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"Just Remuneration" Over a Worker's Lifetime*

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In *Laborem Exercens*, John Paul II discusses the relationship between the worker and the direct employer, and says, "The key problem of social ethics in this case is that of *just remuneration* for work done."[1] In this article we broaden the concept of just remuneration to the context of the worker's lifetime earnings and benefits received in the jobs held. Economists find that there is a life cycle of earnings over the working age of people. It is possible that a system that provides just remuneration for every job would be inadequate from the perspective of all those in the labor force. The optimal job for a person may differ, depending on the person's age, family role, level of education, and plans for the future. The ethical concern should be whether the types of jobs available are such that people at different stages in their lives can find work that enables them to fulfill their lifetime plans and objectives.

The Just Wage Issue in the Literature of the Church

Concerns about the payment of *just wages* are part of more general discussions about the topic of a *just price*, which occupied a large place in the writings of the Scholastics. These scholars generally held that a just price is to be determined by the lowest price commonly paid for that good. Classical Roman law made price illegal if it was more than fifty percent above or below the just price. However, the Scholastics generally held that, as a matter of conscience, the upper and lower boundaries should be narrower than for those required by

law. For example, Juan de Lugo[2] said that a price outside a ten-percent boundary on either side of the just price would be unjust.

The issue of a just price quickly faded from consideration by economists once it became clear that no objective standard could be applied with certainty to justify a particular price. It was not the labor content itself (as early writers claimed, and Marx assumed) that mattered but, rather, what buyers were willing and able to pay for the product or service and what others were willing to accept in return for the labor and other resources used in production.

Furthermore, Adam Smith (1723–1790), the father of economics, introduced the notion that free competition among buyers and sellers eliminates any surplus profits, thereby giving consumers the best prices possible. The term that he coined, the *invisible hand*, referred to the nature of competitive markets and the natural inclinations of economic actors. Both are intended by the Creator to improve the material well-being of the masses by means of individual pursuit of self-interest (e.g., by creating high-quality products, in order to attract customers). Smith assumed a role for governments, institutions teaching morality, and schools—namely, to address human needs and weaknesses not adequately handled by markets.

Whereas medieval laws set both minimum prices (meant to protect sellers) and maximum prices (meant to protect buyers), public policy from the period of Adam Smith onward has gradually accommodated itself to market-determined prices. It is understood that prices set in competitive markets are fair to both parties as long as they are voluntarily agreed to. Michel says that prices are the result of the dialogue over scarce resources, which takes place between human beings in markets.[3]

Of course, governments may intervene—with regulation or antitrust action—in cases where monopoly power tends to cause prices to be unusually high. However, apart from those cases, it is judged that prices can be fairly and efficiently determined by the interaction of market supply and demand. (Efficient allocation of scarce resources argues for market-determined prices, except where externalities exist, as in the case of polluting industries, which use *free* air and water for waste disposal, and therefore underprice and overproduce their products.) In modern times, the main departures from this hands-off policy regarding prices have included the following: maximum interest rates (regulated by usury laws), rental ceilings (under rent-control laws), minimum prices of certain agricultural commodities (regulated by direct government purchases when market prices are *too low* for farmers), and maximum prices of some essential consumer products, such as gasoline or grain. The

prices of *necessities* are sometimes kept low by law, public subsidy, or governmental payments of confiscatory prices to farmers.

From the beginning, writers on just prices assumed that this doctrine included a *just price for labor*; in this case, just wages. The norms were to be determined by what was customarily paid for the particular labor services provided, given the circumstances under which they were provided. Those circumstances included such things as the amount of education required for the work (a reason for paying higher wage rates), whether the employer was offering training or time off for studies, and whether the worker received honor for the work done (the latter circumstances being reasons to justify paying lower wage rates).

What was not permissible, according to the Late Scholastics, was that family needs or circumstances of the worker play a role in the determination of a just wage. Furthermore, writers such as Juan de Medina made it clear that because circumstances—like scarcity, risks, and expenditures—change over time, prices (hence also wages) could not be constant.[4] Throughout this article we argue in a similar vein; namely, that any attempt to regulate wage rates by moral or legal injunction is confounded by the fact that they change over time—and must do so in response to changing circumstances. If they do not, both justice and efficiency are compromised.

The Late Spanish Scholastics were the first to analyze systematically markets, prices, and wages (along with money, taxes, and private property). They argued that wage rates, like other prices, were subject to variations in factors affecting demand and supply. Furthermore, they showed that legal enforcement of maximum prices or minimum-wage rates would often be counterproductive. Thus, they reasoned that unemployment would be an undesirable consequence of setting minimum-wage rates. They held that the dimension of justice most applicable to prices and wage rates was commutative, not distributive justice. Consequently, the relevant moral issue in exchange is whether the parties have voluntarily entered into the exchange, not the particular price to which they agree.

Clearly, no deep Christian thought or reflection on Scripture can sustain a claim that Christians dare be indifferent to poor people. The Scholastics were not an exception. Although they argued that extensive governmental intervention with prices and wages would violate justice in exchange, they also held that Christians with the means are morally obliged to help the poor. Two avenues they recommended were giving to charity (even if that required the givers to cut back on their purchase of luxury goods), and feeding the poor, for example, instead of dogs.[5]

Any update of discussions about just wages should expand upon the work of the Late Scholastics but not detract from their keen analysis of problems that result from attacking poverty via setting wage rates rather than by measures to increase workers' productivity. We will elaborate on this matter in the section that follows.

A proponent of just wages might not insist that they be made a matter of law but, rather, a matter of conscience. It is not clear from *Laborem Exercens* (*LE*) what John Paul's opinion is regarding this distinction. Neither is it clear whether he intends that the doctrine be applied with a range of different wage rates being paid to those providing the same service but having different needs (e.g., due to family size). As we said above, the Late Scholastics disapproved of the latter. To our knowledge, however, they did not elaborate on how such detailed wage setting would severely interfere with the ability of workers to provide for themselves.

Modern economists—Christian and otherwise—point out that requiring a high wage rate for a ditch-digger with a family (or carpenter, or any other type of worker) than for one without dependents would have unfortunate consequences. Not only would these wage rates cause many employers to avoid hiring workers with families, but they would also raise the cost of things produced by the higher-cost workers, thereby hurting poor consumers. By contrast, higher wages typically paid to carpenters (with or without families), compared to ditch-diggers, have the extremely desirable effect of encouraging workers *to gain the needed skills*. This, in turn, leads to lower prices and higher living standards for everyone, including the poor.

In addition to the disincentive problems just mentioned, when wage rates are set according to family circumstances, there is also an unavoidable information problem. It would be difficult for employers to determine which workers deserve a higher wage. Must a worker who has a family but also a large inheritance, be paid more than a single person? How much is needed for a family with three children, when one child might require that the family home accommodate a wheelchair, or hire a tutor for a child who cannot safely attend school? These are the sort of information problems that already cause injustices, very high administrative costs, and unwelcome intrusions into family lives when public benefits are allocated through Medicaid and Medicare. Most people would much prefer that such burdens not be imposed on the whole population through the setting of each worker's wage rate.

Economic Theory of Wage Rates

A job provides a number of benefits to the worker. A job provides an opportunity to contribute to the well-being of society, as suggested by DeKoster (1982), "… work is the form in which we make ourselves useful to others."[6] A job also provides the means to meet one's own material needs and to care for one's family, but *work provides benefits beyond remuneration to workers*. A job may be used to develop skills that enable a worker to find a more remunerative job in the future. A part-time job can be used by a young person to help pay for his or her higher education. A retired person may want to stay active and desire a job for the social benefits rather than for the monetary reward.

As a result, workers may be best served by some jobs whose earnings are relatively low because the jobs provide attractive nonmonetary benefits. Not every job must provide remuneration sufficient to support a family for a labor market to be considered just. In fact, in a dynamic economic setting, it is probable that a society in which every job provides remuneration sufficient to support a family would be grossly inferior to a society in which many jobs were low paying, temporary, or part-time. The key is to focus on what job seekers desire from a job. For many, the wage rate is critical, but for some people, other dimensions of the job are more important.

Economists use the tools of supply and demand to describe the determination of wages and to analyze other aspects of labor markets. Employers "demand" labor because laborers are needed to work with other productive resources to produce a product or service that is sold to others. It is the revenue from the sales of the product or service that allows the owners of the productive resources, including labor, to be paid for their services provided. If no one wants the product or service provided by the employer, or if the price charged is too high, the employer will not be able to stay in business and the resources employed will be released.

The price that an employer is willing and able to pay for a resource is related to the resource's contribution to the revenues of the firm. The resource's contribution is related to the productivity of the resource and the price that the firm receives for selling its good or service. That is, the remuneration received by the owner of a resource is directly related to the productivity of the resource. This applies to land, raw materials, and capital, as well as to labor. The more productive that workers are, the greater the remuneration that workers will receive.

For the purposes of this article, the more important determinants of labor productivity, and hence, of labor's remuneration, are the quantity and quality of the other resources employed along with labor. A farm laborer can produce more working on high quality land than on poor quality land. Similarly, a farm laborer can produce more working with a tractor than with a mule. We concentrate on the importance of capital, since capital affects both agricultural and nonagricultural workers.

Capital can be divided into two broad categories—physical capital and human capital. The essence of capital is that it is a resource produced to increase future production. Physical capital includes the tools, equipment, and factories used to make goods and services. Human capital refers to the training of workers that makes them more productive. This training can be through formal means such as school and vocational training programs and through informal means such as on-the-job training and work experience. On-the-job training can be general training or specific training, where general training refers to the acquisition of skills that are of value in other firms as well, while specific training involves the acquisition of skills that are of value to the firm that employs and trains the worker alone.

In a similar fashion, experience can be divided into two types—general experience that increases the productivity of the worker generally, and firm-specific human capital that increases the worker's productivity as long as the worker continues to work for the same firm.[7] The greater the human capital of a worker, other things being equal, the more productive the worker can be and the greater the remuneration that the worker is likely to receive. The decision of how much formal human capital to acquire is made by the worker.

A major factor determining the remuneration of a worker is the level of formal schooling that the worker has obtained. There is an opportunity cost for continuing another year of education—the lost earnings that the young person could make by working rather than by attending school. On the one hand, the availability of relatively low-paying, part-time jobs reduces the opportunity cost of attending school by providing some funds for the young person or for his or her family. On the other hand, the opportunity cost of another year of education increases with each additional year of schooling, since the potential earnings increase as education levels increase. Economic theory predicts that a person is more likely to *invest in* an additional year of schooling if the following factors are present: (1) the household is forward-looking, (2) the cost of another year of school is relatively low, and (3) an additional year of education is likely to provide a greater return in terms of future earnings and benefits. Given these conditions, then, the worker faces a trade-off—additional

schooling that increases productivity that will increase future earnings; but, to acquire additional schooling, the worker must forego current income.

We conflate two models that economists use to analyze the decisions that people make concerning the supply of their labor services—the labor-leisure trade-off model and the household production model. We provide only an outline of these models; further details can be found in any labor economics textbook. People have three broad uses for their time—work for pay in the marketplace, work at home for no pay (meal preparation, child-rearing, home maintenance, and so forth), and leisure activities (sleeping, reading, entertainment, hobbies, church activities, and so forth). Work for pay provides the income needed to pay for the leisure activities and to pay for many of the inputs used in household production. The opportunity cost of an hour spent in either leisure or in household production is the income that could have been earned had the person worked in the marketplace; that is, the wage rate. A higher wage increases the opportunity cost of both leisure and household production. The likely response to a higher wage is to work more hours, thereby reducing the hours allocated to either leisure or to household production.[8]

One trade-off in response to a higher wage made by many people is to engage in less household production and to purchase items in the marketplace. Examples include eating out instead of preparing meals at home; putting children into childcare facilities; or hiring a painter instead of painting the house oneself. For a single adult, the individual makes the decisions, but married couples usually make the decisions jointly. Older children may also be involved in the decision-making process, especially regarding part-time or summer jobs that they may obtain.

Drawing together the several strands of economic theory above, we can make the following statements concerning labor markets in competitive situations.

- Wages are determined by the interaction of supply and demand forces.
- The demand for labor is greater, the more productive labor is.
- The productivity of labor is affected by the quantity and quality of the other resources that labor works with.
- For nonagricultural workers, capital is the most important resource with which labor works.
- Human capital is extremely important in determining the wage that a worker is able to command.

- Human capital is developed by formal schooling, formal training programs, and experience. Experience and schooling are substitute ways of obtaining human capital.
- For the worker, the decision of how much formal schooling to obtain is an investment decision influenced by whether the individual is relatively present-oriented or future-oriented, the opportunity cost of school (especially the earnings the person could make by working full-time), and the expected rate of return to an additional unit of schooling.
- Human capital can also be obtained by working and gaining experience; so, unemployment has both a short-run cost to the worker and a longer-term cost in terms of reduced experience and human capital formation.

How would a public policy of a minimum or *living wage* affect the decisions of households and affect the opportunities that workers face? A living wage is essentially a minimum wage put at a higher level than is typical. We will use minimum wage in our discussion, but the discussion is applicable to living wage as well. Some type of living wage would affect younger, lower-skilled workers the most. The greater the mandated minimum wage, the more people who would be affected. Clearly, those who keep their jobs and are able to maintain the same number of hours would benefit, but there would be many who would be adversely affected. Workers who are unproductive, either because of low levels of education or lack of experience, would find it difficult to obtain or keep a job.

The higher minimum wage would also influence decisions concerning how much schooling to obtain. The opportunity cost of another year of schooling for those workers who would be able to find work would increase. This, on the one hand, might induce some to quit school earlier than they otherwise would. On the other hand, there might be some who would not be able to find work and who would remain in school longer. Unfortunately, the decision to stay in school longer may also be affected by the income status of the household. Those from poorer households might find it more difficult to stay in school when the schooling involves cash outflows for tuition and supplies, as well as foregone income that might be needed by their families. The magnitudes of these effects cannot be determined *a priori* but would have to be estimated empirically.

There is a long-term problem that the living wage could generate. As noted earlier, an important source of human capital development is work experience.

As will be seen in the next section, wages increase substantially with experience. Obviously, the acquisition of experience can only take place when a person works at a job. If the higher minimum wage prevents the least-skilled from obtaining jobs, it prevents them from obtaining experience that will enhance their skills and their future earnings. Ultimately, such individuals may be those who live continuously at the economic margins of society and even fail to get counted in unemployment statistics because they have given up looking for work. Again, the magnitude of this problem cannot be known *a priori* but would certainly be greater because of the larger difference between the minimum wage and the market wage.

Evidence About Wage Rate Differences and the Consequences of Minimum-Wage Rates for Unskilled Workers

In this section we use some recent research by labor economists to determine the importance of the issues raised in the last section. Much of the research refers to the increasing gap between the wages of the highest paid workers and the lowest paid workers in America over the last two decades, but the research utilizes the models employed in the last section and illuminates the issues that we have discussed.

Kevin Murphy and Finis Welch provide information about the structure of wages among white men in the United States from 1963 to 1989.[9] They provide age profiles of average wages for four groups of workers, based on education levels. An age profile of average earnings is a graph with age on the horizontal axis and average wages for workers of each age on the vertical axis. It is expected that this relationship is concave, indicating that wages increase with experience but at a decreasing rate. Murphy and Welch break the individuals in the data set into four groups—high school dropouts, high school graduates, those with one-to-three years of college, and college graduates. They report that average earnings of the more-educated are greater than those of the less-educated, although there are many individuals who do not conform to the averages. That is, there are many high school graduates who make more than college graduates do.

Murphy and Welch use the averages for all the years as a measure of the baseline wage structure. They find that: (1) High school dropouts earn about twenty-five percent less than high school graduates earn; (2) High school graduates earn fourteen to fifteen percent less than those with some college;

and (3) College graduates earn forty-four percent more than high school graduates earn. There are significant differences for specific years over the time period analyzed, but *a positive relationship between wages and education levels always holds*.

Experience is the second method of acquiring human capital. The age profiles for each group are concave, as expected. For the time period as a whole, Murphy and Welch (296) report that the average wages of men with sixteen-to-thirty-five years of experience exceed the average wages of new entrants (one-to-five years of experience) by seventy-to-eighty-five percent, depending on the level of schooling completed. Of the four education groups, the group with the greatest average return to experience is high school graduates (eighty-five percent). Those with some college had the lowest return to experience, at seventy percent, while the return to experience for college graduates was seventy-five percent and for high school dropouts was seventy-eight percent. Clearly, experience is an important source of income-earning ability, especially for workers with relatively low levels of education.

Katz and Murphy examine relative wage differentials from 1963 to 1987 in the United States.[10] They report that all the major relative wage differentials increased during the time period, with the exception of the male/female wage differential. They find that the wage premium for experience expanded substantially over the entire time period, and was greatest for less-educated males from 1979–1987.[11] They also find that the male/female wage differentials narrowed substantially from 1979 to 1987. After analyzing the differences, using a basic supply and demand framework, Katz and Murphy conclude that the relative wages of more-educated workers and of women increased substantially from 1963 to 1987, and that the evidence indicates that there was an increase in demand for more-educated workers, women, and more-skilled workers during the time period.

Topel[12] and Topel and Ward[13] focus more on the roles that experience and seniority play in determining wages. Seniority refers to time spent working for one firm. Topel finds that the average returns to seniority are substantial—ten years of job seniority raise the wage of the typical male worker in the United States by over twenty-five percent compared to what he could get elsewhere. This supports the idea that the accumulation of job-specific human capital is important in generating higher wages. Topel also finds that the reward to general experience is substantial and that relative wage growth is most rapid at the beginning of new jobs.

Topel and Ward examine the effect of job mobility on wages of young men, using data from 1957–1972 for the United States. They note that the American

labor market is characterized by substantial increases in wages and in job mobility, with an average worker changing jobs ten times. Further, about two-thirds of the lifetime wage growth occurs in the first ten years of a career. An important finding is:

> Among the young men who comprise our sample, multiple job holding, rapid turnover, and return to past employers are common. Transitory jobs and employment spells followed by a gradual move toward stable employment characterize the prototypical career sequence.… A revealing feature of the data is that it is extremely difficult to tell when individuals leave school to enter full-time work. In some cases the break is not as dramatic as full-time schooling models suggest but, rather, seems best characterized as a gradual shift from nonparticipation to full-time employment along a path of high turnover and intermittent work.[14]

The authors find that younger workers have a weak attachment to the labor force. Naturally, some of this effect is due to summer employment and part-time jobs held by persons in school.

Other findings of interest to our analysis are: (1) The average person holds three jobs in his first full year of actual employment; (2) The average frequency of job mobility is a declining function of current job tenure; (3) Nearly three-fourths of all first-year job endings result in a transition to nonemployment; (4) More than one-third of early career wage growth is associated with changing jobs; and (5) Larger wage gains at job transitions are associated with a decline in subsequent job mobility. Topel and Ward conclude that the data are consistent with models of on-the-job search in which a worker stops searching for a better job when he is satisfied with the job he currently has.

The studies discussed above illustrate several things about the U.S. labor market:

- There is a substantial return to experience in the labor market.
- Most of the reward to experience occurs in the first ten years of work.
- Apart from the return to experience, there is a return to tenure in a specific job or with a specific firm.
- The return to experience is greater for workers with less education, other things being equal.
- There is a substantial return to education.
- The return to education increased after the early 1980s.

For young workers, there is substantial turnover and movement into and out of the labor force.

These findings suggest that an important factor in the long-term economic viability of a young person, especially a young person without college, is the ability of the person to obtain a *first* job. Without the acquisition of human capital provided by additional schooling, the individual needs work experience to acquire human capital and to command higher earnings in the future. For low-skilled workers, that is, young, relatively poorly educated workers, obtaining job experience is crucial. If firms will not hire low-skilled workers because they are forced to pay a relatively high minimum wage, the low-skilled workers cannot get the job experience that would enable them to later obtain a job that pays a substantially higher wage. The question is, then, What are the effects of increases in the minimum wage on employment?[15]

Until recent years, economists were almost uniform in agreement about the effects of minimum-wage legislation—increased unemployment of the least-skilled workers, who tend to be young workers, especially minority young people. Basic supply and demand analysis implies that a wage set above the market-clearing wage will generate unemployment.[16] Welch is an example of the work that economists relied upon to arrive at their conclusions regarding the effects of higher minimum wages. Welch focuses on teenagers in the analysis of the minimum wage.

He concludes:[17] (1) Minimum-wage legislation reduced employment of teenagers; (2) Minimum-wage legislation made teenagers more vulnerable to the vagaries of the business cycle; (3) Minimum wages have large effects on the distribution of teenage workers across industries. (This is because minimum-wage legislation in the United States did not cover all industries, so that teenagers moved into the industries not covered by the legislation to find work);[18] and (4) There is evidence that minimum-wage legislation disproportionately affected minority teenagers and workers above the age of sixty-five. Welch also notes that there is evidence that teenagers who worked full-time earned a higher wage rate than those who worked part-time. If the part-time wage is raised through minimum-wage legislation, students who rely on part-time work to pay for schooling and who lack alternate sources of support may have to quit school in order to work full-time.

Economists debated the effects of the minimum wage again in the 1990s because of the work of some economists who found that increases in the minimum wage did not increase unemployment and may actually have increased employment.[19] However, the emerging consensus is that of the traditional view—minimum-wage legislation reduces employment of teenagers and other

low-skilled workers. Deere, Murphy, and Welch examine the effects of the increases in the federal minimum wage in 1990 and 1991 that raised the minimum wage more than twenty-five percent.[20] They find that teenage employment grew from 1985 to 1989, then decreased in 1990, 1991, and 1992. The decrease was greater for those aged fifteen to seventeen than for those aged eighteen to nineteen. They also divided the sample on the basis of race, ethnicity, education, and marital status, and found that the subgroups with more low-wage workers in 1989 experienced larger declines in employment after the minimum-wage increases.

For example, the reduction in employment after the increase in minimum wage was greater for blacks than for whites, for Mexican-Americans than for other Spanish-speaking Americans, and for high-school dropouts than for those who did not drop out of school. While the research focus is usually on teenagers, low-skilled workers of all ages tend to be adversely affected by increases in the minimum wage.

In another study, Neumark and Wascher find that minimum wages increase the probability that teenagers leave school in order to work and increase the probability that lower-wage employed teenagers become both nonenrolled in school and nonemployed.[21] Neumark and Wascher note that the aggregate effects of an increase in the minimum wage can be small or almost nonexistent, yet have significant effects for some. They state, "… in a model with heterogeneous workers, only those with a market wage at or near the minimum wage should be disemployed by a higher minimum wage, and the net disemployment effect for all teenagers may be small if there is substitution toward higher-wage teenage workers. Our evidence is consistent with this model."[22] That is, the overall employment of teenagers may not change much as the least-skilled teenagers lose jobs and are replaced by more productive teenagers. In the United States, this suggests that minimum wage increases may increase the employment of white, middle-class teenagers and decrease the employment of minority teenagers.

In a world where young people regularly continue with their education until they graduate from high school or college, the long-term effects of changes in the minimum wage may be minor. However, in a world where many teenagers drop out of high school or graduate from high school with a relatively poor education, the long-term effects of the minimum wage may be severe. By making it difficult for low-skilled workers to obtain a job, the potential-workers are prevented from acquiring human capital through experience (or additional, part-time education) that would make them more productive in the future. Without obtaining the first job, many low-skilled workers

may never be able to find a job that pays a living wage. Yet, if they have the opportunity to obtain a low-paying job while young, their skills can be increased and they can eventually earn a wage that will support them and their families. The adverse effects of imposing a living wage in order to provide *just remuneration* would likely be much greater than the adverse effects of increases in the minimum wage in the past, because the living wage would require a bigger wage increase than previous increases in minimum wages.

The Issue of a Just Wage in Relationship to Developing Countries

If the imposition of a just wage by government is problematic in industrialized countries, it is the cause of great mischief and injustice in developing countries. Many poorer countries have patterned their labor organizations and laws after those of wealthy countries (although enforcement is much more lax). Thus, there are unions (active mostly in urbanized industry) and often an official minimum wage, or a whole wage schedule set by law. The result has been a very unfortunate skewing of wages and incomes in favor of urban areas and industrial development that uses more capital and smaller workforces than would otherwise prevail.

Higher wages in urban areas act to draw larger numbers of people out of agriculture and rural areas than can be accommodated in tolerable, urban living conditions. Even more disastrous is the impact of artificially high wages in the formal sector (the only one over which government has much control). The high cost of labor induces employers to replace labor with machine-based technologies. The immediate outcome is that open unemployment rates among low-skilled workers are high. Ironically, those least able to depend on the support of local relatives while unemployed, end up as an overflow into the informal sector. There, because labor laws do not touch them, small employers are able to set up small businesses using relatively cheap capital and more workers who are paid a lower wage rate. Those who are unlucky, unconnected, or unskilled enough not to find employment in this sector often become self-employed, doing everything from juggling on the tops of cars to selling sugar by the cube. Rarely is what they earn close to what would be considered a living wage by those who have jobs in the formal economy.

An outsider, coming from a rich country, is likely to be aghast at the sight of what would appear to be *injustice* in developing countries. Can it possibly be *just* if so many people are without jobs, or earning much less than a living wage, when that would be morally scandalous in a rich country? *The bald*

truth is that such a low standard of living is the product of low productivity of labor in poor countries. This is due not only to low education rates but also to other disadvantages, such as the lack of adequate physical infrastructure to connect regions of the country to each other, and the country to the outside world. Without these, people cannot take advantage of domestic and foreign markets to enhance their incomes as workers and producers.

Of course, international trade is poor countries' link to outside markets. In this setting, the presence of a minimum wage slows economic development by making the products that poor countries offer to world markets less competitive. It has been shown over and over again that countries that engage in open trade, experience faster economic growth and lower poverty levels than those with closed and/or government-managed access to world markets.

Thus, what would appear to be a simple remedy for *injustice*, having government require a living wage, is offset by more *injustices* than it solves, namely, high unemployment, growing urban slums, and a poverty trap for poorer regions, ethnic groups, women, and whole nations. The answer to Third World poverty is far more complex than is possible to elaborate in this article. However, the main outlines can be mentioned.

Ensuring a living wage is all about making people more productive so that their wage or self-employment incomes rise over time. *Time* is a key link to the earlier part of this article. It is inaccurate and unhelpful to look primarily at one moment in time to judge injustice, in the sense that we have used here. Instead, individuals, firms, policy makers, and even charitable organizations must make decisions about today on the basis of reasonable expectations about the future, as well as on intimate knowledge of their own skills, callings, and opportunities.

Analysis of economic development in recent decades shows that the essential ingredients for strong economic growth include all of the following:

- Strong macroeconomic policy—regarding taxes, expenditures, and the money supply—so that inflation does not overcome the country, for example. The latter hurts the poor and can cause huge economic distortions that lead to financial crises and inhibit further growth.
- An open market—relatively low barriers to trade (such as licenses, tariffs, and so forth) and to capital flows.
- Strong governmental institutions to ensure the protection of people, property, and contracts—including laws and widespread access to courts.

- Privatization of many industries previously owned by the government—for example, telephone service, rail transportation, banking, and extractive industries. This is necessary because government-controlled producers are neither willing nor able to produce and distribute these goods and services as efficiently as private firms do. Furthermore, they overwhelmingly distribute them to those who are already well-off.
- Significant spending on infrastructure (electricity, dams, irrigation, roads, flood control, communication networks, sewage systems, and so forth). It is especially important that private-sector firms take part; local communities be involved in assessing needs, providing *sweat equity*, monitoring quality, and maintaining upkeep; and that various levels of government help with coordination and funds.
- Investment in the development of human capital, through private and public spending on education and health care—especially targeted to the most disadvantaged groups and regions.

By such means, the future is opened up for the poor. The obvious dynamic goal of individual and collective action, in the name of economic justice, is to raise the incomes of the poorest people in the poorest countries to a level that would be considered a living wage, at least by a majority of the people of those countries. A minimum wage (even one calibrated to local norms) would tend to nullify all of the above conditions. For example, it could result in macroeconomic instability and inflation. It could make too expensive the very infrastructure that needs to be built, and hence, unavailable to the poorest persons and regions. Likewise, education and health would be much less-affordable and therefore concentrated—as they are now—on those who are well-off. Furthermore, incentives for individuals to increase their skills, save, acquire assets, and invest in small businesses would fall, to the extent that people with inadequate incomes expect that, by waiting long enough, they might get a job at the minimum wage in the formal sector.

People living in rich countries, whose ancestors lived in rural or urban poverty a generation or two ago, understand that the same problems confront today's poor countries as they did their near or distant ancestors. The minimum wage is a twentieth-century invention, which only became possible to consider in a time when the productivity of workers who were paid the lowest wages was not far below the minimum wage. No wonder that during the nineteenth century, when the U.S. economy was developing, minimum wages were

not imagined as a primary tool for justice. Instead, over decades, private and public investment in infrastructure and education, small savings used to pay for tools and other capital, and the collaboration of family members in work on the farm or off, caused the average standard of living in America to rise and the percentage of persons in poverty to fall. This is precisely the pattern that would have been severely impeded by a premature enforcement of a minimum wage.

Again, it is dynamic improvement over time that should be the moral objective of those concerned about conditions in poor countries, not a sudden improvement in wages for only a minority of workers. Emphasis on a dynamic approach to remedying the inhumane conditions of poor workers in all countries is in keeping with the thoughts of Pope John Paul and other Christian thinkers pondering the nature of human beings. Poor workers are to be respected as acting persons, not objects, when they make individual choices and willingly collaborate with others. Such respect for human beings is forward-looking, in the light of Christian hope in God and his church, for this world and beyond. One thing that many international Christian organizations do well is to help families and communities exercise solidarity and build hope by encouraging forward-looking vision and planning, as well as more resources to expand health care, education, and small businesses.

Reflections on Recent Papal Documents

In a recent critical essay, A. M. C. Waterman evaluates *Centesimus Annus* (*CA*) in moral and economic terms.[23] Although our article concerns an earlier papal encyclical, *Laborem Exercens* (*LE*) reflects some of the same confusion that Waterman found in *Centesimus*. He applauds the Catholic Church's recent recognition of the positive roles of markets—protecting some freedoms, constraining some sins, enabling individuals to contribute to the common good, and efficiently creating value by liberating human creativity (e.g., entrepreneurship). However, Waterman finds that some criticisms of markets and capitalism in *Centesimus*, and other official documents, arise from a misunderstanding of the ways that markets work and an unrealistic expectation about the wisdom and power of any government. Heretofore, we have discussed examples of unwise governmental limitations on markets in the form of government-controlled wages. Waterman argues that the particular type of Christian organicism underlying recent papal documents is, ultimately, incompatible with free markets (as well as with democracy and pluralism).

According to Waterman, Pope John Paul's statements in *CA* about the need for governmental intervention, in such dimensions of the market as wage rates (responding to their duty to promote the common good), can only make sense if all of the following conditions apply:

1. There exists a collectively optimal course of action in each national economy and in the world economy as a whole;
2. Some individuals in each society are in a position to identify such action;
3. Such individuals are, or could be, in a position of political authority;
4. This authority could be exerted by them with sufficient power to achieve their ends; and
5. Power would actually be used by those in authority to achieve the social optimum (that is, common good) rather than their own ends.[24]

Markets are one of many kinds of spontaneous orders, in that they are not the result of an overall rational design. Like languages, markets evolve out of interactions among individuals and groups—a "conversation," as Michel calls it.[25] Criteria number 2 above is particularly problematic for markets because no individual or group of individuals—including the government—can know enough about the unique skills, resources, and opportunities of each economic actor to identify an optimal action plan.

To be optimal, a plan must enhance the common good. However, even careful rational planning often leads to suboptimal results, in that many individuals and groups would have sacrificed less, or done better, if they had retained the power to make their own decisions—about buying and selling, and so forth. Pope John Paul's call in *LE* for government—the *indirect employer*—to provide overall planning for the "right proportions between different types of employment" is an example of expecting too much knowledge on the part of the government.[26]

Given the government's inherent lack of detailed information about changing demands and supplies of workers, governmental manpower planning (which attempts to predict gaps between supply and demand for certain labor skills and tie these to public-education planning) is no longer favored by most development economists.

All economists since Adam Smith (including Marx) have marveled at the material achievements of free and expanding markets. Likewise, they have understood that human beings belong at the center of any economy. Smith said, for example, that no country could call itself successful if the masses

lived in extreme poverty. However, human beings are at the center of an economy, in a second sense, because the ingenuity and efforts of millions of human actors create the material goods and services consumed by all. Markets may look to some like chaos, but there is no one-man (or one-group) planning process that could make it possible to discover and unleash economic potential as well as markets do.

Waterman cites the following passage from *Libertas* to illustrate the Christian organicism espoused by Pope John Paul and to show its incompatibility with the theory of spontaneous order:

> The eternal law of God is the sole standard and rule of human liberty, not only in each individual man but also in the community and society that men constitute when united. Therefore, the true liberty of human society does not consist in every man doing what he pleases, for this would simply end in turmoil and confusion [read chaos], and bring on the overthrow of the State.… (229f)

Furthermore, John Paul says that it is the job of governments to bind “all citizens to work together for the attainment of the common end proposed to the community and forbidding them to depart from this end.…”[27] Waterman says that this type of organicism presumes that human beings are in a position—especially when acting through a responsible government—to know how to achieve an optimal government. Most classical and modern economists are extremely skeptical about this “position.”[28]

Waterman pleads for Christians to develop a better ecclesiology to solve the contradiction between spontaneous order through markets, and the assumption that the government must exercise a moral role by regulating some aspects of markets. He suggests that a better understanding of the Christian Church as the Body of Christ is essential to reconciling the two.

We do not offer a solution to this dilemma but agree that such rethinking is needed. Perhaps the organic nature of the Body of Christ, in relationship to the economy, can be thought of as the harmonious and free collaboration of various body parts with each other. The apostle Paul, after all, did not suggest that possible jealously among the body parts, for example, between the head and foot, or the unpresentable parts and the rest of the body, could be remedied by letting the head run everything. Instead, he used his body analogy to teach respect for, and recognition of, various gifts, of which love is the queen. Markets have a way of eliciting the development and use of many (not all) gifts, for the good of the whole. Competition in markets acts to set prices and

wages that reflect the usefulness of specific gifts to the whole society. To recognize such is to see that economic organization deals with forces that are as real and unavoidable as gravity is to understanding celestial dynamics.[29] Neither one is subject to an easy appeal to justice.

Conclusions

Concern for economic justice often leads to calls for increases in the wages of poor workers. We have argued that such calls are misguided and are likely to create an economic system that is less just than would be the case if market-determined wages prevailed. As shown in the first section, some strands of Catholic social thought argue that the just wage is the wage agreed to by employers and employees in open markets. At a more practical level, we have shown that both economic theory and considerable empirical analysis show that wages set above market-clearing wages have adverse effects on the least-skilled workers in a society.

Further, we have seen that the return to job experience tends to be substantial; so, the initially low wages received by a low-skilled worker increase as the worker acquires human capital through job experience. By foreclosing the low-skilled worker from obtaining job experience, increases in the minimum wage prevent the person from obtaining a higher paying job when older. The impact of a living wage would fall hardest on the least-skilled workers and would reduce their long-term opportunities for higher wages.

While the focus of empirical literature has been young workers, we have also presented evidence that the adverse effects of minimum wages apply to older, low-skilled workers, as well. Further, minimum-wage laws affect the decision of whether to obtain more education. Again, the impact of this decision is more likely to be negative for young people from poorer families. The opportunity for part-time employment enhances the possibilities for young people to obtain more education. Part-time employment also permits one spouse to obtain additional funds without having to commit to full-time employment and the adjustments in family life that full-time employment requires. Flexibility in labor markets enhances the opportunities for many individuals and households. Modern economies are dynamic. Thus, a more dynamic approach to economic justice is needed to prevent well-intentioned proposals from harming many of the people whom the proposals are meant to help.

Finally, we encourage Christian scholars—both theologians and economists—to actively pursue answers to three questions: (1) How can justice be

understood as a dynamic process? (2) How (and in what domains) do markets serve the cause of justice? (3) How can the unique processes and limitations of markets, governments, and intermediary institutions be harnessed to provide real help for the poor?

Christian scholars do well to remember Jesus’ realistic assessment that, “The poor you always have with you” (John 12:8). They should also recall the Old Testament passage from which Jesus was quoting, which adds, “Therefore I command you, You shall open wide your hand to the brother, to the needy and to the poor, in the land” (Deut. 15:11). In light of this, scholars might take special note of Old Testament provisions for the Jubilee that focused especially on ending long-term, intergenerational poverty.

We believe that it is not the particular means used—that is, redistribution of land—but the need for a *dynamic* focus on poverty relief that calls for reflection.

Notes

* A previous version of this paper was presented at the conference, “Work As Key to the Social Question: The Great Social and Economic Transformations and the Subjective Dimensions of Work,” Rome, September 12–15, 2001.

1. John Paul II, Encyclical Letter, *Laborem Exercens* (1981): <http://www. vatican.va/holy_father>, 23–24.
2. Alejandro A. Chafuen, *Christians for Freedom: Late-Scholastic Economics* (San Francisco: Ignatius Press, 1986), 105.
3. Christian Michel, “What Is a ‘Just Price’?” *Journal of Markets and Morality* 2, no. 2 (Fall 1999): 182–96. In this recent treatment of just price and just wage, Michel argues that the definition of just price should be “the one on which the buyer and the seller agree” (186).
4. Chafuen, *Christians for Freedom*, 106.
5. Ibid., 131.
6. Lester DeKoster, *Work: The Meaning of Your Life* (Grand Rapids, Mich.: Christian’s Library Press, Inc., 1982).
7. Experience differs from training in that the worker obtains experience merely by working at the firm and not through some formal training program provided by the firm. Firm-specific experience would include factors such as understanding the “corporate culture,” familiarity with the peculiarities of the capital used by the firm, or the synergy of team production.

8. At a sufficiently high wage, some choose to work less and consume more leisure.
9. Kevin M. Murphy and Finish Welch, "The Structure of Wages," *Quarterly Journal of Economics* 107 (February 1992): 285–326. Men are examined separately because the factors that influence the decision to enter the labor force seem to differ between men and women. Whites are examined alone to have a more homogeneous data set and to avoid questions regarding possible effects of discrimination.
10. Lawrence F. Katz and Kevin M. Murphy, "Changes in Relative Wages, 1963–1987: Supply and Demand Factors," *Quarterly Journal of Economics* 107 (February 1992): 35–78.
11. Ibid., 46.
12. Robert Topel, "Specific Capital, Mobility, and Wages: Wages Rise with Job Seniority," *Journal of Political Economy* 99 (February 1991): 145–76.
13. Robert Topel and Michael P. Ward, "Job Mobility and the Careers of Young Men," *Quarterly Journal of Economics* 107 (May 1992): 439–79.
14. Ibid., 444.
15. A living wage or a "just wage" that is determined by the ability of a person and/or the person's family to be self-sufficient are essentially minimum wages.
16. Akerlof offers a model in which unemployment results from social customs that have similar effects as minimum wages. George A. Akerlof, "A Theory of Social Custom, Of Which Unemployment May Be One Consequence," *Quarterly Journal of Economics* 94 (June 1980): 749–75.
17. Finis Welch, "Minimum-Wage Legislation in the United States," *Economic Inquiry* 12 (September 1974): 235–318.
18. One also expects the wage in the "uncovered sectors" to be lower than it would be in the absence of minimum-wage legislation.
19. David Card and Alan Krueger, "Minimum Wage and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania," *American Economic Review* 84 (September 1994): 772–93. David Card and Alan Krueger, *Myth and Measurement: The New Economics of the Minimum Wage* (Princeton, N.J.: Princeton University Press, 1995). Some states have higher minimum wages than the federal minimum wage, and Card and Krueger examined changes in a state's minimum wage to reach their conclusions. For sharp criticism of their 1995 book, see Finis Welch, "Comment," *Industrial and Labor Relations Review* 48 (July 1995): 842–49; and Daniel S. Hamermesh, "Comment," *Industrial and Labor Relations Review* 48 (July 1995): 835–38.

20. Donald Deere, Kevin M. Murphy, and Finis Welch, “Employment and the 1990–1991 Minimum-Wage Hike,” *American Economic Review Papers and Proceedings* 85 (May 1995): 232–37.

21. David Neumark and William Qascher, “Minimum-Wage Effects on School and Work Transitions of Teenagers,” *American Economic Review Papers and Proceedings* 85 (May 1995): 244–49.

22. Ibid., 249.

23. A. M. C. Waterman, “Market Social Order and Christian Organicism in *Centesimus Annus*,” *Journal of Markets and Morality* 2, no. 2 (Fall 1999): 220–33.

24. Ibid., 227f.

25. Michel, “What Is a ‘Just Price’?” 190–91.

26. *Laborem Exercens*, 22f.

27. Waterman, “Market Social Order and Christian Organicism in *Centesimus Annus*,” 230.

28. Economists’ emphasis on the inherent limits of human knowledge, reason, and control somewhat parallels Christian teaching that human nature is everywhere limited and sinful. Economists prescribe market competition as a partial remedy for limited knowledge, since markets coordinate free choices made by millions of individuals. The Christian Church offers Christ as a remedy for sin, but one that cannot eliminate sin this side of heaven. In their practical decisions, neither economic actors nor the Christian Church ignore the moral, physical, and intellectual limits faced by humans.

29. Gregory M. A. Gronbacher, “The Need for Economic Personalism,” *Journal of Markets and Morality* 1, no. 1 (March 1998): 1–34. Gronbacher makes the same observation, when he writes, “There are foundational market realities that cannot be ignored for any reason, including moral concerns because, in so doing, further harm may result to both market mechanisms and morality” (19).