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A Social Justice Perspective on *Bourgeois Equality*

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Deidre McCloskey's interdisciplinary approach adds significantly to our understanding of economic growth and prosperity. And for the most part, I also embrace the free market, free trade, and all of the positive outcomes that go along with them. But more than thirty years at Saint Joseph's University, Philadelphia's Jesuit, Catholic university, have caused me to question so much of the economics I have learned and taught for over forty years. In particular, I question whether economics can really be "value free" and whether greater efficiency is worth the tradeoff in equity. By championing efficiency over equity, aren't we economists making a value judgment?

Professor McCloskey consistently makes the strongest possible case for the market, and most economists probably agree with her conclusion that there is no better system to maximize efficiency, production, and economic growth than the market system. She eloquently makes the case that the market has been the engine for economic growth since ancient times, continuing through the modern day. And that is the purpose of her trilogy. I wish that she had placed greater emphasis on the distributive effects of the market. When she does, she claims that the system is good for the poor, for people in less developed countries, and cites data showing improvement. In the United States and abroad, people "at the margin" have not always benefited from economic growth, both with respect to how much and how quickly their economic situation has improved. A billion people have moved out of extreme poverty since 1990, but 300 million workers still lived below the $1.25 a day poverty line in 2015 (United Nations 2015). And while there is currently a debate among economists regarding the significance of the increasing inequality of the income distribution, the question of a lower bound on the standard of living is a different issue. The disparity is starkly illustrated almost weekly in publications like the *New York Times*, when a story about extreme poverty and despair appears beside an ad for $950 Manolo Blahnik shoes.

Quoting Sheri Berman's work, McCloskey writes that "capitalism meant an end to a world where one's position and livelihood were defined primarily by membership in a particular group" (p. 544). No doubt a meritocracy of this type helps to "level the playing field." But success in the marketplace still does depend to some extent on where one is born and who one's parents are. For example, in the 2014–15 cohort years, the (much improved) high school graduation rate in Philadelphia was 64.8%, still significantly below the 97.7% figure in neighboring Lower Merion Township (PDE 2016). There is no question which students have an advantage in the marketplace, by accident of birth.

The beauty of the market is that anyone with a dollar in their pocket is equal to anyone else with a dollar in their pocket. To that extent, it works, but that is also where it fails, because anyone who does *not* have a dollar in their pocket cannot participate in the market, cannot be "at the table." The foundation of market economics is wants, not needs; people's preferences are autonomous. And there is market failure here as well, because so many have what they want, while too many do not have what they need. And we cannot wait for the Great Enrichment; we need government regulation and participation by faith based institutions, secular groups, and NGOs to fill the gaps until the Great Enrichment catches up.

Others share the view that economic "freedom" by itself is not sufficient. In his recent essay, "The Contested History of American Freedom," Eric Foner (2013) traces the role of freedom and liberty from colonial times to present day: "…in a modern economy, economic freedom meant economic security—a floor beneath which no citizen would be allowed to sink. To secure economic freedom thus defined required active intervention by the government" (p. 4).

McCloskey writes that "competition which sets entrepreneurs against one another for our benefit needs to be encouraged, not checked" (p. 98). I agree, but only up to a point. Should we encourage outsourcing of labor to countries where people work under sweatshop conditions? Certainly companies that do so are at an advantage regarding cost over their rivals. Consumers are winners, too, as they pay lower prices. But is it worth the price in suffering and human dignity? The market depends on voluntary decision making. Can we argue that poor people in Third World nations actually have a choice? Is deciding between not having enough to eat and working in a sweatshop (or selling a kidney) really a choice? And if we agree that a decision to work under sweatshop conditions is "voluntary," should we be content to limit human beings to only those two options? Lindblom (2001) writes that there is a difference between how much of a society a market *can* coordinate and how much it *should* coordinate. Most societies now prohibit the sale of human beings and body organs, even though both could be (and have been) market goods.

It is possible to recognize the virtues of the market system while at the same time acknowledging its shortcomings. Economists, Jewish social teachings, and Catholic Church documents do just that. In *Hard Heads and Soft Hearts* (1987), Blinder writes that "the unfettered market shows no mercy. If there is to be mercy, it must be imposed from the outside" (p. 21).

The Jewish tradition teaches that there is nothing wrong with earning a profit, just not to excess. The rabbis recognized that profit must be high enough so that merchants would have sufficient incentive to produce and sell. But the rabbis also imposed a limit of one-sixth on profit for necessities such as food and housing to ensure that all could afford them (Dorff 2002, p.35). The Talmud teaches (*Bereshit Rabbah* 9:7) "But for the evil desire (*yetzer harah*), no man would build a house or take a wife and have children or buy and sell in business" (Sefaria). Substitute "self-interest" for *yetzer harah,* and it sounds a lot like the role of incentive in decision making.

In *Economic Justice for All* (1986), the U.S. Catholic Bishops write, "Catholic social teaching does not require absolute equality in the distribution of income and wealth. Some degree of inequality is not only acceptable, but *may be considered desirable for economic and social reasons, such as the need for incentives and the provision of greater rewards for greater risks* (emphasis mine)" (sec. 185). Expanding on this theme in his 1991 Papal Encyclical, *Centesimus Annus*, Pope John Paul II writes

> It would appear that on the level of individual nation and of international relations the free market is the most efficient instrument for utilizing resources and effectively responding to needs. But this is true only of those needs which are "solvent" insofar as they are endowed with purchasing power and for those resources which are "marketable" insofar as they are capable of obtaining a satisfactory price. But there are human needs which find no place in the market. (sec. 34)

He continues: The Catholic tradition calls for a "society of work, enterprise and participation" which "is not directed *against* [emphasis mine] 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" (sec. 35).

Throughout the book, McCloskey asserts that interference with the market (government regulations, unions, government safety net, etc.) is actually bad for the poor. The data do not consistently support this conclusion. For example, Walters and Mishkel (2003) conclude that "the impact of unions on total nonunion wages is almost as large as the impact on total union wages," which is about 20%. Engelhardt and Gruber (2004) find that Social Security is a significant contributor to the dramatic decrease in poverty among the elderly.

When McCloskey writes that government regulation (or other forms of interference with the market) harms the poor, she may have in mind the "law of unintended consequences." Minimum wage legislation is certainly a good example of that. Although a floor on wages is intended to help workers in low wage jobs, economic theory predicts that when employers are forced to increase wages, they will in fact employ fewer workers. For decades economic research supported those predictions. But in the 1990s, Card and Krueger (1993) found that employment grew faster in New Jersey, which had increased its minimum wage, than in Pennsylvania, whose state minimum wage remained unchanged. These results completely contradicted decades of research. Subsequent studies have similar results. The effects of the proposed $15 minimum wage are still unknown and more complicated because of the large relative change from current levels. There are few studies so far about its possible effects. Levinson (2016) predicts a significant loss of jobs if the minimum wage is increased to $10.10. If one extrapolates, it is quite likely that a $15 minimum (or living wage as it is sometimes called) will actually harm (some) workers. It is worth noting that some major companies have raised wages for those at the low end of the salary range. Jamie Dimon, chair and chief officer of J.P Morgan, explained why the firm increased its minimum salary to $10.10 per hour. That figure will increase, incrementally, to $16.50 in three years. He says, "A pay increase is the right thing to do. … And it's good for our company" (Dimon, 2016).

McCloskey writes "money is good to have… But taking and keeping do not give purpose to full human life. Faith, hope and love do" (p. 110). This way of thinking is completely consistent with Catholic Social Thought, yet for most of the book, she rarely suggests a way to mitigate the ethical shortcomings of the market, nor does she emphasize the need to do so. She brings ethics into the conversation frequently, but she consistently concludes that the market is supreme and not only does not need to be corrected, but any attempts to do so will retard economic growth and have negative effects on the poor. I wish she had expanded her interdisciplinary approach beyond history and literature to include more philosophy and theology, with more of an emphasis on ethics.

In conclusion, I think Rebecca Blank says it best. In *Is the Market Moral* (2004) she writes, "I am an economist and a Christian. As an economist, I believe in markets" (p. 11). The key question is not "'Should there be a market?' but 'What are the limits to markets as an organizing structure for economic life?'" (pp. 12–13). She reminds us of several things that economists tend to overlook in their zeal to promote and defend the market:

1. The importance of placing economic concerns alongside other values and needs
2. The role of religion for championing the need for what she calls "mediating effects of the market economy" (pp. 5–6).

She concludes, "there are times when other-interest is more important than self-interest, when we as a society need to respond more effectively to the human pain caused by market outcomes, and when 'freedom to choose' must give way to other values" (p. 54).

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