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# Profits and Prophets

## Market Economics and Jewish Social Ethics

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*I dedicate this book to the memory of my parents, Seymour and Helen Fox. From dramatically different perspectives, they taught my siblings and me, their children, the Jewish values of family, education, and tikkun olam. We have instilled these values in our children, with hopes that they will do the same. It wasn't until I became a parent myself that I realized how much of any success I have achieved is because of my own parents.*

## PREFACE

It began with a nun and continued with a rabbi.

I was trained in conventional economics, teaching and writing in those fields, until the lucky day when Sr. Francis Joseph, of blessed memory, asked me to be the respondent to the Faith-Justice Outreach Lecture on the Tenth Anniversary of *Economic Justice for All: Pastoral Letter on Catholic Social Teaching and the U.S. Economy*.

I felt up to the challenge of the economics in the document, but as a Jew, I had no knowledge of the theology, despite my many years at Saint Joseph's University, a Jesuit, Catholic institution.

I sought assistance from a theology colleague, which led to a collaboration with D. Stephen Long (now at Southern Methodist University). Steve and I taught "Profits and Prophets: Theology and Economics in Conflict?" together and began a research collaboration that concluded with *Calculated Futures: Theology, Ethics, and Economics*.

Sometime later, my friend Rabbi Martin Sandberg suggested that I look at the Jewish social justice tradition and its connection to economics and public policy issues. He invited me to be the Scholar in Residence at his synagogue in Jacksonville, Florida. That was the beginning of this project. This book is the culmination.

*Profits and Prophets* is a synthesis of economic analysis and Jewish social teaching about contemporary public policy issues. The policy issues are front page news on a daily basis. Even if someone is fully schooled in either discipline, it is unlikely that they are aware of the two different ways of analyzing a public policy issue or the conflicts or similarities between them. Both the economic and Jewish analyses are intended to be accessible to

most readers. Neither an advanced degree in economics nor years of study of Talmud is required to learn from this project.

The book's ultimate focus is on public policy issues. But to truly understand the analysis, it is critical to understand the conceptual and theoretical foundations of market economics and Jewish social justice, which I present in Chaps. 1 and 2. In subsequent chapters, I analyze four public policy issues from both market economics and Jewish social justice perspectives: minimum wage, immigration, climate, and usury. The introductory chapter gives an overview of each topic.

אֶבֶן מִאֲסוּי הַבּוֹנִים הָיְתָה לְרֵאשׁ לַפֶּנֶה

The stone that the builders rejected became a cornerstone.

PSALM 118:22

Philadelphia, PA

Nancy Ruth Fox

## ACKNOWLEDGMENTS

I have experienced many joys in this work. My scholarship has a direct relation to Saint Joseph's mission of social justice and connects my professional with my personal life.

I am grateful to so many people. I have benefitted from comments from respondents at numerous conferences, as well as an anonymous reviewer for this manuscript. My editors at Palgrave Macmillan—Elizabeth Graber, Sophia Siegler, Vinoth Kuppan, and Divya AnishSivasankaran—have provided guidance and support, which has made the process of writing this book very positive.

My students at Saint Joseph's University have helped me choose important policy issues and provided different perspectives and feedback. I appreciate the support of my colleagues at Saint Joseph's University, especially my friends in the Economics Department. Saint Joseph's University provided financial support for conferences, a summer grant, and a sabbatical leave. Hope Charney made my life so much easier by doing all of the formatting, as did Margie Aston with the proofreading.

Other individuals have had an impact. Rev. Charles Currie, S.J., of blessed memory, supported me in my discovery of being a Jew on a Catholic campus (a story of its own). My colleagues in the Faith-Justice Institute taught me the value of experiential learning through Service-Learning. I am now "ruined for life," unable to consider any policy or issue without considering the social justice implications, which enriches me as an economist. And it was no surprise that I continue to seek the advice of Lawrence J. White, my long-time mentor and friend. I still benefit from his wisdom over 40 years since my college graduation.



Rabbi Martin Sandberg inspired this book. He read the entire manuscript and served as an unofficial consultant on the Jewish Social Ethics sections. His suggestions, corrections, and additions enriched my work.

I literally could not have done this without him. Any mistakes are mine alone.

My siblings Linda Kline and Kenneth Fox, despite their teasing, have always believed in me. I know I can always count on them for anything.

Richard Langlois has always encouraged me, offering gracious help whenever I needed it. His unfailing confidence in me, especially when I wasn't so sure of myself, sustained me.

My sons, Sam and Simon, are the joys of my life. Every day they inspire and amaze me and make me proud and grateful to be their mom. Elizabeth and Carol are my cheerleaders too, providing support and advice. Baby Maggie arrived in May; our adventures together are just beginning.

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# INTRODUCTION

*Chapter 1 Profits and Prophets* This first chapter sets the tone for the rest of the book. It is an analysis of the conceptual foundations of market economics and Jewish social justice. Both are about decision making—economics is descriptive, and Jewish social justice is prescriptive. Economics emphasizes the individual, while Jewish social justice emphasizes the community and each person’s responsibility to others. There is, however, considerable practical economics in the Jewish tradition. I illustrate with *prosbul* (a work around to the remission of debts), profit ceilings and the definition of need.

For example, the Jewish tradition teaches that there is nothing wrong with earning a profit as long as it is not excessive. There is a recognition that profit must be high enough so that merchants have an incentive to produce and sell. The rabbis put a one-sixth limit on profit for necessities, like food and housing, to ensure that all can afford them.

The Talmud teaches “But for the evil desire, no man would build a house or take a wife and have children or buy and sell in business.” Substitute “self-interest” for “evil desire,” and it sounds a lot like the role of incentive in decision making.

*Chapter 2 What’s So Good about the Market?* In this analysis of the market, I discuss the role of price, market failure, and the tradeoff between efficiency and equity, with an emphasis on both the virtues and shortcomings of the market. I assert that it is far easier to understand what the market does wrong than what it does right. It is a challenge to explain why rent control is bad economic policy and not the best way to help people get affordable housing. I analyze how price resolves the basic economic

questions of what to produce, how to produce, and how to allocate goods and services. I emphasize that there is an appropriate role for government intervention in the market in instances of market failure but caution about the undesirable effects of government intervention at other times.

*Chapter 3 Minimum Wage* I begin with a historical review of the federal minimum wage and data about the level of minimum wage and coverage. The current federal minimum wage is \$7.25 an hour and has not been increased in ten years. In terms of buying power, it is at its lowest level since 1968. Twenty-nine states have a minimum wage higher than the federal one. In the past few years, several major corporations, including Amazon, Target, and even Walmart, have increased the wage they pay to their lowest-paid employees to between \$10 and \$15 an hour.

Standard economic theory predicts that an increase in wage will lead to a decrease in the number of workers hired, but the reality is more nuanced and complex. Groundbreaking research in the early 1990s reversed earlier accepted wisdom that supported the theory. An economic analysis of the minimum wage follows with a review of the empirical research.

I then discuss the Jewish social justice perspective of people as workers and how that informs wage determination. The Jewish tradition views the worker as a human person, who should be paid sufficient amount to support a family. In fact, an employer is considered to be responsible for the welfare of workers, a direct contradiction of standard economic analysis. I conclude with a discussion of the \$15 minimum wage movement.

*Chapter 4 Immigration* I begin with a historical overview and then discuss the effects of immigration on the economy in general and on native wages in particular. Standard economic theory predicts that as immigrants increase the supply of labor, equilibrium wage will decrease. But as is the case for minimum wage, it is more nuanced and complex. Among other factors, there are numerous, distinct labor markets. Most studies conclude that there is minimal effect on native wages. Most who are affected are in low-skilled jobs and do not have a high school education.

Economic research also shows that the impact of immigration changes over time. Immigrants add to federal revenues but are generally a cost at the state and local level. The last section examines Jewish teaching. Loving the stranger is a basic Jewish value; the *ger* (stranger) should be protected. The market and Jewish social justice perspectives both support a generous, pro-immigrant public policy.

*Chapter 5 Environment* I begin with a discussion of externalities and different solutions—taxes or government regulation. Externalities occur

when a person's or firm's actions have unintended effects on others. In the case of negative externalities, that means that the social cost is greater than the private cost, resulting in too much production of the particular good. In a recent publication, over 3500 economists (including former Federal Reserve Board chairs and chairs of the Council of Economic Advisors) endorsed a carbon tax as the best way to deal with climate change.

Jewish teaching emphasizes avoiding harm. There is no such concept as an acceptable level of environmental damage. But there is ambiguity on this—if an action that results in harm to others, as is the case of polluting a stream, is necessary for someone's livelihood, it is permitted. But in most cases, the good of the community always takes precedence over the individual, a direct contrast to market economics.

*Chapter 6: Usury* I begin with an analysis of the determination of interest rates. I continue with a discussion of usury from a historical perspective. An analysis of the Jewish teaching on usury—no interest is permitted on loans between Jews—follows, along with the problems this poses and the solutions the rabbis developed. The chapter concludes with an evaluation of payday loans—should they be prohibited, should there be a ceiling on the interest rate that is charged, and are people better off with or without them?

Payday loans are for small amounts of money for a short time period. But a significant number of borrowers roll over those loans and end up paying a three-digit annual percentage rate (APR). They take out these loans because they have no alternative. Many states have put limits on the interest rate, and the federal government has limited the interest rate on payday loans to active military personnel to 36% APR. This ties directly into Chap. 2—are people better off with price-ceilings, paying less but having fewer goods available, or with market-determined prices, paying more with more goods available. Lower prices with more available goods is not a possibility. I conclude that the real question is why people find themselves in the situation where they need a payday loan in the first place and consider broader, structural solutions such as a higher minimum wage, paid family leave, and universal health care.

The *Conclusion* brings the concepts together, highlighting the differences in approaches, and concludes that there is a place for both market economics and Jewish social justice. I quote Rebecca Blank, Provost at the University of Wisconsin. In *Is the Market Moral?* she writes, “I am an economist and a Christian. As an economist, I believe in markets ... the key question is not ‘should there be a market’ (and implies the answer is