

Common Good Through the Lens of Catholic Social Teaching: A Case Study for Principles of Macroeconomics

Monica Hartmann and Terence Langan
University of St. Thomas
Department of Economics

Introduction

The social sciences and their focus on understanding societal institutions and practices have much to say about the impact of these institutions and practices on the common good. Economics, in particular, with discussions of resource allocations and the distribution of goods and services, has much to say about our success, or lack thereof, in promoting the common good. It is our experience that some of the most interesting discussions in our economics classrooms ask our students to look at the implications that various economic policies have for the promotion of the common good. In this paper, we present the details of two such classroom exercises.

Long before we ever get to one of these discussions, we must impress upon our students the difference between what are commonly known as positive economics and normative economics. Within the realm of positive economics, we strive to investigate and explain how the economy actually works. As such, we focus on descriptive, and even predictive, statements which describe the working of the economy. For example, every student of economics learns how the interaction of demand for and supply of a good or service interact to determine the price of that good or service in the market place. Using that familiar model, we also are able to predict what happens to that price when there is an increase in demand or in supply.

Often we are dissatisfied with a particular market outcome and seek to make changes. For example, for reasons related to pollution or congestion, we may decide that the market produces “too much” of a particular good or service. Further, we might devise policies, for example a tax, to reduce the market-produced level of output. Here we enter the realm of normative economics where after evaluating an economic outcome we propose economic policies to improve upon that outcome. That is, we find ourselves making prescriptive, rather than simple descriptive, statements. This is because economic policy has the potential to make significant contributions toward promoting the common good.

When evaluating an economic outcome we do so based on the economic efficiency of the outcome and also based on how fair the outcome is to the affected parties. For example, in discussions of NAFTA we demonstrate that society as whole is better off with lower barriers imposed on trade from the agreement, but acknowledge that while the benefits from trade are dispersed throughout society, the damages may be strongly concentrated among the relatively few. When we are dissatisfied with a particular outcome, either due to its inefficiency or due to its unfairness, we propose economic policies designed to remedy these deficiencies and to promote the common good.

While both efficiency and fairness are desirable and important qualities and important for any discussion related to the common good, most economics instructors are much more comfortable discussing the economic conditions required for an efficient outcome. Economic efficiency requires both productive efficiency, which means that it is not possible to produce more of one good

without producing less of at least one other good, and allocative efficiency, which means that the proper mix of goods is being produced so that no other mix would make even one person better off without making at least one other worse off. The objective conditions required for productive and allocative efficiency are relatively easily demonstrated either graphically or mathematically. Unfortunately for the economist, no parallel set of objective conditions exist that would similarly guarantee an equitable outcome. This makes the economist much less of an expert when it comes to discussions of economic fairness and not as comfortable engaging in those conversations.

Economists possess tools to address the instances of an inefficient market outcome (i.e., market failure). However, these policy recommendations that lead us to an efficient outcome often lead to many individuals being made better off while others are made worse off. The solution to this inefficiency is often justified by pointing out that the winners will gain more than the losers will lose. In theory, the winners could more than compensate the losers, making everyone better off. Yet this compensation rarely takes place. If the winners were those who had little in the first place and the losers had much, this remedy may even promote fairness. However, the remedy aimed at efficiency will be problematic when the losers have little to lose and the winners were already doing quite well. In a case such as this one, we are forced to either prioritize efficiency over fairness, or the opposite. In such a case it is not at all clear that the policy to promote efficiency will actually promote the common good.

When it comes to discussions of equitable distributions of resources, tradeoffs between efficiency and fairness, and their relevance to the common good, many instructors are at a loss as to how to even approach such a discussion, given our discomfort and lack of expertise with the requirements for economic fairness. As instructors at a Catholic university, and perhaps even for instructors at secular institutions, it seems to us that a discussion based on Catholic Social Teaching is at least one legitimate place to begin. For us, it has the added benefit of allowing our students to apply what they might have learned in their classes in Theology or Catholic Studies and begin to see the strength of interdisciplinary learning and of a liberal arts education.

Though we imagine many instances within the Principles of Microeconomics and Principles of Macroeconomics courses where an approach that employs the lens of Catholic Social Teaching could be a fruitful one, this paper focuses on two particular classroom exercises from the Principles of Macroeconomics course. The exercises have the benefit of showing our students that some of the best sounding policies can have unintended consequences, making it unclear whether the policy will actually advance the common good. Our students have a keen interest in policy debates. Being able to identify a likely unintended consequence of a particular policy further sparks their interest and makes clear to them the importance of careful economic analysis. The ability to understand the implications of one's decisions is a necessary skill that our students must acquire to be successful in the business world and elsewhere.

Background

In the Principles of Macroeconomics course, discussions of labor markets, unemployment and employment policies lend themselves well to the inclusion of issues from Catholic Social Teaching as important pieces of these discussions. In particular, the ideals of the Dignity of the Human Person and the Dignity of Work fit quite naturally into these discussions. One sees this in the 1996 statement on *A Catholic Framework for Economic Life* from the United States Conference of Catholic Bishops. Here they wrote that "(a)ll 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.” The statement that all people have the right to productive work suggests that there is a moral imperative that we must pursue policies that reduce unemployment. This imperative motivates further discussion of possible policies and their anticipated success in reducing unemployment. At the same time, these policies ought to address “decent working conditions” and “just wages and benefits”. When a particular policy promotes one of these goals at the expense of one or more others, the discussions on building institutions to create an inclusive economy get really interesting. For example, minimum wage laws, overtime pay legislation and worker safety regulations are actions that are meant to address “decent working conditions” and “just wages and benefits”. However, these policies also will raise the cost of hiring a worker and may cause employers to choose to hire fewer workers, leaving more individuals without “productive work.” Thus, it is not necessarily obvious that these policies aid the well-being of the worker, on net.

The number of unemployed individuals may be high or low for a variety of reasons. Macroeconomists are keenly aware that unemployment varies across time within a particular economy through the boom and bust periods of the business cycle. Unemployment rates also tend to be different for different groups of individuals based on their age, educational attainment or ethnicity. Of particular interest for one of our classroom exercises are unemployment rates that vary across countries. For example, the data show that European countries experience persistently higher rates of unemployment than does the United States. While there may be many contributing factors that help to explain this difference, some undoubtedly have to do with European policies designed to improve the working conditions for its workers, which increase the cost to a firm to hire a worker. These include government restrictions on the dismissal of workers that are designed to promote job security, government-mandated vacation periods, higher minimum wages than in the U.S., more generous unemployment benefits than in the U.S., and more powerful labor unions than in the U.S., among others. Economists say that these “intrusions” into the free labor market introduce labor market rigidities. While flexible wages and benefits may adjust to eliminate a surplus of workers seeking employment, rigid wages and benefits may leave us with persistent unemployment.

As is usually the case when there are two or more desired goals, we are faced with a tradeoff between maximizing the number of workers employed and achieving the improved working conditions intended by the policies that lead to these labor market rigidities. As is also usually the case, individuals will disagree about the proper balance between these competing goals. Many would agree that to go “too far” in either direction (employment at the expense of working conditions, or vice versa) is not a good idea, though there will be general disagreement as to what constitutes “too far”. This tradeoff presents a terrific opportunity for discussion and debate among the students in our classes.

At our institution, the Principles of Macroeconomics class is taken by students in their first or second year. The class size is relatively small, with the enrollment capped at 30 or fewer students. Many of the students are taking the course to satisfy an allied requirement for an intended business major, while other, non-business majors take it to satisfy the social science requirement in our core curriculum. There are also typically a few students in each class who are intending to major in economics.

The Classroom Exercises

We have created two exercises (which appear in the appendix) to introduce Catholic Social Thought into Principles of Macroeconomics courses. The first exercise focuses on unemployment rates across countries as well as the government policies and institutions that make labor markets less responsive to changes in market conditions. Students identify how these structural rigidities in the labor market affect the desire for someone to work, as well as the firm's willingness to hire an employee. While these "intrusions" into the free labor market may raise the unemployment rate, there are benefits to *society* from implementing these labor policies. Students are also asked to explain why Catholic Social Thought would be supportive of having these structural rigidities present in the labor market. The final question requires students to examine the trade-offs of these policies and to explore why the German Catholic Church in 2003 was supportive of loosening laws that protected German workers.

For the second exercise, students read an excerpt from the encyclical *Laborem Exercens* (Latin: Through Work). They learn how Pope John Paul II defined "work" and how he classified the two dimensions of work: an objective and a subjective sense of work. From the reading assigned to be read before class, students know that productivity has lowered (raised) unemployment in the long (short) run as well as that productivity gains are associated with higher real wages. Students explore how technological advancements and production techniques like the assembly line that have automated production affected both dimensions of work. While productivity gains have lowered production costs, raising demand for labor in the long-run and raised real wages (strengthened the objective sense of work), the more automated work has diminished the subjective nature of work. It entails less ownership, investment into the final product's quality by workers and thus less pride is taken in the work outcome. Because economics is a study of trade-offs, students also are asked to identify the economic gains workers have received from these productivity advancements. In the final question, students identify ways consumers and producers can enhance the subjective sense of work/dignity of work. We want students to examine their role as consumers today (and employers in the future) for supporting the dignity of work.

In both exercises, students are asked to take on a role either as employee or employer to explore how labor market rigidities affect employment decisions as well as their individual role of promoting dignity of work. This has the added benefit of actively engaging the students in their learning. Dale [1969] and Stice [1987] have shown with active learning students retain 90 percent of what they do (e.g., simulate a real experience) versus only 50 percent of what they hear and see (e.g., lectures and movies). Playing a role allows students to simulate the economic and Catholic Social Thought thinking process. Because many students primarily rely on inductive reasoning, they can first start out analyzing an issue within a basic scenario as described in the exercises and then branch out and form a general conclusion.

Finally, we fully expect that colleagues at Catholic universities will find ways to expand upon the exercises that we have proposed. In addition, we believe that colleagues at other faith-based universities and even secular universities will find ways to modify what we have done to address many of these issues which should be important to Catholics and non-Catholics alike.

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Appendix

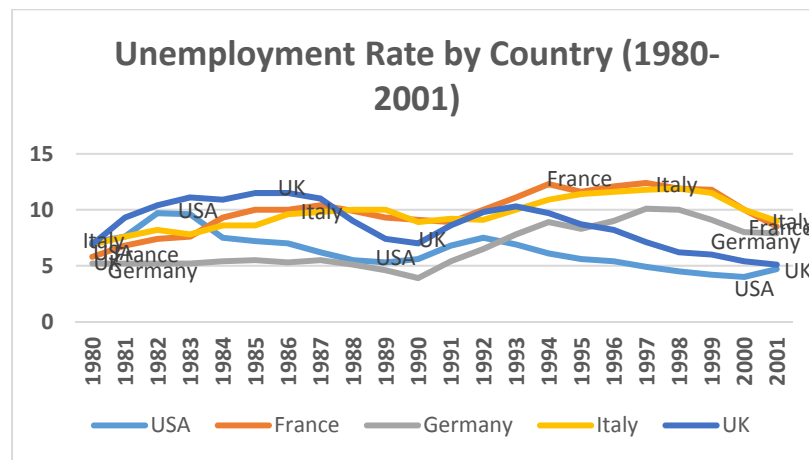
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Employment Exercise #1:

Note to Instructors - Knowledge Assumed for Exercise:

- *Different types of unemployment rate*
- *Natural Rate of Unemployment (NRU)*
- *Relationship between NRU and PPF*
- *Critique of how unemployment rates are calculated*
- *Unemployment insurance in the US (a comparison with Europe would be nice, but necessary)*

Why are unemployment rates so high in Western Europe? See figure below.



- A. Structural rigidities in the labor market are a set of institutions and policies, which prevent the market from operating freely, moving resources to their optimal use. Here are examples of structural rigidities that prevent the economy working efficiently).

Note to instructors: we walk the students through each rigidity so they understand what each one entails and how they are present in the US as well.

1. *Government restrictions on the dismissal of workers*
2. *Unemployment benefits are more generous than U.S.*
3. *Minimum wages are higher than U.S.*
4. *Government-mandated vacation periods*
5. *Unions are more powerful than U.S.*

- B. How do each of these structural rigidities listed in part (a) affect the desire for someone to work? How about how each one affects the firm's willingness to hire an employee? In addition, how do each of the labor market rigidities affect frictional unemployment rate, structural unemployment rate, and/or natural rate of unemployment?

Note to instructors: Pair off students and assign half of the groups to take on the role as an employer and the other half as an employee. Then ask students to answer these questions based on the role they have been assigned. Then discuss as a class when students have completed the question. Students ultimately learn that the lack of flexibility causes higher frictional and structural unemployment. If short on class time, just have students answer these questions only for the first two rigidities.

- C. Catholic Social Thought is supportive of having these structural rigidities present in the labor market. Explain why. Identify the benefits to society from implementing these policies, such as higher minimum wages, government restrictions on dismissal of employees, and higher unemployment benefits.

Note to instructors - Sample answers:

- *Minimum wages – Living wage allows workers to support their families.*
- *Government restrictions on dismissal of employees – Research has shown constant fear of losing a job adversely affects workers health and reduces job satisfaction and performance. (Source: Tugend, Alina. “Uncertainty About Jobs Has a Ripple Effect” The New York Times, 5/16/14)*
- *Higher unemployment benefits – More generous benefits (total pay and length of time receiving payments) allow workers to better support their families during times of unemployment.*

- D. In 2003, with the unemployment rate close to ten percent, German union representatives and politicians were willing to discuss the possibility of loosening the rigid rules that protect German workers. Even the German Catholic Church came out and supported the introduction of these laws.

How can the Church's actions in Germany be consistent with Catholic Social Thought?

For background purposes, in their 1996 statement on *A Catholic Framework for Economic Life*, the United States Conference of Catholic Bishops wrote that

“(a)ll 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.”

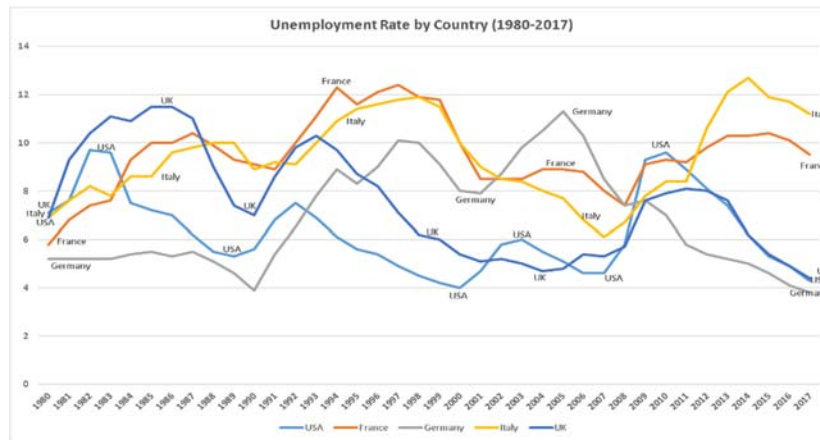
The statement that all people have the right to productive work suggests that there is a moral imperative that we must pursue policies that reduce unemployment. At the same time, these policies ought to address “decent working conditions” and “just wages and benefits”.

Note to instructors: here is information to provide students historical economic context on what was occurring in Germany in 2003 when the Church made this decision.

- Germany and France were in a recession in the early 2000s. The Euro was introduced during this time period and there was uncertainty about this new monetary system. (1/1/99 the Euro was introduced and on 1/1/02 twelve countries officially introduced the Euro banknotes and coins as legal tender.) As the Euro rose in value, EU exports became more expensive making it difficult to propel the economy with export sales. The UK was hurt as well because their main trading partners were having a weak economy.

Sample Answer: The statement that all people have the right to productive work suggests that there is a moral imperative that we must pursue policies that reduce unemployment. At the same time, these policies ought to address “decent working conditions” and “just wages and benefits”. For example, minimum wage laws, regulations to protect worker rights and support for labor unions are actions that are meant to address “decent working conditions” and “just wages and benefits”. However, these policies also will raise the cost of hiring a worker and may cause employers to choose to hire fewer workers, leaving more individuals without “productive work.” Thus, it is not necessarily obvious that these policies aid the well-being of the worker, on net.

E. What are the implication for today’s policies in the U.S. with respect to labor?



Note to instructors – Sample discussion points. Post 2008-09 crisis: We are going in the opposite direction. Our labor market is becoming increasingly more rigid. We have more restrictive immigration policies leading to shortages of skilled (tech) and unskilled workers (agriculture). We are imposing higher trade tariffs making imported items including those inputs necessary for goods produced in the U.S. more expensive. As a result, production in the US is higher relative to other countries thereby possibly raising structural unemployment.

Employment Exercise #2

Note to instructors: Prior to class, ask students to read “The Productivity and Jobs Creation: The Long and The Short Run of It.” Federal Reserve Bank of San Francisco Economic Letter 7/17/04 and ask them to answer the first question and discuss their answers in class.

1. Why are we concerned about productivity based on last night’s reading?

a) How does the macro versus micro perspective on productivity differ?

Answer: The micro perspective focuses on how productivity shifts production across industries, while the macro perspective focuses on how productivity affects total employment.

b) How does increasing productivity affect total unemployment in the short-run? Explain why.

Answer: In the short-run, productivity gains increase unemployment. Plants, for example, can produce the same level of output with less labor so they cut labor cost by letting workers go.

c) How does increasing productivity affect total unemployment in the long-run? Explain why.

Answer: In the long-run, productivity gains decrease unemployment. It drives the cost of labor down resulting in an increase in the quantity of labor demanded and raises demand for labor in other areas of the company.

d) In the long-run, what is the relationship between productivity growth and real wages?

Answer: positive

2. Catholic Social Thought on Labor

a) How does Pope John Paul II define “work” and how does it compare to how you define work?

Excerpt from Laborem Exercens (Latin: Through Work)

1. THROUGH WORK man must earn his daily bread and contribute to the continual advance of science and technology and, above all, to elevating unceasingly the cultural and moral level of the society within which he lives in community with those who belong to the same family. And work means any activity by man, whether manual or intellectual, whatever its nature or circumstances; it means any human activity that can and must be recognized as work, in the midst of all the many activities of which man is capable and to which he is predisposed by his very nature, by virtue of humanity itself. Man is made to be in the visible universe an image and likeness of God himself, and he is placed in it in order to subdue the earth. From the beginning therefore he is called to work. Work is one of the characteristics that distinguish man from the rest of creatures, whose activity for sustaining their lives cannot be called work. Only man is capable of work, and only man works, at the same time by work occupying his existence on earth. Thus work bears a particular mark of man and of humanity, the mark of a person operating within a community of persons. And this mark decides its interior characteristics; in a sense it constitutes its very nature. ... (Source: John Paul II, Pope. *On Human Work: Encyclical Laborem Exercens*. Washington, D.C. (1312 Massachusetts Ave., N.W., Washington 20005): Office for Publishing and Promotion Services, United States Catholic Conference, 1981.)

3. Given the centrality of the value of human life in the teachings of Pope John Paul II, we need to factor that into our economic decisions as well. Later in the encyclical, he distinguishes between work in the *objective* sense and work in the *subjective* sense. How do they differ?

Note to instructors: You may consider including in the exercise additional paragraphs from the encyclical where Pope John Paul II describes in more detail the difference between the objective and subjective nature for work. We felt that freshmen may have difficulty reading the encyclical and thus decided to provide them a description instead.

Answer: Objective sense – the actual production of the good or service

Subjective sense – the act of human person; human dignity (e.g., work requires labor to engage intellectually, personally invested in the production, care about the quality of service they provide, takes pride in their work; it is part of their identity)

4. How might Pope John Paul II view technological advancements and production techniques like the assembly line that have automated production affecting both dimensions of work?

Note to instructors - Sample answers:

Objective sense – improved ... Technological advancements raised productivity and thereby lowered production costs and raised demand for labor in the long run and raised real wages for employees. But, this also led to larger sized firms. One achieves economics of scale at a larger production level leading to consolidation in the market.

Subjective sense – weakened ... Have observed work to be more mindless with automation. Workers also have less ownership, investment into the final product's quality, and thus less pride in the work. Also note that the short-run unemployment is associated with not only a loss of income, but a loss of contributing to society, feeling useful.

5. Economics is a study of trade-offs. We need to consider that while technological advancements may have diminished the subjective sense of work, are there any economic gains that labor may have received from these technological advancements?

Note to instructors - Sample answers: increase productivity led to a) lower priced items and higher standard of living, b) decline in average workweek, and c) shift in the long-run aggregate supply allowing the market to be able to employ more workers without experiencing inflation.

6. How can consumers and producers enhance the subjective sense of work/dignity of work?

Note to instructors - Sample answers:

Working conditions in garment factories (slave labor) – be mindful of where you as a consumer and producer purchase your goods and inputs, respectively

Don't always put profits before employees – invest in safe working conditions; don't expect employees to put work before their families.

Nonprofit motives running business decisions: *The Refugee Assistance in MicroEnterprise Project in Florida - Catholic Charities USA has partnered with the SunTrust Foundation to support piloting microbusiness programs. They provide entrepreneurship training as well as low-interest small, credit-building loans to refugees who want to start a business. The program also has a wider objective "to foster integral human development, which is centered on the inherent dignity of the human person, each of whom is much more than the sum of his or her economic activity." "It's a whole different type of lending," Currie said. "We're not just concerned with a person's credit score. There's a human element that's involved. I get very emotional when I think about it; you're changing someone's life."* (Source: Catholic Charities USA. "Microbusiness Programs Help Fledgling Entrepreneurs." April 21, 2018. <https://www.catholiccharitiesusa.org/story/microbusiness-programs-help-fledgling-entrepreneurs/>)

Quality Public Education provides an opportunity to participate in the labor market and support family. Also, unemployment rates fall with educational attainment.

Pay attention to forced migration. You may recall Pope Francis went to meet a boatload of illegal immigrants in Lampedusa near Sicily. Once again, such forced migration could be linked to the lack of work opportunities in one's home country.

Hire the youth – US Chambers Committee wrote a report to provide strategies on how to successfully employ the youth in companies. This drive to hire the youth would help address one of Pope Francis' concerns. In October 1, 2013 interview with the journalist, Eugenio Scalfari that appeared in *La Repubblica*, Pope Francis said that the two biggest social evils which need to be addressed are the loneliness of the old and the unemployment of the young. He stated: "The young need work and have neither one nor the other and the problem is that they don't even look for them anymore. They have been crushed by the present. ..." "We are running the risk of having a generation that does not work. From work comes a person's dignity. From work ... comes a person's dignity .. When we isolate the young ... we strip them of the possibility of belonging and the young have to belong."

Economic Data to provide context for the Pope's concern about youth unemployment:

US youth unemployment – 8.5% Italy youth unemployment – 31%

France youth unemployment – 23% Spain youth unemployment – 35%

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