whaples's 2006 survey of 210 members of the American Economic Association found that while 37.7% supported a raise in the minimum wage of anywhere from $0.5 to more than $1/hour, 46.8% favored elimination of the minimum wage entirely.[5] A recent Wall Street Journal survey of professional economists found that 54% were opposed to a proposed hike in the minimum wage to $10/hour.[6]

My reading of the academic literature is that the employment lost due to a minimum wage is modest – but more importantly, hard to detect. These difficulties are exemplified by a recent paper by Dube, Lester and Reich[7] that has received a reasonable degree of attention in academic and popular circles. The authors consider adjacent counties in different states, one impacted by a minimum wage hike and the other experiencing no minimum wage increase, their treatment and control groups in a reasonable difference-in-difference model. The authors conclude that there is "no detectable employment losses from the kind of minimum wage increases we have seen in the United States." In their preferred specification, the authors estimate an elasticity of labor demand of 0.079 with a standard error of 0.289, which means we are 95 percent sure the elasticity of demand for labor is somewhere between -0.48 and 0.64, which also means that I am 100 percent sure we have not learned much from the exercise.

William N. Evans
Keough-Hesburgh Professor of Economics
University of Notre Dame

Most of the economic literature has focused almost exclusively on estimating short-run employment displacement caused by higher minimum wages. A more important exercise may be examining the long run substitution of capital for labor and economists need to spend more energy estimating this value. I do not know whether this is a large number, but I do grow concerned about this problem every time I fill up my own iced tea at McDonalds or Panera, or check myself out at Home Depot.

Our concern for families does not end once they cross the poverty threshold

Regardless of what the elasticity of labor demand is, support for the minimum wage among economists does not appear to be moved by this number. A survey by Fuch, Krueger and Poterba in 1998 of 65 labor economists found that the support for the minimum wage was not correlated with the respondent's perception of how much teen employment would fall as a result of a minimum wage hike.[8]

Instead, my suspicion is that economists primarily object to the minimum wage on ideological grounds or because they believe it poorly addresses poverty. The beneficiaries of a higher minimum wage are many; the CBO estimates that increasing the minimum wage to $10.10 would, in 2016, raise the wages of 16.5 million people.[9] But if the primary purpose of the minimum wage is to reduce poverty, it is a rather blunt instrument that impacts a large number of non-poor as well. To gain some notion of who might benefit from a hike in the minimum wage, I took data from the March 2013 Current Population Survey, deleted the self-employed, eliminated occupations where a high fraction of income is based on tips, and identified people whose hourly pay would increase as a result of a sudden increase in the minimum wage to $10.10/hour. Of the group that would benefit from a higher minimum wage, one fifth are aged 22 or under, one quarter are working less than 25 hours a week, 31 percent are in families at three times the poverty rate and 37 percent are in families with family income in excess of $50,000. Only 40 percent of those impacted by a minimum wage hike of this magnitude are full time workers (30 or more hours a week) living in a family (married or with children), and less than 10 percent are full time workers from impoverished families.

Economists tend to argue that there are better tools available to fight poverty, such as the EITC. In a 2007 mail survey of 280 labor economists, 70 percent cited the EITC as the policy that best meets the income needs of poor families, while only 9 percent cited the minimum wage.[10] For economists, the EITC is an appealing option to the minimum wage. It rewards work and provides the proper incentives – particularly for single poor people ineligible for the maximum benefit outlaid by most welfare programs. The program is also structured such that low income workers are the primary beneficiaries, so the benefits are targeted to those most in need.

However, evaluating the minimum wage solely as an anti-poverty mechanism casts this mechanism in a rather narrow role. Our concern for families does not end once they cross the poverty threshold. Although the numbers above suggest that many beneficiaries of the minimum wage are in higher income families, it is still the case that 50 percent of beneficiaries of a $10.10 minimum wage hike would live in households earning less than two times the poverty level — $46,100 in 2012, and an amount 26 percent below the median family income for that year.[11] Given the long-term stagnation of wages and earnings in the low end of these distributions, that fact that the minimum wage helps some families above the poverty line is a benefit, not a shortcoming. Meanwhile, the key program economists support as a minimum wage alternative, the aforementioned EITC, provides more limited support for families of more modest means, as the EITC phase-out range for families with children begins at $22,900 adjusted gross income for married couples and $17,550 for single heads of households. Thus, there are work-disincentives built into the EITC that appear quite early in the income distribution.[12]

As the wages and earnings of low skill workers continue to decline in real terms, the country will struggle how best to assist them in their quest for dignity. The minimum wage is far from perfect, but looking at it from a strictly economic standpoint, the perfect may be the enemy of the good.

Economists and Catholic Social Teaching: Some Principles of Constructive Engagement

Andrew Yuengert

Every year the Lumen Christi Institute conference on Catholic Social Teaching and Economics invites high-profile economists to the University of Chicago to present their work and engage in the ongoing conversation between economics and Catholic Social Teaching. On a larger stage, the Pontifical Academy of the Social Sciences regularly places top economists next to theologians, philosophers, and bishops to explore issues of common concern.

Why would an economist ever want to enter into a conversation with Catholic Social Teaching (CST)? Economists, like most people, take moral questions seriously, and think that the work of economists can and should inform attempts to answer these questions. Because CST is morally and intellectually serious, and invites prominent economists (Catholic and non-Catholic) into its conversations, it is an obvious candidate for attention from economists. Of course, economists who are Catholic have additional motivations: the conversation takes place on their home turf, and is overseen by their spiritual shepherds.

Constructive engagement with CST is easier said than done, however. If an interested economist begins by picking up the latest social encyclical (*Caritas in Veritate*, for example), he will immediately find himself in an unfamiliar world. It's not just that the vocabulary is different, although unfamiliar concepts like 'solidarity', 'subsidiarity', 'the common good', and 'the universal destination of goods' make frequent appearances. CST appears to take for granted propositions that are very heavily contested in economics. Moreover, these arguments are often stated in what to economists sounds like naively utopian language.

It is easy to find examples. After the opening three chapters of *Caritas in Veritate*, which together offer an intriguing perspective on the role of love and gift in the economic order, the encyclical embarks on a tour of the practical challenges facing the world. Along the way the pope advocates for an international redistribution of energy resources (para. 49), a redesign of western welfare systems in order to free up extra resources for international solidarity (para. 60), and "a reform of the United Nations Organization, and likewise of economic institutions and international finance, so that the concept of the family of nations can acquire real teeth…. Such an authority would need to be regulated by law, to observe consistently the principles of subsidiarity and solidarity, to seek to establish the common good, and to make a commitment to securing authentic integral human development inspired by the values of charity in truth. Furthermore, such an authority would need to be universally recognized and to be vested with the effective power to ensure security for all, regard for justice, and respect for rights" (para. 69).

Even economists who support significant increases in international authority will be struck by what appears to be a too-easy confidence that law-abiding, internationally neutral, common-good-seeking, powerful global institutions are possible in a world full of corrupt authoritarian regimes and self-interested democracies, most of which use the United Nations to cynically advance their national interests and ideological agendas. Is this the moral insight we are supposed to find in CST? Is this the teaching? Economists can be forgiven for finding it difficult to focus on the principles of CST when the proposed applications are so jarring. There is no need to list more examples, since any economist who has read the encyclicals can easily add to the list.

I am sympathetic to any economist who reacts this way upon first exposure to CST. However, this reaction springs in part from a misunderstanding of the nature of the Catholic social project. The encyclicals are not catechisms; they are not marching orders for Catholics. They are part of an ongoing conversation among Catholics and interested others about the good society in light of the gospel, and an exhortation to work toward that society. Moreover, not every section of an encyclical is written with the same apostolic confidence, with the same weight of authority. The more practical the advice, the more reliant on judgments about the facts of the matter, the less claim it has on our consciences. We should not reject these practical statements outright, because they are the judgments of an important participant in a crucial conversation, but there is abundant room for sharp and reasoned disagreement about institutions and policy.

The social encyclicals are part of an ongoing conversation about social reform. All people of good will are invited to join it. How can an economist enter in? First, by understanding the goal and the nature of the conversation. A conversation takes work, and makes demands on both parties. What follows is a set of principles to guide an economist's understanding of CST.

Principle #1.
The goal of CST is social reform in light of the gospel.

In Solicitudo Rei Socialis (41), John Paul II insists that CST is a moral theology. The 'moral' qualifier identifies CST as a practical theology; its goal is action aimed at reform of society. In the language of economics, CST is normative. Its purpose is not simply to understand, but to put that understanding to work. In *Mater et Magistra* (226), John XXIII wrote that "it is not enough merely to formulate a social doctrine. It must be translated into reality." When an economist engages CST, he or she is engaging in a practical project. To contribute fruitfully to a practical project, you must understand its goals, the better to gauge the relevance of your insights and to communicate them.

Principle #2.
To accomplish social reform in light of the Gospel in the messy, contingent world of the social order, two kinds of knowledge are needed, and economics can contribute only the second kind.
The first kind of knowledge is knowledge of the goal to be accomplished. Christian revelation about the created dignity of human beings and their purpose, combined with two millennia of experience in this world, makes the Church "an expert in humanity" (John Paul II, *Solicitudo Rei Socialis*, 41). Note that the normative standard which orients CST's practical project is knowledge; it is not simply a set of assumptions, or axioms. When CST articulates this knowledge (of human dignity, of the social nature of human beings), it speaks with its greatest authority and confidence. Economics does not claim to be able to judge between the various goals and purposes which motivate human beings, so it cannot help here. However, an economist in search of a 'policymaker' cannot find one surer of its goals and purposes than CST.

The second kind of knowledge includes all knowledge relevant to what can be accomplished in the social order as it actually exists. What are the possibilities and constraints on effective action in society? What are the forces which shape markets and communities? How do they evolve, and to what extent can they be shaped? What can be accomplished in a given time and place, amid existing cultures and political institutions, in a particular historical context? It is not enough to know what sort of society you wish to promote if you know nothing about how to get from here to there.

The Church does not claim expertise in this practical knowledge. Statements which invoke this sort of knowledge (that an uncorrupt United Nations is possible, or how energy resources might be redistributed internationally, for example) carry less authority in CST than statements about the nature and purpose of human beings. Practical knowledge is knowledge of context; of what is possible, of reasonable predictions of the consequences of various courses of action. It brings together the understanding of society developed in the various social sciences, the knowledge of the natural sciences, technological expertise, and practical wisdom about how to achieve ends in a chaotic, uncertain political and social world. Here the Church invites into the conversation those with relevant expertise, and does not claim any practical expertise of its own. John Paul II says it best in *Centesimus Annus* (43):

"The Church has no models to present; models that are real and truly effective can only arise within the framework of different historical situations, through the efforts of all those who responsibly confront concrete problems in all their social, economic, political and cultural aspects, as these interact with one another."

Because the movement from vision and motivation to policy action requires both judgments about context and insights from secular social science, the popes are appropriately reluctant to claim for their suggested policies the same normative weight that they claim for their vision of human life in society. CST claims to be "an expert in humanity," not an expert in policy prescription. Unfortunately, the policy sections of encyclicals (which carry the least authority) get all of the media attention, not their vision for society (which carries the most authority).

I wish popes and bishops were more modest in their policy pronouncements, but they cannot be entirely disengaged from practical advocacy: the teaching of principles requires practical examples of how the principles might bear fruit in action, and at times bishops must take an active lead in politics. To teach and shepherd, bishops must sometimes give practical advice, and to do this they must take a stand on the facts as they see them within the analytical framework they have adopted. Only academics have the luxury of extended reflection.

Nevertheless, I wish more of the concepts of economic analysis were evident in CST's social analysis. The economist's respect for incentives in a fallen world, the acknowledgment that at least some aspects of the economic order are undirected (sometimes to the social benefit and sometimes not), and the willingness to settle for a "somewhat better" or "somewhat less bad" outcome when perfection is not an option, rarely appear in the encyclicals. Here an economist can hope to make a contribution to the CST project, and here the frustration is greatest, since CST at times seems immune to economic insight. Economists find that their analysis of what is practically possible and their understanding of the economic order are often unwelcome, and are sometimes dismissed out of hand by theologians and bishops.

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There are some obvious reasons for this seeming imperviousness of CST to economics. First, most bishops and theologians have had very little if any training in economics. Second, bishops are human beings, and can be as stubbornly sure of themselves and of their politics as the rest of us.

The fault may not be entirely in the bishops and theologians, however; at times it is the nature of the advice economists offer. This is the third principle:

Principle #3.
Positive economic analysis cannot simply be taken off the shelf and dropped into normative analysis, unless the normative analysis and positive analysis share the same assumptions about what people value.

Paul VI, in *Octogesima Adveniens* (40), notes that the social sciences are "at once indispensable and inadequate for a better discovery of what is human." Economists often assume that their positive models (constructed solely to predict and explain observable behavior) can be adapted easily for normative work. On the contrary, positive analysis as it is pursued in economics (geared toward prediction and explanation, eschewing realism about what human beings are like) is not as useful as it might be to CST's normative project. The reason for this is simple: realism about what is good for human beings is crucial for any normative project, and positive economic analysis is formally unconcerned with what is good for human beings.

Any normative project must be based on a realistic vision of what is good for human beings, because its goal is to advance the wellbeing of actual human beings. It is possible to construct a normative analysis based on a positive model (to analyze efficiency and inefficiency in light of its preference assumptions, for example), but the analysis will only be normatively useful to the extent that the assumptions on which it is based realistically capture what is good for human beings.

For example, models in which agents' preferences are fixed, egoistic, and satisfy the usual axioms might be used to generate a set of accurate predictions about the effects of taxes and regulation on prices, output, and resource allocation. These positive predictions should be of interest to anyone interested in designing a just tax and regulatory system. However, once these models are used to make claims about the desirability of taxes and regulations—once they are used to evaluate efficiency—the realism of the positive assumptions matters. What is good or efficient among egoistic utility maximizers may not be good or efficient among human beings as they actually are. Moreover, once we begin to consider what is actually good for human beings, even such seemingly self-evident statements as "more is always better" may be false. The simplifications used by economists to make positive analysis tractable are all on the table in normative analysis, and can be challenged on the grounds of realism, and not just predictive usefulness.

CST is right to be suspicious of economic advice based on models which are self-consciously and proudly unrealistic, because its goal is social reform in light of the gospel. Unfortunately, their suspicions sometimes lead bishops and theologians to dismiss valuable economic insights. To counter this, an economist who cares about the project of social reform must do more than toss his positive models on the table and invite bishops and theologians to take them or leave them: she must place them in conversation with CST. She must learn something about CST's account of human wellbeing, and think about its implications for her economic advice. For example, how might a model's normative analysis change when egoistic assumptions are relaxed? The analysis of efficiency may become messier and less tractable, but a good economist can say something about which conclusions can be preserved and which conclusions are not robust when foundational assumptions are relaxed. In contrast, a bishop who is not an economist cannot conduct this kind of informal robustness check, and is more likely to chuck the entire economic framework.

This is a great loss. When economists refuse to conjecture how their normative advice might change when their positive analysis becomes more realistic, they rob CST (and other normative projects) of an important (if imperfect) framework for social analysis (for an example of the sort of engagement that is possible when economists enter into this sort of dialog, see the section on economic thought in the *Proceedings of a 2006 conference of the Pontifical Academy of the Social Sciences.*

My advice to interested economists is to jump into the conversation. Don't be discouraged by the policy pronouncements in the encyclicals. Feel free to offer your analysis as a corrective (or in support). Your analysis may be misunderstood, and may be unwelcome, but there is no principled objection in CST to your engagement on policy matters. Nevertheless, be prepared to be challenged on the realism of your models: their ability to predict and explain can be normatively useful (even crucial), but unrealistic assumptions about human beings and human welfare are open to legitimate challenge when positive analysis crosses over into normative work. Your positive analysis, however excellent, may need significant modification to become useful as a framework for CST's normative project.

This essay is only a sketch of the challenges facing an economist interested in CST. In future issues of this newsletter, Mary Hirschfeld and I will take turns going into more detail about the principles of CST and the challenges they present to economists who wish to take them seriously. In the next issue, Mary Hirschfeld will discuss the human person as understood in CST.

FOOTNOTES

Why Minimum Wage...

1. The likely range for this elasticity of slightly negative to -0.2 and a central estimate of -0.067 for affected adults.
2. In addition to these microeconomic demand effects, the CBO also includes macroeconomic effects that take into account the increase in aggregate demand that they argue will occur because of the more general distributional effects of this minimum wage increase. This to some degree reduces the negative microeconomic effects on employment they predict.
3. Dube, Lester, and Reich in *Review of Economics and Statistics* (2010) argued that only employment trends for contiguous counties across borders of states that had differing minimum wages are appropriate treatment and control units—a condition not imposed by Card and Krueger or anyone else in this literature. Doing so, they found no evidence that minimum wage increases caused adverse employment effects. Neumark, Salas and Wascher in *Industrial and Labor Relations Review* (forthcoming) replicate the Dube et al. findings and show that their exclusion of alternate non-border counties as controls is not justified because, based on their observable characteristics, non-border counties across state lines appear to be at least as similar, and sometimes more similar, to the treatment counties as the border counties used as controls. They also show the Dube et al. findings are sensitive to the number of leads and lags of the minimum wage included in their empirical model. When Neumark et al. use matched pairs of nearby counties and states that are plausibly better controls than the ones used by Dube et al., negative employment effects from minimum wage increases reemerge.
4. To get a quick sense of the intensity of the empirical debate compare my review of the Neumark and Wascher book in *Industrial and Labor Relations Review* (2010, v. 64, 1) with Dube's review in the *Journal of Economic Literature* (2011, v. 49, 3). For an excellent reference list of the current literature: see Appendix B of the CBO Report.

5. Recently Dube (December 2013 working paper) has argued that under certain conditions, when labor demand is growing during expansions of the business cycle and minimum wage induced employment effects are small, minimum wage increases can reduce poverty.

6. What is not mentioned in the CBO Report, but the careful reader of Table 1 of the report can see, is how much better an EITC enhancement would increase the effective wage earnings of the working poor. In Table 1, a $10.10 minimum wage costs families with incomes six times the poverty line or more $17 billion and an additional $2 billion comes from the macro effects of the redistribution of this income to all other families. But only $5 billion of this $19 billion in 'new revenue' goes to working poor families.

As a Catholic Economist...

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3. http://www.theguardian.com/world/2014/feb/12/obama-minmum-wage-federal-workers-poverty

4. http://www.gallup.com/poll/165794/americans-raising-minimum-wage.aspx

5. Whaples, Robert Whaples. 2006. "Do Economists Agree on Anything? Yes!" Economists' Voice, November.

6. http://online.wsj.com/news/articles/SB10001424052702304419104579324503026757552

7. Arindrajit Dube, T. William Lester, and Michael Reich. 2010. "Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties." Review of Economics and Statistics 92(4): 945-964.

8. Victor R. Fuchs, Alan B. Krueger, and James M. Poterba. 1998. "Economists' View about Parameters, Values, and Policies: Survey Results in Labor and Public Economics." Journal of Economic Literature 36(3): 1397-1425.

9. http://www.cbo.gov/sites/default/files/cbofiles/attachments/44995-MinimumWage.pdf

10. Employment Policies Institute. 2007. EPI Minimum Wage Survey of Labor Economists. http://www.epionline.org/studies/epi_minimum-wage_07-2007.pdf8

11. Historical data on median family income can be found at http://www.census.gov/hhes/www/income/data/historical/families/

12. http://www.irs.gov/pub/irs-pdf/p596.pdf

CONTRIBUTORS

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Archbishop Thomas Wenski is the ordinary of the Archdiocese of Miami. As a priest in the Archdiocese of Miami, he ministered to Haitians both in Haiti and as Haitian Apostolate in Miami. In 1996, he became the Archdiocese Director of Catholic Charities, and in this capacity he established a relationship with Caritas Cuba, the social service branch of the Church in Cuba. In 2010, Pope Benedict XVI appointed him the Archbishop of Miami and Metropolitan of the Province of Miami (which includes the seven dioceses of the State of Florida). In 2013, he was elected Chairman of the USCCB's Committee on Domestic Justice and Human Development. His episcopal motto is "Omnia Omnibus", which means "all things to all men" from 1 Corinthians.

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A Catholic Framework for Economic Life

A Statement of the U.S. Catholic Bishops November 1996

As followers of Jesus Christ and participants in a powerful economy, Catholics in the United States are called to work for greater economic justice in the face of persistent poverty, growing income-gaps, and increasing discussion of economic issues in the United States and around the world. We urge Catholics to use the following ethical framework for economic life as principles for reflection, criteria for judgment and directions for action. These principles are drawn directly from Catholic teaching on economic life.

1. The economy exists for the person, not the person for the economy.
2. All economic life should be shaped by moral principles. Economic choices and institutions must be judged by how they protect or undermine the life and dignity of the human person, support the family and serve the common good.
3. A fundamental moral measure of any economy is how the poor and vulnerable are faring.
4. All people have a right to life and to secure the basic necessities of life (e.g., food, clothing, shelter, education, health care, safe environment, economic security.)
5. All people have the right to economic initiative, to productive work, to just wages and benefits, to decent working conditions as well as to organize and join unions or other associations.
6. All people, to the extent they are able, have a corresponding duty to work, a responsibility to provide the needs of their families and an obligation to contribute to the broader society.
7. In economic life, free markets have both clear advantages and limits; government has essential responsibilities and limitations; voluntary groups have irreplaceable roles, but cannot substitute for the proper working of the market and the just policies of the state.
8. Society has a moral obligation, including governmental action where necessary, to assure opportunity, meet basic human needs, and pursue justice in economic life.
9. Workers, owners, managers, stockholders and consumers are moral agents in economic life. By our choices, initiative, creativity and investment, we enhance or diminish economic opportunity, community life and social justice.
10. The global economy has moral dimensions and human consequences. Decisions on investment, trade, aid and development should protect human life and promote human rights, especially for those most in need wherever they might live on this globe.

According to Pope John Paul II, the Catholic tradition calls for a "society of work, enterprise and participation" which "is not directed against the market, but demands that the market be appropriately controlled by the forces of society and by the state to assure that the basic needs of the whole society are satisfied." (*Centesimus Annus*, 35). All of economic life should recognize the fact that we all are God's children and members of one human family, called to exercise a clear priority for "the least among us."