

# Catholic Social Thought and Our Current Economic Policy Challenges

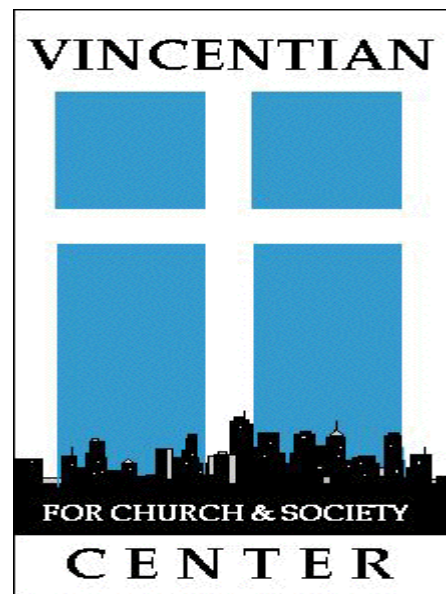
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# Outline

- CST and Economic Policy
- Economics is about choice
- CST informs private and public choices
- Evidence Based Economic Policy
- Fake Issue: Deficit
- Real Issues: Poverty, Inequality, Jobs, Justice, Foreign Aid.
- We will need ethical guidance to successfully address these issues.

# Advice from Leo XIII

- “There is nothing more useful than to look at the world as it really is- and at the same time look elsewhere for a remedy to its troubles”  
(RN 14)
- Evidence based Economic Policy guided by Gospel Values.

# “Economics is NOT a Morality Play”

Paul Krugman

- Economics is not a value-free science.
- Economies, especially market economies, are based on ***trust, confidence and fairness***.
- When trust, confidence and fairness decline, the economy declines.
- Example: 2008 Financial Meltdown.

# Economics is about choice.

- Economics is about choice: individual and public choices.
- All choice requires criteria for choosing – that is an ethical standard and moral reasoning.
- Most economic policy is based on “greed is good” value assumption in which only monetary values matter.
- CST provides a people-centered ethical standard and principles to guide the moral reasoning economics needs to function correctly (make better choices).

# Criteria for choosing?

## Self-Interest vs Common Good

- “The first principle of Economics is that every agent is actuated only by self-interest.” **F. Y. Edgeworth**
- “The idea that man need only seek his own private good conflicts with charity and with right reason, both of which prize the general good above all.”  
**St. Thomas Aquinas**

## Example of Self-Interest only Ethics:

Larry Summers infamous “Dirty Industries Memo”

- High polluting industries should be moved to poor countries.
- Costs of the negative effects of the pollution are measured in terms of “foregone earnings from increased morbidity and mortality.”
- **Summer states: “I think the economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable and we should face up to that.”**

# **Greed is not Enough**

**Solidarity, ethics and regulation are the glue that holds a market economy together, and allow for economic freedom.**

***“The economy needs ethics in order to function correctly — not any ethics whatsoever, but an ethics which is people-centered” Benedict XVI (CV 45)***



# A “people-centered” ethics asks three questions:

- 1. What does the economy do *for* people?
- 2. What does the economy do *to* people?
- 3. And how do people *participate* in the economy?
- Key to “people-centered” is its understanding of what it means to be a human person.
- *Imago-dei: dignity, reason, free will, and social nature.*

# What is Catholic Social Thought?

## What CST is:

- Moral theology applied to economic, social and political issues.
- Universal principles based on Revelation and Reason necessary for a just economy.

## What CST is not:

- Alternative Economic Theory, Model or Policy.
  - There is no Catholic fiscal or monetary policy.
- The “Third Way” between Capitalism and Socialism

# Early CST: The Way (1<sup>st</sup>-2<sup>nd</sup> Century)

- “The Way of Life is this: first, love the God who made you; secondly, your neighbor as yourself: do not do to another what you do not wish to be done to yourself.”
- “The Way of Death is this: ... thefts, idolatries, magical arts, sorceries, robberies, false testimonies, hypocrisy, duplicity, fraud, pride, malice, covetousness, ... **Of men that have no heart for the poor, are not concerned about the oppressed**, do not know their Maker; of murders of children, destroyers of God’s image (procurers of abortion).”

Didache 80-120 AD.

# **Principles of Catholic Social Thought**

**(1) Dignity of the Human Person**

**(2) Principle of Participation**

**(3) Principle of the Common Good**

**(4) The Universal Destination of Goods**

**(5) Preferential Option for the Poor**

**(6) The Principle of Subsidiarity**

**(7) The Principle of Solidarity**

# John Paul II on Human Dignity

- “The dignity of the human person is a transcendent value, always recognized as such by those who sincerely search for the truth. ... Every person, created in the image and likeness of God (cf. Gn 1:26-28), is therefore radically oriented towards the Creator, and is constantly in relationship with those possessed of the same dignity. To promote the good of the individual is thus to serve the common good, which is the point where rights and duties converge and reinforce one another” (*World Day of Peace Message*, 1999).

# What does CST bring to Economic Policy?

- 1. Truth: Evidence, not Ideology, needs to guide economic policy.
- 2. The goal is Human Flourishing. Each person is worth more than the economic role they play, their value is greater than their income or wealth.
- 3. Means matter as much as Ends.
- 4. Protect Human Dignity and Promote the Common Good.
- 5. Maximize participation and inclusion.

# Current Debate over the Role of the Government

- Free Markets versus Socialism? Is a false dichotomy.
- Prosperous society needs inclusive economic and political institutions AND a strong, effective government.
- Markets can be inclusive or exclusive (this is determined by public policy).
- Subsidiarity requires that governments and businesses are **as small as possible** AND **as big as necessary**.

# Current Fake Economic Issue: Myths about the Federal Deficit

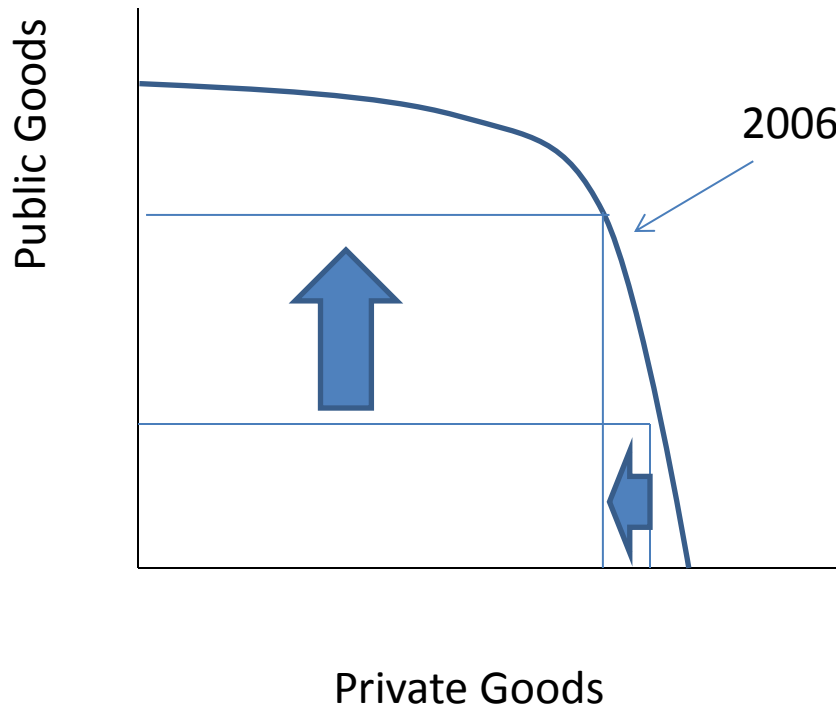
- 1. Gov't will run out of money.
- 2. Gov't spending is "Crowding Out" private sector spending.
- 3. Taxes are too high on the "Job Creators."
- 4. Deficits will cause Interest Rates to Rise (bond vigilantes).
- 5. Deficits will cause inflation.
- 6. Government is like a household.



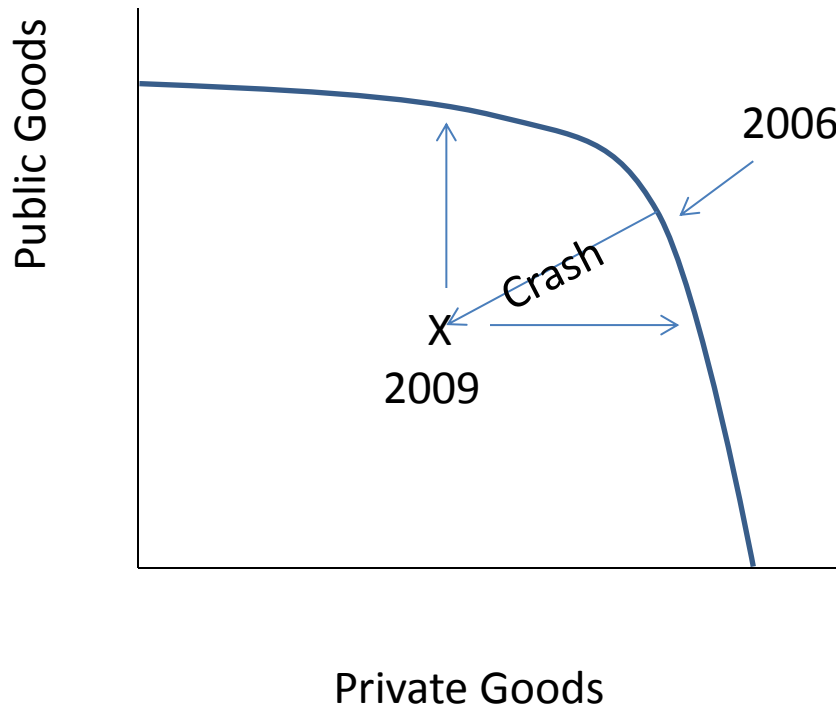
# Where did the debt come from?

- 1. Bush Era Tax Cuts and Wars
- 2. Financial Meltdown and Great Recession
  - Automatic Stabilizers (4.5% of GDP)
  - Fall in tax collections (3.7 % of GDP)
  - Discretionary (including stimulus) (1.2 % of GDP)

# Production Possibilities Curve: 2006

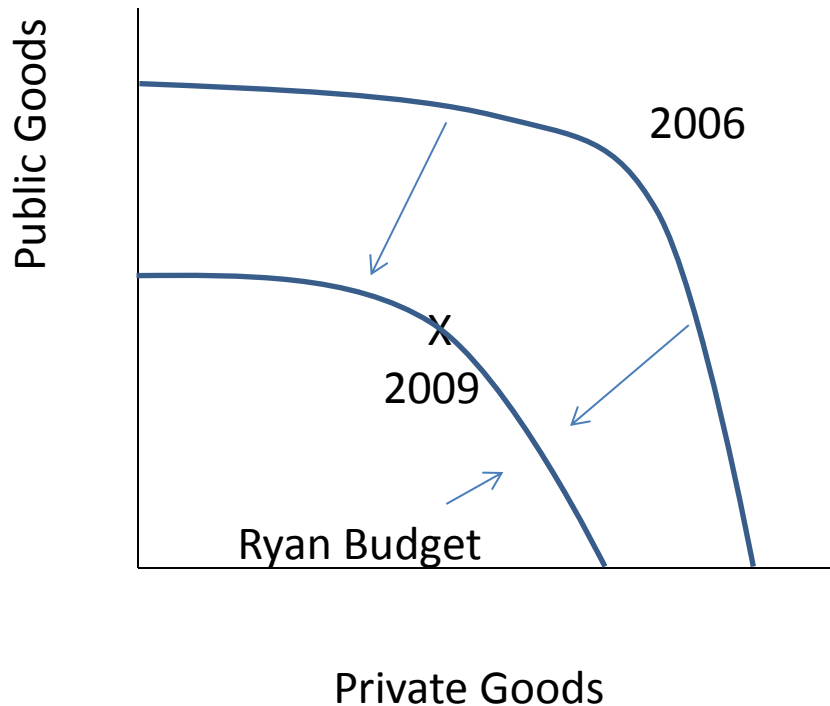


- # Financial Meltdown and Great Recession pushed economic output to well below its potential.
- to well below its potential.

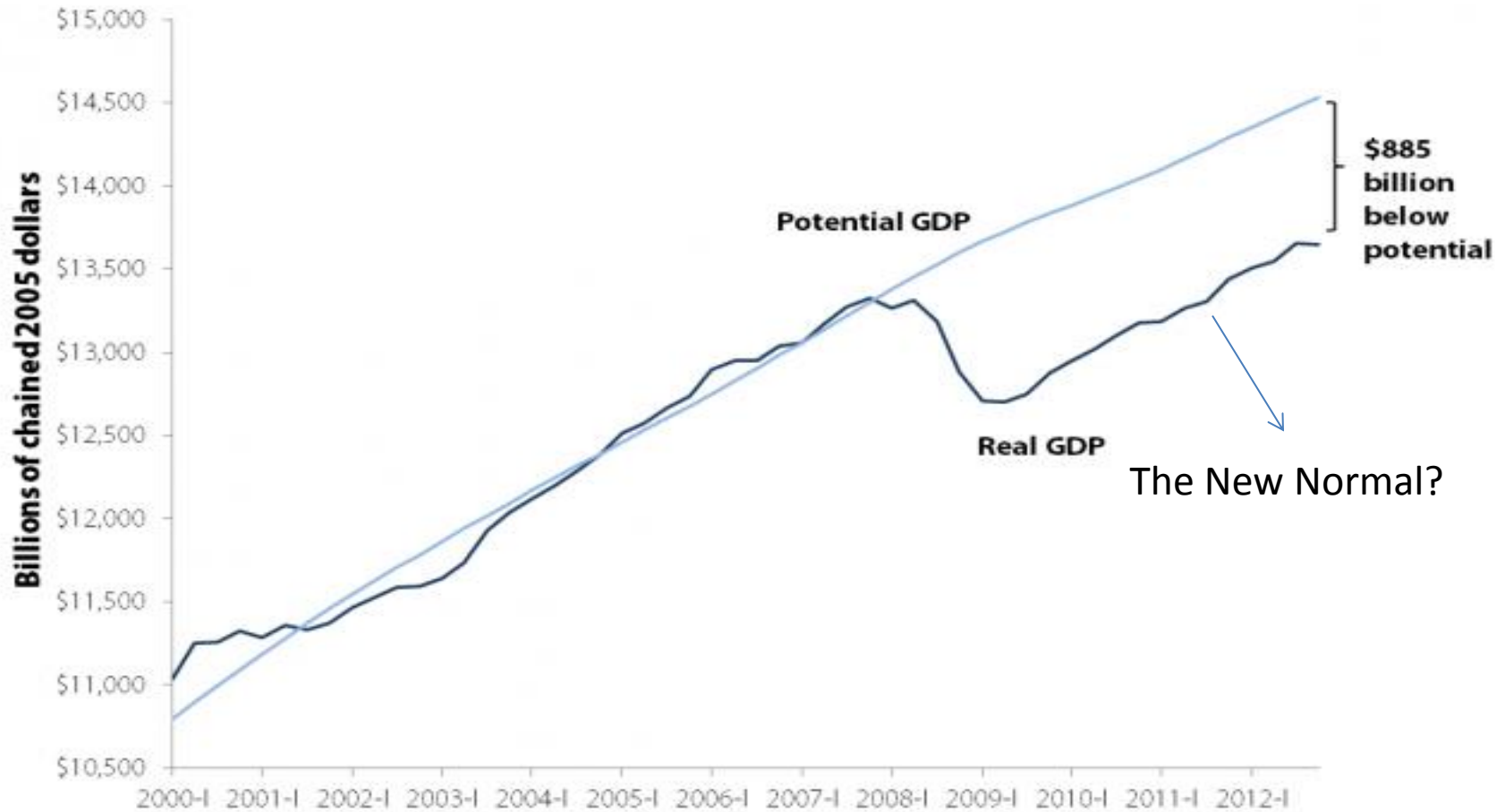


# Austerity (spending cuts) will lower the potential output of US economy

- 



# Economy well below its full employment potential.



Source: Bureau of Economic Analysis National Income and Product Accounts and Congressional Budget Office

# Effects of Cutting Needed Spending (Austerity)

- Short Run
  - Job killing Government Spending cuts will force millions more into poverty.
- Long Run
  - Ryan Budget's block grants will end important "automatic stabilizers" that help stop recessions from becoming depressions.
  - Technological change is tied to government investing in research, so US will lose its technological advantage.

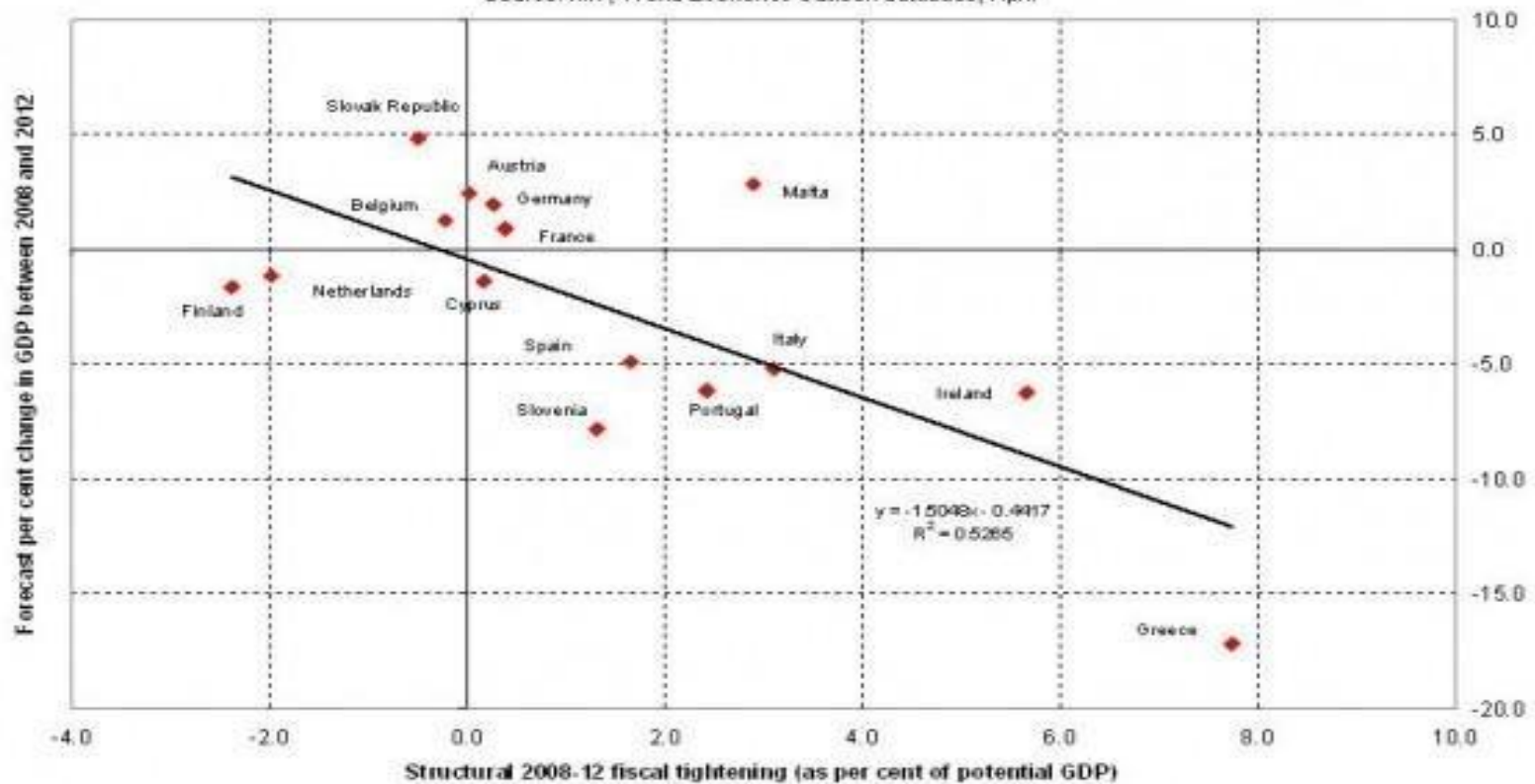
# Could Austerity Work?

- For Austerity to work, cuts in government spending must be made up by increases in exports.
- This has only happened when:
  - Countries have export driven economies.
  - Are relatively small (in terms of world economy)
  - Can depreciate their currency
  - Trading partners are growing fast (someone to buy your now cheaper goods)
- None of these apply to USA (or Eurozone, except maybe Germany)

# Austerity isn't working in Eurozone

## FISCAL TIGHTENING AND EUROZONE GDP 2008-12

Source: IMF, World Economic Outlook database, April

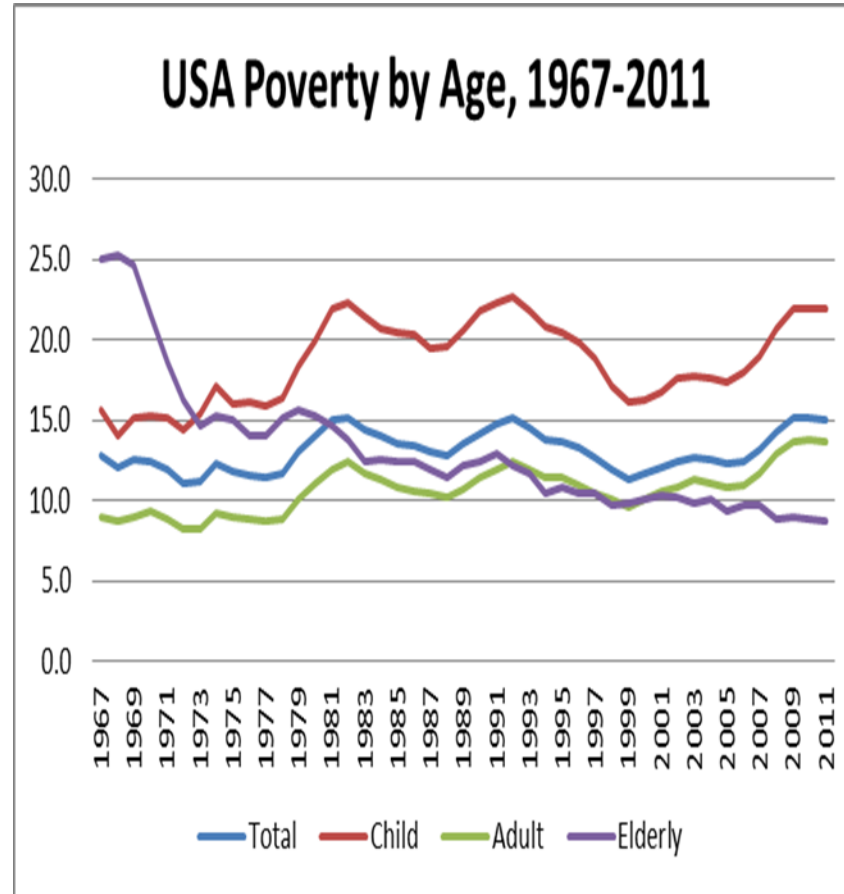




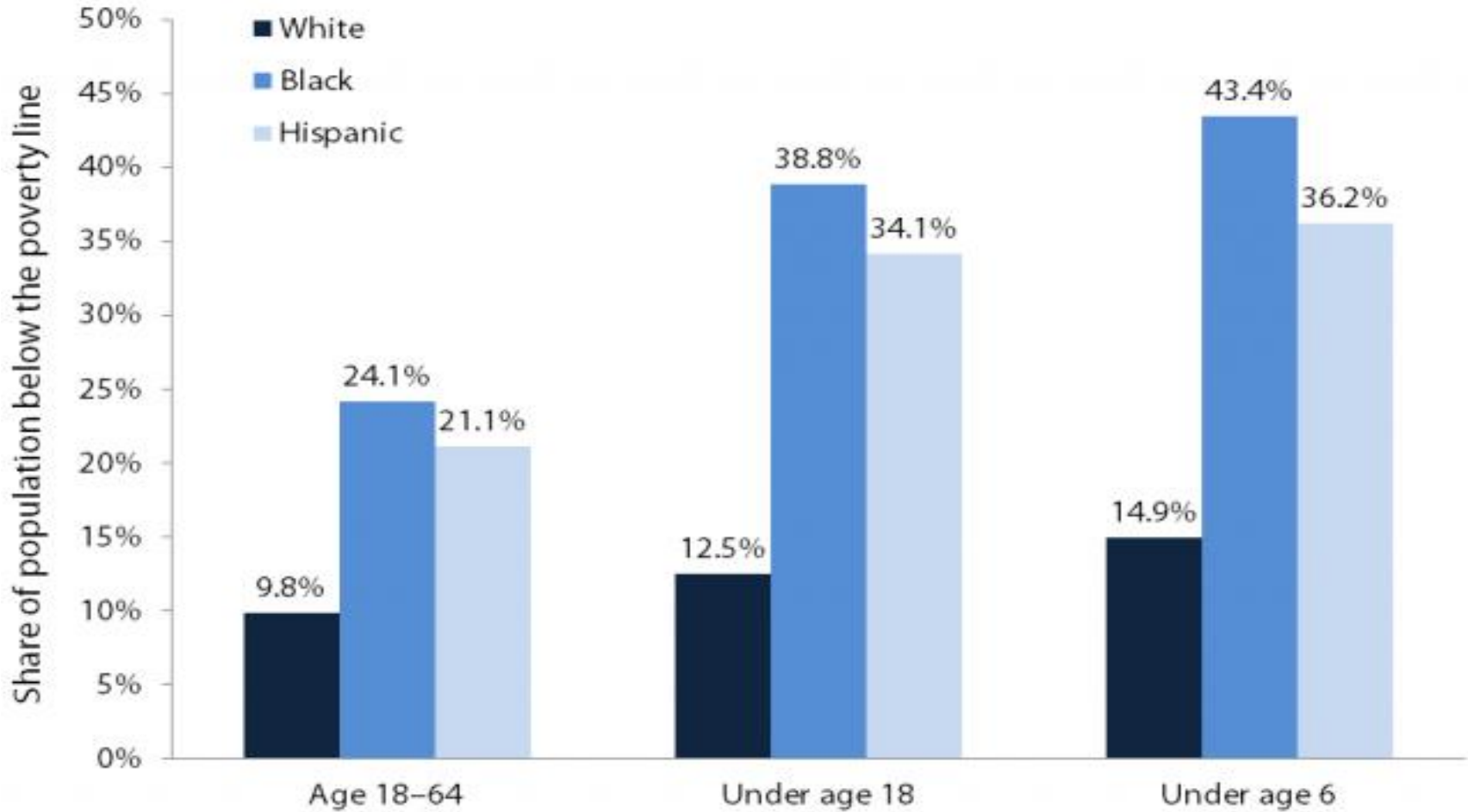
# Real Issue 1: Poverty

- “The poor have the single most urgent economic claim on the conscience of the nation” (EJA 86).
- “No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, cloath and lodge the whole body of the people, should have a share of the produce of their own labour as to be themselves tolerably well fed, cloathed and lodged” (Adam Smith).

# Poverty: Successes and Failures



# Poverty by Race and Age, 2011



# Inequality and Poverty in OECD

**Table 11**  
**Income Inequality and Poverty Rates, Various Countries, Mid 2000s**

Country	Percentile Ratio (90/10)	Relative Poverty Rates - Total Population (50%)	Relative Poverty Rates - Children (50%)	Relative Poverty Rates - Elderly (50%)
Denmark 2004	2.8	5.6	3.9	8.5
Sweden 2005	2.8	5.6	4.7	6.6
Norway 2004	2.9	7.1	4.9	8.5
Netherlands 2004	3.0	6.3	9.1	2.4
Finland 2004	3.0	6.5	3.7	10.1
Austria 2004	3.2	7.1	7.0	9.4
Switzerland 2004	3.3	8.0	9.2	15.2
Belgium 2000	3.3	8.1	7.2	15.4
Germany 2004	3.4	8.5	10.7	8.6
France 2000	3.4	7.3	7.9	8.5
Australia 2003	4.2	12.2	14.0	22.3
<b>Canada 2004</b>	<b>4.4</b>	<b>13.0</b>	<b>16.8</b>	<b>6.3</b>
Italy 2004	4.4	12.1	18.4	11.2
United Kingdom 2004	4.5	11.6	14.0	16.3
Ireland 2004	4.5	16.2	15.8	36.8
<b>United States 2004</b>	<b>5.7</b>	<b>17.3</b>	<b>21.2</b>	<b>24.6</b>

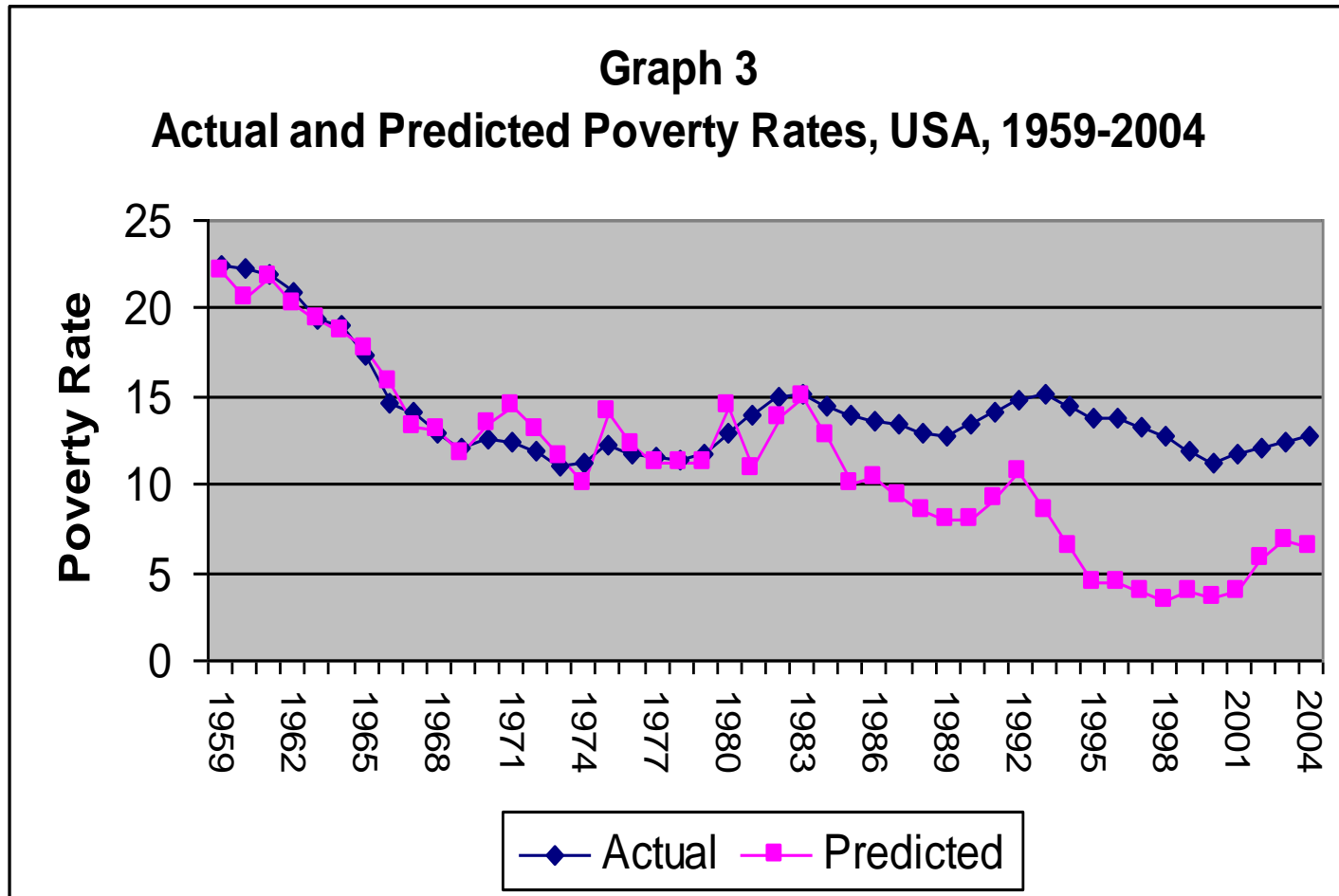
Source: Luxembourg Income Study

# Explaining “Poverty amidst Plenty”

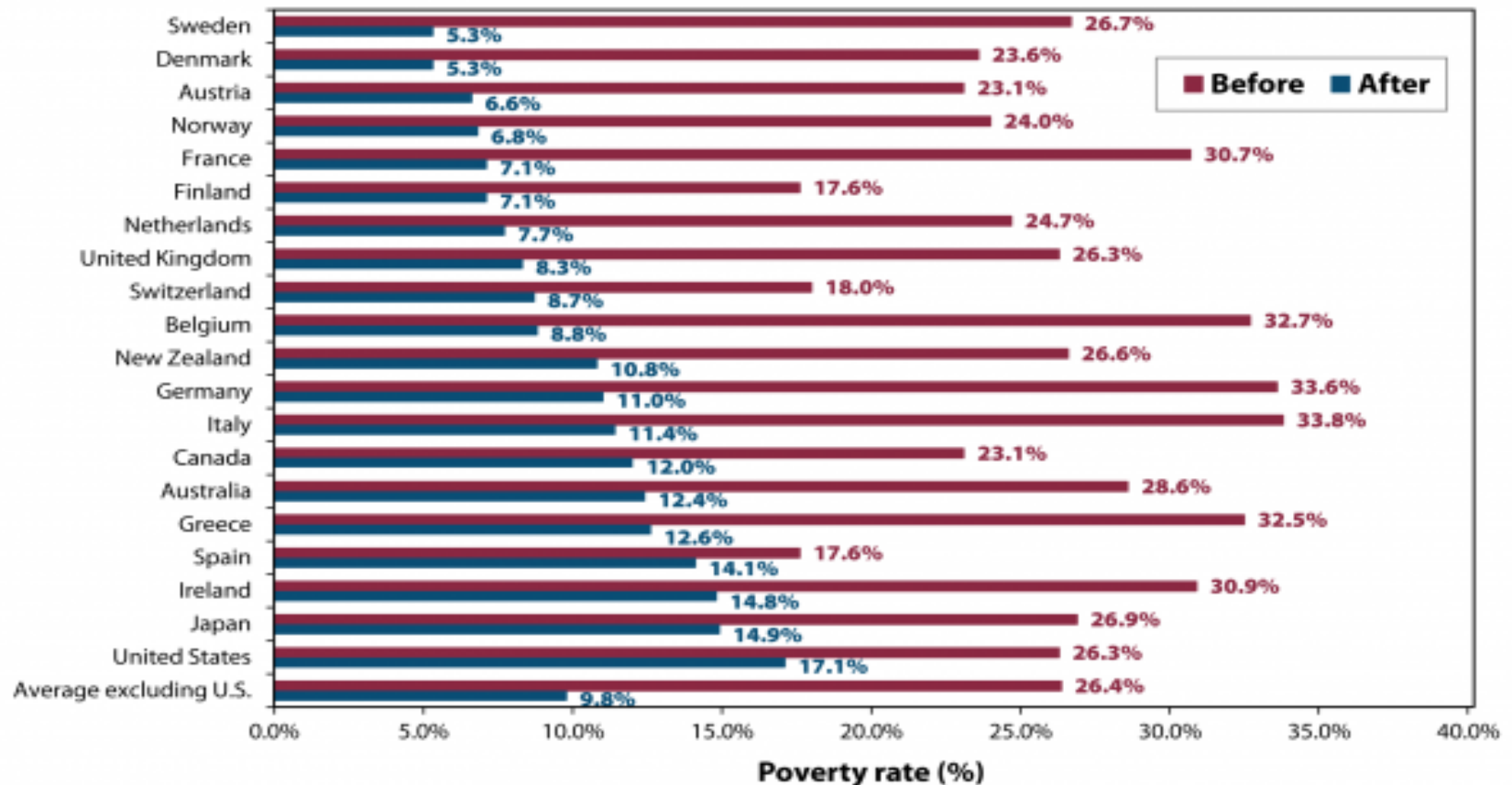
- **Causes of poverty**
  - Insufficient economic growth (size of economic pie)
  - Individual/Behavioral (Flawed Character Theory)
  - Structural (Exclusion)
- **Ways to reduce poverty**
  - Economic Growth
  - Change market signals of the poor to change their behavior (welfare reform)
  - Social protection and inclusion

Impact of Demographics and Economics on Poverty	1979-2007
Actual Change in Poverty	0.8
Due to Demographics	-0.8
Race	0.9
Education	-2.7
Family Structure	1.4
Economic Shifts	1.7
Income Change	-3.8
Income Inequality	5.5

# Economic growth doesn't reduce poverty like it used to.



# Public policy can reduce poverty



\* Poverty defined here as below 50% of the current median income for all countries. This definition is not the official U.S. poverty measure.

**Source:** Organisation for Economic Co-operation and Development.

# Benedict XVI on Poverty

- “It remains true, however, that every form of externally imposed poverty has at its root a lack of respect for the transcendent dignity of the human person. When man is not considered within the total context of his vocation, and when the demands of a true “human ecology” are not respected, the cruel forces of poverty are unleashed.”



# Catholic Social Thought on Poverty

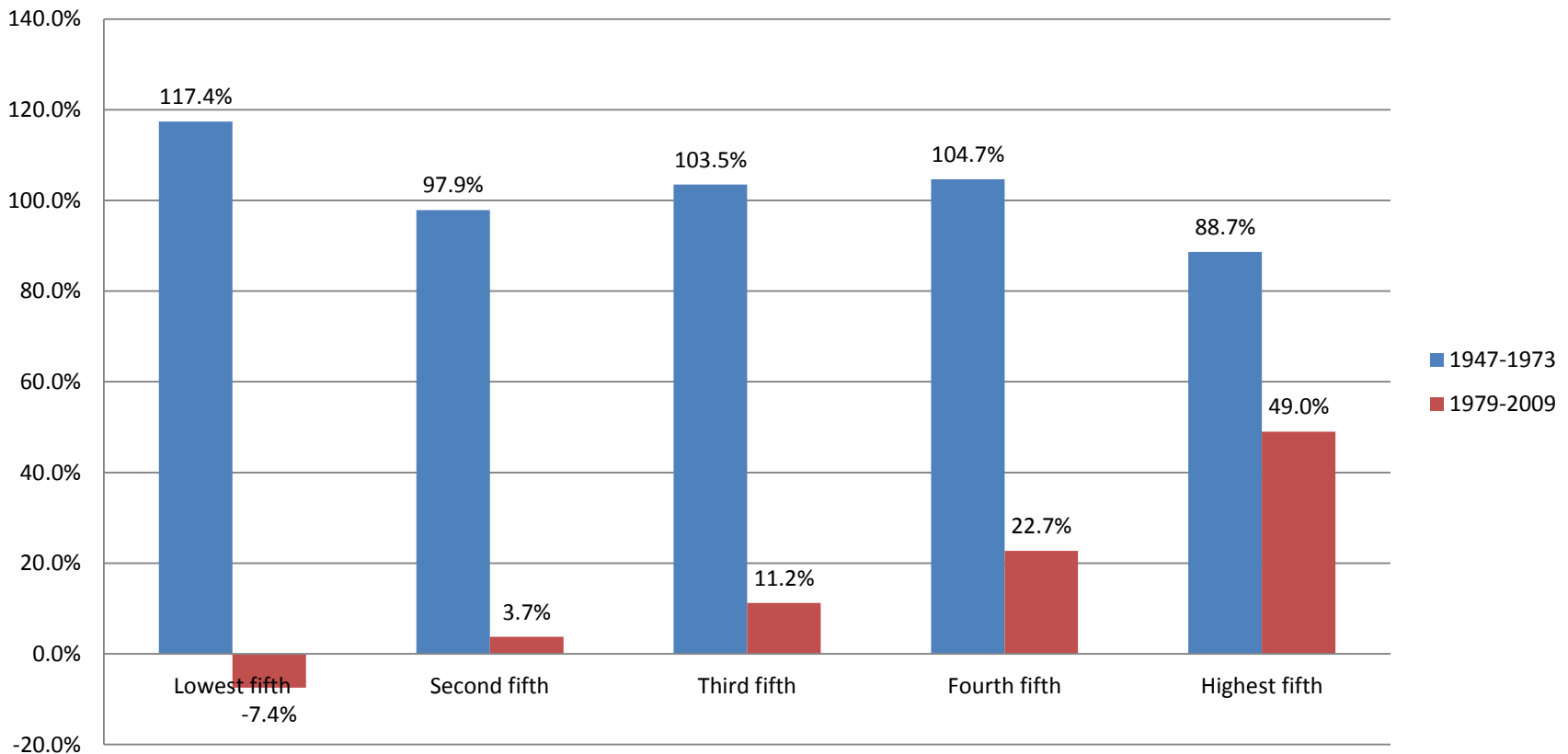
- Solidarity with the poor is “a proof of [the Church’s] fidelity to Christ, so that she can truly be the ‘church of the poor’” (*LE 8*).
- Poverty is ALWAYS caused by exclusion.
- Exclusion is individual AND structural.
- We are all POOR at some point in our lives.
- Social protection is necessary to reduce poverty.

# Real Issue 2: Inequality

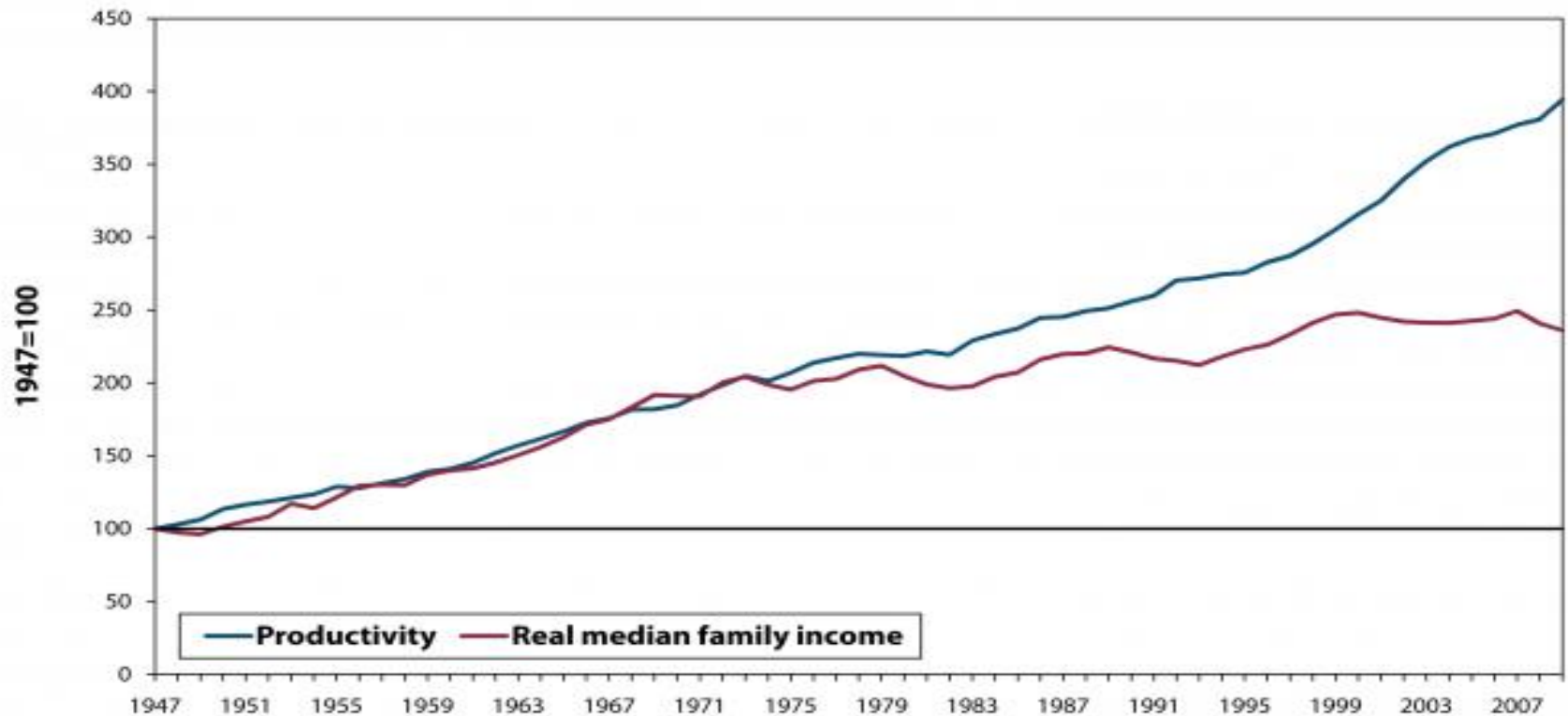
- Causes of Inequality
  - Wealth *capture* instead of wealth *creation*
    - (Exclusive economic and political institutions)
  - Financialization of economy and stagnant wages
  - Economics policies designed for top 1% (trickle-down economics)
- Costs of Inequality
  - Higher unemployment
  - Higher household debt
  - Social Costs

# Most of the benefits of economic growth went to the top

Graph 12  
Growth in USA Mean Income by Fifths, 1947-2009



# Benefits of productivity have not been shared with the Middle Class



**Source:** EPI analysis of U.S. Census Bureau, *Historical Income Tables*, and U.S. Bureau of Labor Statistics, *Major Sector Productivity and Costs* data.

# Social Costs of Inequality

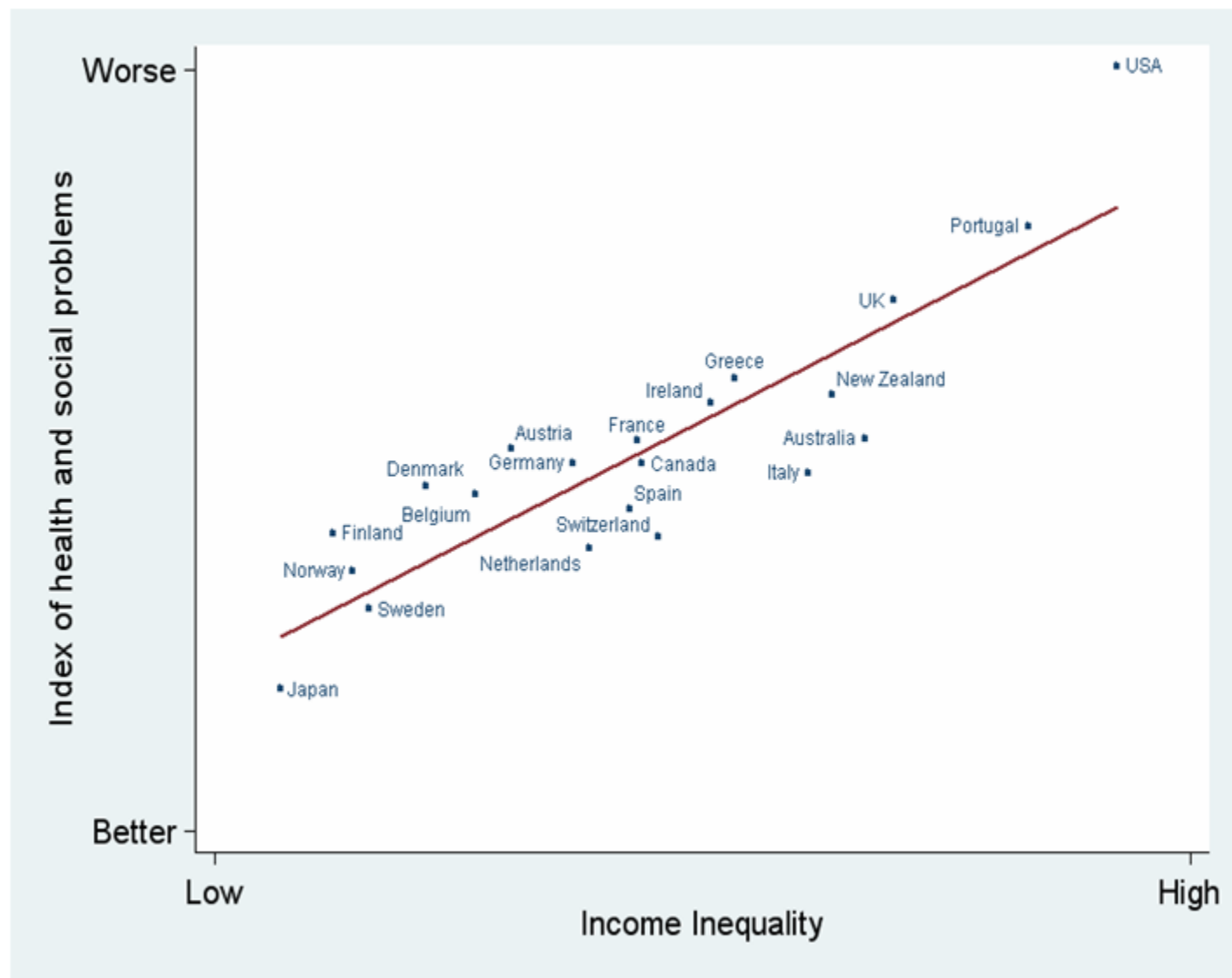
- Level of Trust
- Mental Illness
  - Including (drug and alcohol addiction)
- Life Expectancy and Infant Mortality
- Obesity
- Children's Educational Performance
- Teenage Births
- Homicides
- Imprisonment Rate
- Social Mobility

From *The Spirit Level* (2009) by R. Wilkinson and K. Pickett

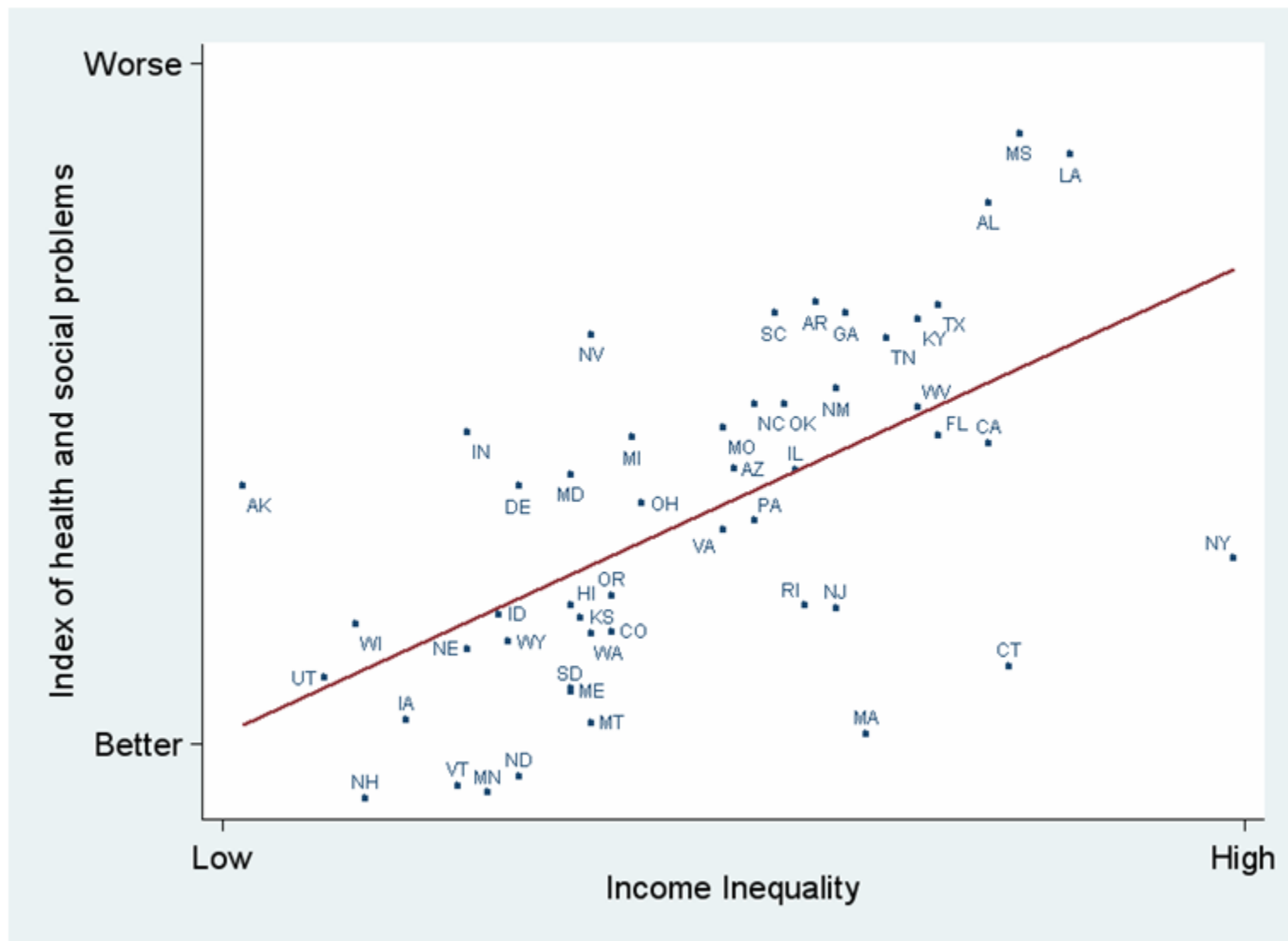
## Health and Social Problems are Worse in More Unequal Countries

### Index of:

- Life expectancy
- Math & Literacy
- Infant mortality
- Homicides
- Imprisonment
- Teenage births
- Trust
- Obesity
- Mental illness – incl. drug & alcohol addiction
- Social mobility



# Health and Social Problems are Worse in More Unequal US States



# CST on Inequality

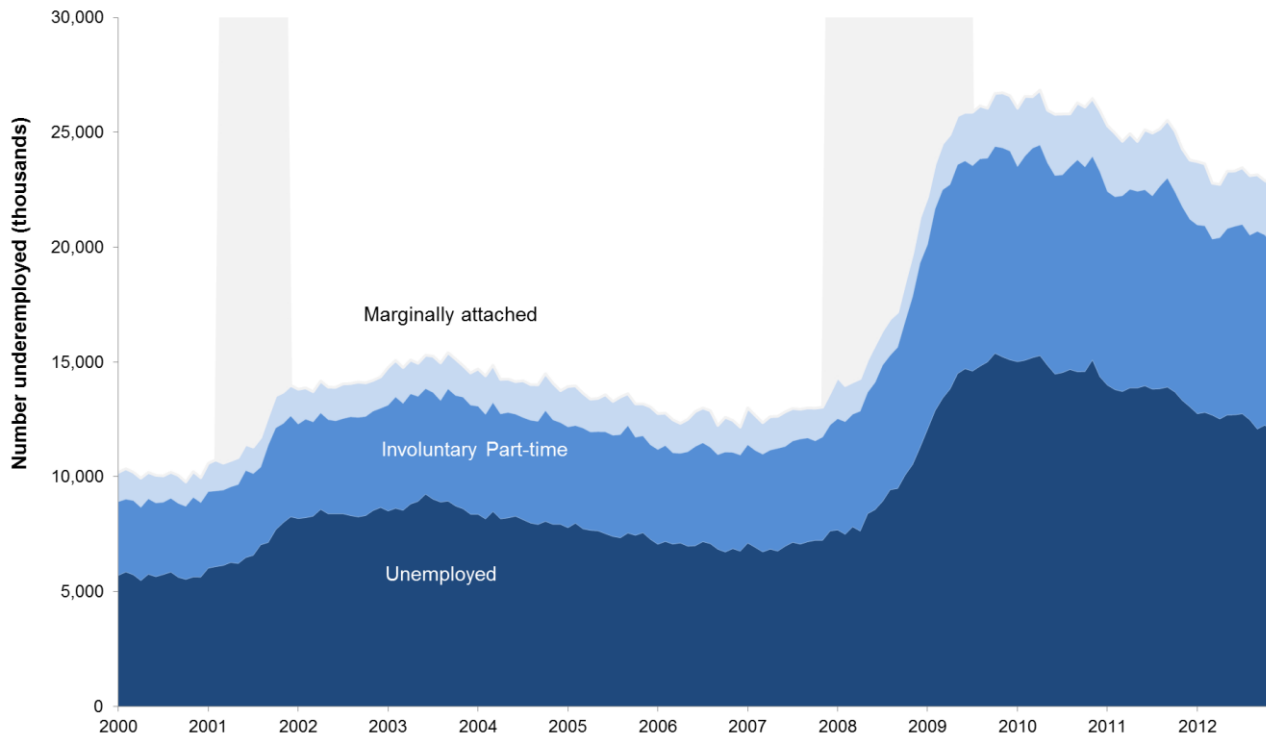
- Universal Destination of Goods states that economy has to benefit everyone. We must work to reduce artificial barriers to inclusion, and unnecessary privileges (special tax and regulatory treatment) that cause exclusion.
- Biggest contributor to “the wealth of a nation” is social factors, thus we must find ways to ensure that everyone shares in the benefits created by these factors, while respecting the role incentives play on individual initiative.
- Protect workers rights, support unions and collective bargaining (all means for economic inclusion).
- Example: Alaska Permanent Fund



# Real Issue 3: We have a Jobs Crisis!

## A more comprehensive measure of slack in the labor market

The number of underemployed workers, including those unemployed, involuntary part-time for economic reasons, and marginally attached, 2000–2012



Note: Shaded areas denote recessions.

Source: Authors' analysis of Bureau of Labor Statistics' Current Population Survey public data series.

# Problem of Unemployment

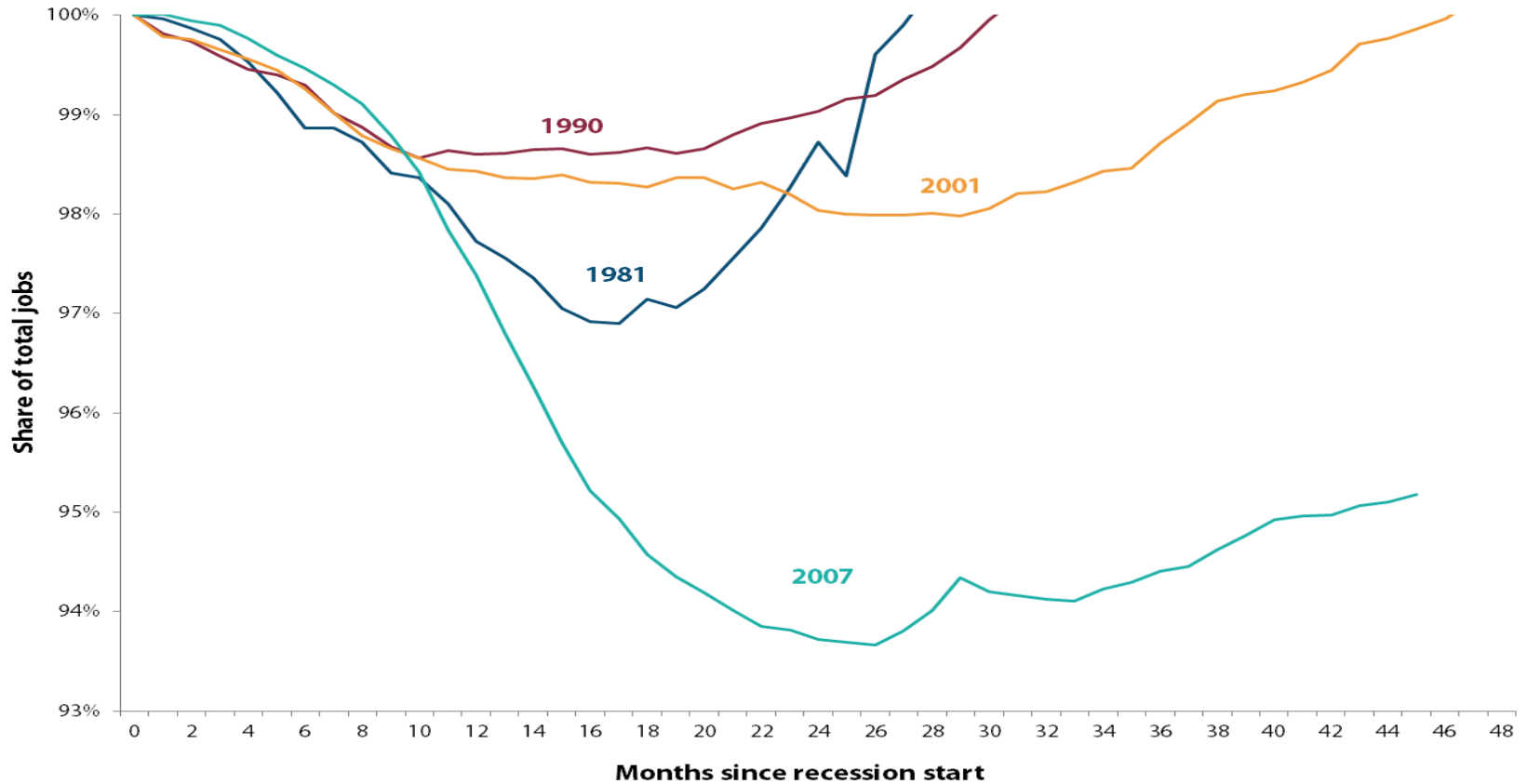
- 20 + million not working who want to work full time.
- Most important cause of high unemployment is lack of aggregate demand (not uncertainty or structural issues).
- Biggest worries:
  - Long term unemployed (4.7m), will have major long term costs to society.
  - Youth unemployment (23.4%).

# Job lost in past four recessions



## The Worst Recession:

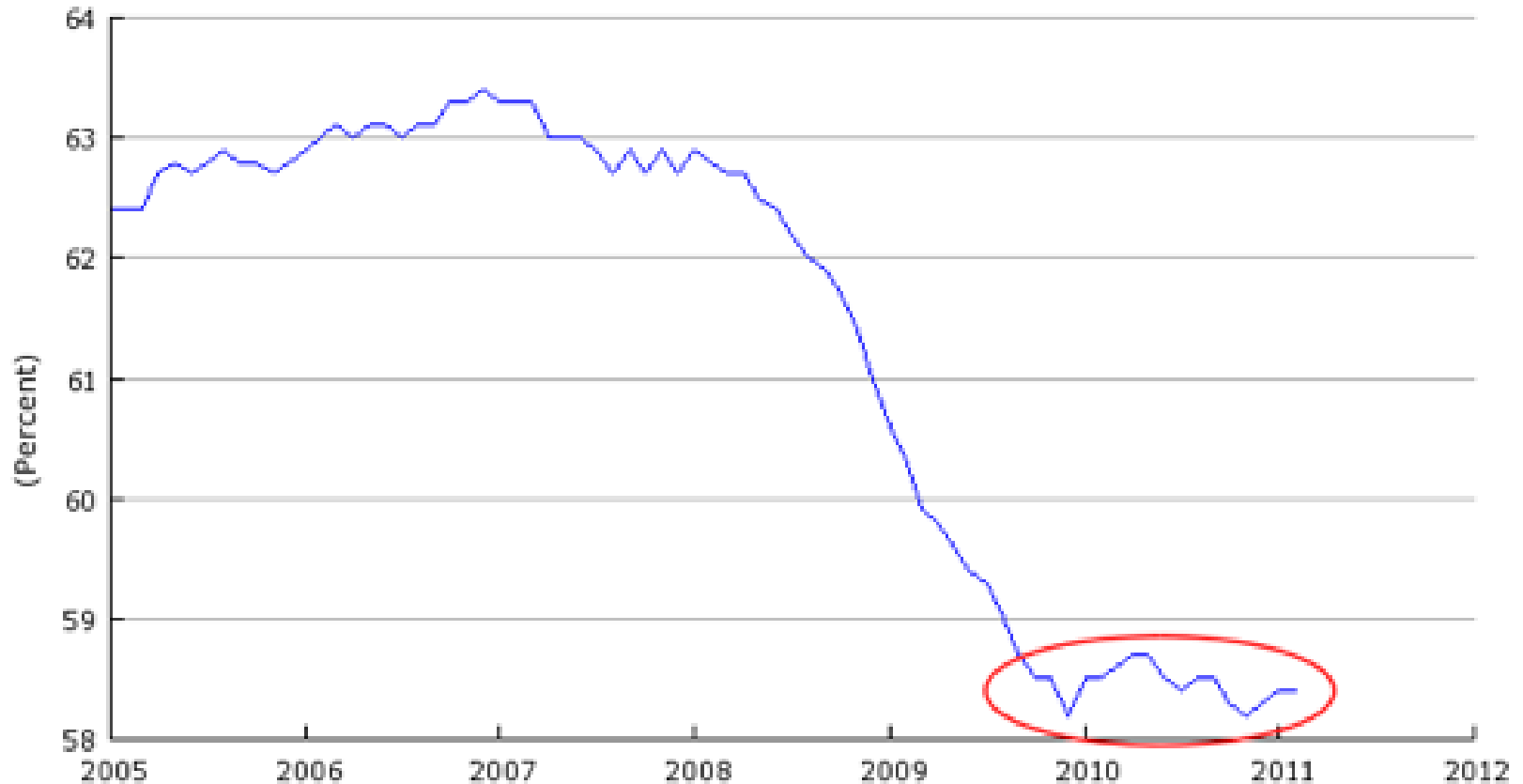
Indexed job loss for prior four recessions



Source: EPI analysis of Bureau of Labor Statistics data

# Decline in Labor Force

Civilian Employment-Population Ratio (EMRATIO)  
Source: U.S. Department of Labor: Bureau of Labor Statistics



# How do Changes in Government Spending affect the Economy?

Policy	Multiplier
Tax Cuts	
Payroll Tax Holiday	1.29
Bush Tax Cuts	0.29
Cut Corporate Tax Rate	0.30
Spending	
Food Stamps	1.73
Unemployment	1.64
Infrastructure	1.59
Aid to State and Local Gov't	1.36

Source: Mark Zandi, Moody's Economy.com

# CST on Employment

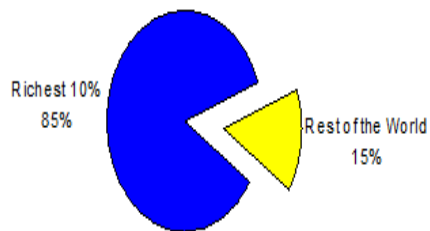
- Work is a human right and responsibility.
- Broader definition of work to include all forms of production, including household production.
- Priority of labor over capital.
- Worker is co-creator (JP11)
- Subjective dimension's of labor (how does work promote authentic human development).
- End Human Trafficking (Slavery)

# Real Issue 4: Global Poverty and Inequality

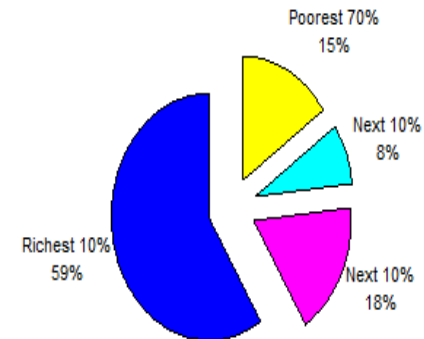
## Ownership

## Use

Share of World Private Wealth, 2000



Share of World Private Consumption, 2005



# Reality of Rich and Poor

- **The Poorest 40% of the world's population accounts for 5% of global income.**
- In 2005, almost 1.4 billion people lived below the international poverty line, earning less than \$1.25 per day.
- 1.02 billion people do not have enough to eat.
- **1.1 billion people have inadequate access to water and 2.6 billion lack basic sanitation. 1.8 billion people consume around 20 litres of water per day.**
- \$550 billion has been paid in both principal and interest over the last three decades, on \$540 billion of loans, and yet there is still a \$523 billion debt burden.
- **The Richest 20% accounts for 75% of world income.**
- The world's billionaires-just 497 people - were worth \$3.5 trillion (over 7% of world GDP).
- Over one billion people are overweight.
- **In the UK the average person uses more than 50 litres of water a day flushing toilets (total average daily usage is 150 litres, 600 litres for the average American).**
- World military expenditures in 2007 was estimated at \$1.339 trillion.



# Global Poverty and Inequality

- Global Poverty is caused by exclusive economic and political institutions.
- While many of the exclusive institutions are domestically created, most of them are the result of past exclusive institutions imposed on them or currently imposed on them.
- Rich countries benefit from exclusive institutions. Ex: Oil and minerals in Africa; US and EU agriculture policies.

# America's Responsibility

- Exclusive institutions of the past forced the poor countries to subsidize the development of the rich countries. Foreign aid is returning what was taken, a matter of justice.
- America and EU have to stop supporting current exclusive economic and political institutions that act as barriers to LDC development. Ex. WTO
- Rich Countries need to stop wasting God's gift of creation (water, energy, food) so that more can go to the poor countries.

# The Founding Fathers had a small Federal Government because

- 18<sup>th</sup> Century didn't need:
  - Social Security (most people died young)
  - Health Care (leeches were cheap)
  - Education (workforce just needed strong backs, not strong minds)
  - Financial Regulation (little need for Finance)
- Promoting an 18<sup>th</sup> Century economic policy agenda in the 21<sup>st</sup> Century makes about as much sense as asking the Army to replace its M16 rifles with muskets.

# Why a *Circle of Protection*?

- Markets will never by themselves:
  - Reduce Poverty and Inequality
  - Produce Sustainable Full Employment
  - Provide adequate Health Care and Education
- Social protection increases economic and political *inclusion*, promoting prosperity for all.
- Plutocrats always need economic and political *exclusion* to maintain their control.

# CST and Economic Policy Summary

- Church proposes ethical principles to inform public policy choices.
- All economic activity has to protect human dignity and promote the common good.
- Evidence, not ideology, has to guide policy.
- Inclusive economic and political institutions promote common good, domestically and internationally.

# Perennial Problem: Being Christian in a non-Christian Society

St. John Chrysostom (347-407)

**“When we live according to the moral principles of our faith, those around us may respond in three possible ways. First, they may be so impressed by the example of our goodness, and so envious of the joy which it brings, that they want to join us and become like us. That is the response which we most earnestly desire. Second, they may be indifferent to us, because they are so bound up with their own selfish cares and concerns; although their eyes may perceive our way of life, their hearts are blind, so we are unable to stir them. Third, they may react against us, feeling threatened by our example and even angry with us; thus they will cling even more firmly to their material possessions and selfish ambitions, and slander us at every opportunity. Naturally, we dread this third type of reaction, because we want to live in peace with our neighbors, regardless of their personal beliefs and values. But if no one reacts to us in this way, we must wonder whether we are truly fulfilling the commandments of Christ.”**