

ARTICLE

**ECONOMIC JUSTICE AND WELFARE
REFORM: WAS WELFARE REFORM AN
EXAMPLE OF PRUDENTIAL JUDGMENT
IN PUBLIC POLICY?**

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After extensive discussion and debate, President Bill Clinton signed the *Personal Responsibility and Work Opportunity Reconciliation Act*, replacing AFDC (Aid to Families with Dependant Children)¹ with TANF (Temporary Assistance for Needy Families).² The push to end “welfare as we know it”³ was fueled by a desire to reduce the costs of welfare programs as well as to reduce the dependency allegedly created by the existing system. Many of the goals TANF sought to achieve—particularly reducing the welfare caseloads and increasing the labor market participation of single mothers—were achieved, as both of these statistics improved dramatically from 1996 to 2000. However, the record since 2001 is less impressive. There is considerable argument as to whether the success of the late 1990s was due to Welfare Reform (and other policy changes, such as increases in the Earned Income Tax Credit) or whether the booming economy and low unemployment rates produced these changes.⁴

Often missed in this discussion is the more important issue of how the poor were affected. Neither the reduction of the size of the welfare rolls or the increase in the labor market participation of single parents can be con-

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1. The program Aid to Dependant Children (ADC) was part of the Social Security Act of 1935, Pub. L. No. 74-271, 49 Stat. 620 (1935). It was renamed Aid to Families with Dependant Children (AFDC) in 1960.

2. Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Pub. L. No. 104-193, 110 Stat. 2105 (1996).

3. William J. Clinton, Acceptance Speech to the Democratic National Convention (July 16, 1992), <http://www.presidency.ucsb.edu/shownomination.php?convid=7>.

4. Rebecca M. Blank, *Evaluating Welfare Reform in the United States*, 40 J. ECON. LITERATURE 1105 (2002) (providing an overview of this debate).

sidered excellent goods; they are at best instrumental goods.⁵ The excellent good we need to pursue in anti-poverty programs is an improvement in the lives and well-being of the poor. It is more than a reduction in the statistics used to measure poverty.

Statistics like the welfare caseloads are indicators; they are not the reality. The size of the welfare caseload only tells us part of the story.⁶ The “welfare caseload” is merely a statistic that indicates how many are getting needed public assistance. Its increase, or its decrease, could be good or it could be bad. A rising welfare caseload could mean better methods of identifying need, which would mean more poor people are better off and would be a good thing; it could also mean an increase in actual need for the program, which would mean things have gotten worse for the poor. Furthermore, a reduction in the numbers receiving public assistance could be due to harsh rules that make getting assistance difficult or impossible, thus excluding many who are eligible (which would be bad), or due to an improved economy, thus reducing the number of people who need public assistance (which would be good).

Prudential judgment⁷ is critical for public policy formation because it links policy analysis toward the valid goal of public policy—the common good. In evaluating welfare reform as an example of prudential judgment in public policy we need to look not only at the policy change and its results, but also the logic underlying the policy and the policy’s purpose. It matters whether the goal was to reduce the numbers on public assistance (and reduce the costs) or rather to reduce the numbers who needed public assistance. Furthermore, whether the logic behind the policy was based on sound reasoning also matters. These are the issues I will address in this article.

Prudential judgment is based on the goals toward which one strives and the values underlying these goals. Prudential judgment is also based on the understanding of the situation one is facing, particularly the causes of the problems and the functioning of the system one hopes to affect or change. It is rightly considered an ally of practical reasoning. Even if the goal was merely reduction of the numbers on the welfare caseloads, and thus the burden on taxpayers, it must be considered a false prudence, for it might have successfully achieved its desired end, but its end could not be

5. An excellent good is one that is worth pursuing for its own sake, whereas an instrumental good, like money, is valued based on its assistance in obtaining excellent goods.

6. The same can be said for statistics like Gross Domestic Product (GDP); it is well known that crime and natural disasters often increase GDP, but that does not make either crime or natural disasters good. For an overview of the relationship between GDP and well-being, see generally Charles M. A. Clark & Catherine Kavanagh, *Progress, Values and Economic Indicators*, in *PROGRESS, VALUES AND PUBLIC POLICY* 60 (Sean Healy & Brigid Reynolds eds., 1996).

7. Prudential judgment refers not only to choosing the best means to an end, but also adds the requirement that the right end has been chosen. THOMAS AQUINAS, *SUMMA THEOLOGICA, Part I of the Second Part*, q. 57, a. 5 (in vol. 2 of *Fathers of the English Dominican Province* trans., Christian Classics 1981).

considered a desirable goal of a just public policy. Lowering the number of people on public assistance is only a valid goal if it is achieved by reducing the number of people in need of public assistance.⁸

My argument is that based on goals and values that are not aligned with right reason, and based on an incorrect understanding of the causes of the problem, welfare reform did not achieve the all-important goal of equity in public policy, particularly in relation to the poor; thus it must be deemed an imprudent policy experiment. I will first examine the views of economic justice underlying economic policy, specifically a comparison of the idea and ideal of economic justice in neoclassical economic theory with that of Catholic Social Thought. As stated above, prudential judgment in economic policy-making requires working toward justice in the economy, so the conception of economic justice is an important issue. In the second section of the paper, I will look at the issue of prudential judgment in general and political prudential judgment in particular; I will argue that the proper mode of reasoning is practical and not theoretical, and further that the Welfare Reform proposal was based on theoretical reasoning to the exclusion of practical reasoning. The third section of the paper examines the problem of poverty in America and the evidence of the impact of welfare reform. Finally, the last section evaluates the prudence and justice of welfare reform as an anti-poverty program.

I. COMPETING VIEWS OF ECONOMIC JUSTICE

Justice is essential to a well-functioning economy. As Adam Smith noted:

Commerce and manufactures can seldom flourish long in any state which does not enjoy a regular administration of justice, in which the people do not feel themselves secure in the possession of their property, in which the faith of contracts is not supported by law, and in which the authority of the state is not supposed to be regularly employed in enforcing the payment of debts from all those who are able to pay.⁹

Yet, justice is more than law and order, more than the protection of private property, and more than the enforcement of contracts. Justice is also

8. Otherwise it must be seen as a modern version of Thomas Robert Malthus's eighteenth century suggestion for reducing the numbers in poverty and avoiding famine conditions if other methods of controlling the population of the poor were unsuccessful:

Instead of recommending cleanliness to the poor, we should encourage contrary habits. In our towns we should make the streets narrower, crowd more people into the houses, and court the return of the plague. In the country, we should build our villages near stagnant pools, and particularly encourage settlements in all marshy and unwholesome situations.

THOMAS ROBERT MALTHUS, *AN ESSAY ON THE PRINCIPLE OF POPULATION* 127 (5th ed. 1817) (1798).

9. ADAM SMITH, *AN INQUIRY INTO THE NATURE AND CAUSES OF THE WEALTH OF NATIONS* 862 (Edwin Cannan ed., Random House 1937) (1776) [hereinafter SMITH, *WEALTH OF NATIONS*].

the desire to do what is just in our relations with others as both individuals and the community as a whole. Justice is giving others what is their due—that is, to be fair and equitable in our dealing with others. Following St. Thomas Aquinas, we can divide justice into three types.¹⁰ Justice between individuals is called *Commutative Justice*, which, in economics, is justice in exchange.¹¹ The relations between the group as a whole and the individual is the category of *Distributive Justice*—“justice in apportioning out proportionately what is common.”¹² The third type of justice is *Legal Justice*, in which individuals are directed toward actions that promote the common good. Today we can call this *Social Justice*.

A. *Three considerations in Economic Justice*

Economic justice considers each of these types of justice in the economic realm of our lives—our purely economic actions, as well as our political, social, cultural, and religious actions that have economic impact. It also is concerned with the outcomes of the economy as a whole. The economic realm of social life is delineated by that which relates to the solving of the economic problem—of how societies provide for their material reproduction. This is commonly divided into the three questions each society must answer in addressing the economic problem: What to produce? How to carry out production? And to whom to distribute the benefits of production? As every economics student knows, there are three types of solutions to the economic problem: tradition, command, and market. Yet, in the real world, most economies have a mixture of all three solutions, with justice playing a fundamental role in each.¹³

1. *Commutative Justice*

The importance of commutative justice for the efficient operation of a market economy is partly, as Adam Smith noted, in the protection of private property and the enforcement of contracts that allows for free exchange; but it is also the backbone of the necessary *moral* underpinning that provides self-control and thus allows exchanges that are not completely under the control and regulation of the State. As Adam Smith notes in *The Theory of Moral Sentiments*, individuals have a natural interest in the well-being of others and this causes them, for the most part, to restrain their actions so as

10. See THOMAS AQUINAS, *SUMMA THEOLOGICA, Part II of the Second Part*, q. 61 (in vol. 2 of *Fathers of the English Dominican Province trans.*, Christian Classics 1981).

11. *Id.*

12. THOMAS AQUINAS, *SUMMA THEOLOGIAE: A CONCISE TRANSLATION* 387 (Timothy McDermontt ed. & trans., 1991) [hereinafter, AQUINAS, *SUMMA THEOLOGIAE: CONCISE*].

13. Neoclassical economics offers a different definition of the economic problem, based on its different conception of justice, both of which are based on neoclassical economics' understanding of the human person. For more on the economic problem and questions of ethics see Charles M. A. Clark, *Catholic Social Thought and the Economic Problem*, J. ETHICS & SOC. SCI. 6–18 (2001), available at <http://www.pust.edu/oikonomia/pages/febb2000/Clark.htm>.

to not cause harm.¹⁴ These moral sentiments, which only develop through social interaction, are a necessary precondition for a society that solves the economic problem with considerable market mechanisms. That is, freedom in our everyday economic actions is based on self-control (derived from tradition, which in this context refers to learning social norms and morals) and on external control for those who violate social norms (often done through the state). Markets by themselves are never enough to coordinate individual economic actions toward the common good because they do not produce the values (or the self-control which comes from socialization) necessary for markets to function efficiently.

2. *Distributive Justice*

Distributive justice is also of primary importance for the functioning of the economy. It addresses the question of how to distribute the benefits of economic activity in the economic problem. How the “economic pie” is divided is important for many economic reasons. Distribution determines how much of current economic output goes to different individuals and sectors of society. This leads directly to the issue of sufficiency, for if individuals or groups are not receiving a share of social output that is enough for them to meet their needs adequately, then they will necessarily become less productive, thus affecting future output. Furthermore, distribution provides incentives for current economic activity, which also influences future production.

Past poverty is the major cause of current poverty levels. Individuals and families who suffer material need will not develop to their potential, thus having long-term effects at the micro and macro levels. Inadequate education and health care for the poor cause permanent reductions in their future productivity. Thus, we should not be surprised that, as adults, those who were raised in poverty typically do not compete successfully with adults who were not poor as children. The preferential option for the poor recognizes that context matters, that individuals cannot be held fully responsible for context, and that contexts that create exclusions and barriers hurt everyone.

14. See ADAM SMITH, *THE THEORY OF MORAL SENTIMENTS* (Oxford Univ. Press 1976) (1759) [hereinafter SMITH, *THEORY OF MORAL SENTIMENTS*]. The conflict between Smith's sympathy principle as the guiding force for human behavior in *THEORY OF MORAL SENTIMENTS* and the role of self-interest as a guiding principle in the *WEALTH OF NATIONS* has been a contentious issue among historians of economics. However, if the two books are viewed as one large work, as was intended, then the socialization process in *THEORY OF MORAL SENTIMENTS*, guided by the sympathy principle, is necessary in order to produce self-controlling individuals who can have the freedom to pursue their self-interest in their economic lives as discussed in *WEALTH OF NATIONS*. See *id.*; SMITH, *WEALTH OF NATIONS*, *supra* note 9.

3. *Social Justice*

The importance of social justice cannot be underestimated for the well-ordering of the economy. Justice requires “right relations,”¹⁵ and so the economy needs structures and institutions that promote right relations. If the economy is lacking in such structures and institutions—if most relations are not right relations—then the interactions between individuals, including the economic interactions, will be less productive and more cumbersome. As economists would say, there would have to be high transaction costs, with considerable effort wasted on non-productive activities. Adam Smith’s criticism of the institution of slavery is a good example of this issue. He noted that the institution generated inefficient levels of effort by the slaves, as it was perfectly rational for each individual slave to do the minimum amount of work (there being no benefit to doing more). Society benefits when there are institutions that promote getting the most benefit out of its resources, not the least.

Economic justice deals with the justice of economic actions and outcomes. How one defines economic justice will be determined by one’s overall definition of justice, which will, in turn, be based on one’s conception of human nature and society. The underlying economic logic behind welfare reform was neoclassical economic theory, but our critique of welfare reform is based on the conception of justice that underlies Catholic Social Thought. Thus, before we can proceed, we must compare these two systems of thought. We are not comparing them as two competing economic theories, as our interest is in their differing conceptions of justice. Furthermore, since Catholic Social Thought is not an economic theory and “has no [economic] models to present,”¹⁶ we cannot offer such a comparison. Catholic Social Thought does, however, offer the necessary philosophical foundations upon which the ideal and goals are based, as well as a set of principles to guide and inform economic actions. Thus it is very valuable for the necessary prudential judgments, especially the public prudential judgments that make up much of economic activity. Of course, this moral compass is not enough. In order to make correct prudential judgments—that is, to make choices in line with right reason and promote the common good—one must also have a useful and accurate understanding of the current situation in its historical and social context (memory and intelligence), and a useful and accurate model upon which to estimate the ramifications of one’s actions (reason and foresight).

15. Right relations are those human interactions that respect the natural rights and duties of each person.

16. Pope John Paul II, *Centesimus Annus*, No. 43 (May 1, 1991), available at http://www.vatican.va/holy_father/john_paul_ii/encyclicals/documents/hf_jp-ii_enc_01051991_centesimus-annus_en.html.

B. *Economic Justice According to Neoclassical Economic Theory*

While neoclassical economic theory purports to be a “positive” science, and thus free of value judgments, the fact of the matter is that it is a “normative” system based on values and value judgments.¹⁷ Many of these values and value judgments are part of the philosophical preconceptions upon which the theory is based. Most important for our purposes are the values that form the basis of its understanding of human nature and society.

1. *Neoclassical Values—Rational Economic Man*

Neoclassical economic theory starts with an anthropology which is often summed up under the heading of “rational economic man.”¹⁸ It is a view of the person as an individual and not as a person.¹⁹ Persons require others with whom to be in relation; individuals can be autonomous and exist not in community, but in opposition to others. Thus, we should not be surprised that many neoclassical economic theories start with a Robinson Crusoe story, for they argue it is an example of autonomous decision making.

This “rational economic man” model requires that individuals are autonomous; they are only influenced by their preferences (no social influences are allowed) and thus are driven solely by their narrow self-interest.²⁰ Furthermore, their self-interests are to maximize their consumption of utility. The model of the person is perfectly utilitarian, seeking pleasure and avoiding pain, with all actions based on a “rational” calculation of costs and benefits. From this view of human nature, the theory develops a view of society as an equilibrium system that is merely the result of the individual self-interested actions of all members of a society. Society as a collective or as a whole does not exist; it is a mere mental fiction.²¹ Thus neoclassical economics does not allow any historical or social factors into its theoretical structure.²²

17. See GUNNAR MYRDAL, *THE POLITICAL ELEMENT IN THE DEVELOPMENT OF ECONOMIC THEORY* (Harvard Univ. Press 1961) (1954).

18. See JOHN B. DAVIS, *THE THEORY OF THE INDIVIDUAL IN ECONOMICS: IDENTITY AND VALUE* 1–20 (2003); MARTIN HOLLIS & EDWARD NELL, *RATIONAL ECONOMIC MAN: A PHILOSOPHICAL CRITIQUE OF NEO-CLASSICAL ECONOMICS* 47–64 (1975).

19. For the distinction between individuality and personality, see JACQUES MARITAIN, *THE PERSON AND THE COMMON GOOD* 31–46 (John J. Fitzgerald trans., Univ. of Notre Dame Press 1985) (1947).

20. By “narrow self-interest,” I mean a self-interest that does not and cannot include the interest of others.

21. WERNER STARK, *THE FUNDAMENTAL FORMS OF SOCIAL THOUGHT* 26 (1963) (highlighting how the neoclassical view of the human person necessarily leads to a view of society as a mental fiction).

22. For an analysis of the elimination of historical and social context from the neoclassical economic theory research program see CHARLES M. A. CLARK, *ECONOMIC THEORY AND NATURAL PHILOSOPHY* 145–69 (1992).

2. *Neoclassical Justice—Preeminence of Market Outcomes*

Commutative justice in neoclassical economics is determined by the voluntariness of exchange. As long as exchange is voluntary it satisfies commutative justice. Our “self interest” assumption prevents the possibility of individuals making a trade that is not in their best interests (and the perfect information assumption prevents any mistakes).²³ Its conception of distributive justice is provided by the marginal productivity theory of distribution, which states, in the words of John Bates Clark (the originator of this theory), that “[t]he distribution of the income of society is controlled by a natural law, and that this law, if it worked without friction, would give every agent of production the amount of wealth which that agent created.”²⁴

Social justice in the neoclassical model is provided by the concept of Pareto optimality—a state in which no further beneficial trades are possible that will make at least one individual better off without making at least one individual worse off. As one neoclassical economist stated: “The Pareto optimum that a competitive economy seeks to attain is an essentially moral goal in that one individual’s well-being is not attained at the expense of another’s well-being. The concept of Pareto optimum, in fact, is a more precise definition of the traditional concept of the common good.”²⁵ It should be noted that what is important about perfectly competitive market outcomes is that they maximize consumer surplus (the consumption of utility), while the sole motivation of “rational economic man” is to maximize utility.

C. *Economic Justice in Catholic Social Thought*

The concept of economic justice in Catholic Social Thought is deceptively simple: economic justice is that which protects the dignity of all persons and promotes the common good. The two primary elements in this definition are the assertion that all persons have inherent dignity and the assertion of the primacy of promoting the common good. They are also the two foundational concepts of all Catholic Social Thought. Pope John Paul II best summarized these points:

The dignity of the human person is a transcendent value, always recognized as such by those who sincerely search for the truth. Indeed, the whole of human history should be interpreted in the light of this certainty. Every person, created in the image and likeness of God (cf. Gn 1:26–28), is therefore radically oriented to-

23. In Walrasian General Equilibrium Theory, which is the core of neoclassical economics, this is provided by “re-contracting”—the ability to have a do-over if a false trade is made. See generally KENNETH J. ARROW & FRANK H. HAHN, *GENERAL COMPETITIVE ANALYSIS* (1971).

24. JOHN BATES CLARK, *THE DISTRIBUTION OF WEALTH*, at v (1965).

25. H. S. Houthakker, *The Ethics of Markets and Process*, in PONTIFICAL COUNCIL FOR JUSTICE AND PEACE, *SOCIAL AND ETHICAL ASPECTS OF ECONOMICS: A COLLOQUIUM IN THE VATICAN* 65–70 (1992).

wards the Creator, and is constantly in relationship with those possessed of the same dignity. To promote the good of the individual is thus to serve the common good, which is the point where rights and duties converge and reinforce one another.²⁶

1. Catholic Values—Humans as Persons

The philosophical anthropology of Catholic Social Thought views humans as persons and not as isolated individuals. The term “person” goes back to the older tradition of *persona*, which is a unique personality who is also a member of a larger group. This is a point of great significance, for this differing conception of the human person leads to very different conceptions of society and justice. First, it leads to a definition of the common good that is more than just economic. In neoclassical economic theory, the common good is maximum consumption given the existing distribution of income (which is not discussed in this article). Pope John XXIII defined the common good as that which “embraces the sum total of those conditions of social living, whereby men are enabled more fully and more readily to achieve their own perfection.”²⁷ As David Hollenbach has noted on Catholic Social Thought,

The common good is a social reality in which all persons should share through their participation in it. It is not simply the arithmetic aggregate of individual goods suggested by the utilitarian formula ‘the greatest good for the greatest number.’ In a utilitarian understanding, increased aggregate social good (e.g., gross national product) is compatible with the exclusion of some persons from participation in it. Emphasis on the participation of all in the common good is particularly important.²⁸

Catholic Social Thought recognizes the centrality of the social nature of the human person. Thus, while recognizing the inherent dignity of all persons (which comes from our being made in the image and likeness of God), Catholic Social Thought notes that human dignity can only be effectively realized via social participation. The flourishing of society and individuals each depend on the other.

Man’s social nature makes it evident that the progress of the human person and the advance of society itself hinge on each

26. Pope John Paul II, *Message for the Celebration of the World Day of Peace*, No. 2 (Jan. 1, 1999), available at http://www.vatican.va/holy_father/john_paul_ii/messages/peace/documents/hf_jp-ii_mes_14121998_xxxii-world-day-for-peace_en.html.

27. Pope Paul VI, *Dignitatis Humanae*, No. 6 (Dec. 7, 1965), available at http://www.vatican.va/archive/hist_councils/ii_vatican_council/documents/vat-ii_decl_19651207_dignitatis-humanae_en.html; Pope John XIII, *Mater et Magistra*, No. 65 (May 15, 1961), available at http://www.vatican.va/holy_father/john_xxiii/encyclicals/documents/hf_j-xxiii_enc_15051961_mater_en.html.

28. DAVID HOLLENBACH, *THE NEW DICTIONARY OF CATHOLIC SOCIAL THOUGHT* 193 (Judith A. Dwyer ed., 1994).

other. From the beginning, the subject, and the goal of all social institutions is and must be the human person, which for its part and by its very nature stands completely in need of social life. This social life is not something added to man. Hence, through his dealings with others, through reciprocal duties, and through fraternal dialogue he develops all his gifts and is able to rise to his destiny.²⁹

Defining economic justice in a specific social and historical context, however, is much more complicated than this. An economy is “just” when both its methods and outcomes fit the definition stated above, but how one actually protects human dignity and promotes the common good in an actual economic setting is never a simple matter. It is not “just” when based solely on methods or solely on outcomes (there is no separation of means and ends). Different economies at different levels of economic development will call for very different means to the ends of protecting human dignity and promoting the common good. There is no ideal economy independent of time and space. While the moral natural law is eternal, economic institutions and practices are a matter of historical and social context. In some circumstances the common ownership of land or capital can promote justice, whereas in others it can be a barrier to a “just economy.”³⁰ In the final analysis, a “just economy” brings people closer together and closer to God. It is toward this end that the principles of Catholic Social Thought were developed.

2. *Catholic Justice—The Impact of Faith*

Justice in the Catholic Social Thought tradition “is neither the result of societal consensus nor of rational deduction or calculation alone. It is rooted in a faith tradition that responds to a loving and just God. God’s intentions for human life determine what is just and what is unjust.”³¹ The ultimate measure of justice for the Christian is not contingent on what people choose, but is instead revealed through the Gospels and through an understanding of the nature of the human person. While Catholic Social Thought’s view of justice follows in many ways the classical view that “justice is giving each their due,” its understanding of a person’s “due” is grounded in the Christian idea of charity and the inherent dignity of the

29. Pope Paul VI, *Gaudium Et Spes*, No. 25 (Dec. 7, 1965), available at http://www.vatican.va/archive/hist_councils/ii_vatican_council/documents/vat-ii_cons_19651207_gaudium-et-spes_en.html.

30. The voluntary sharing of economic goods in the early Christian church is a move toward a just economy and a Christian solution to the economic problem. Yet, the forced socialization of the means of production under communism was a clear violation of both the means and ends of a “just economy.”

31. KAREN LEBACQZ, *SIX THEORIES OF JUSTICE: PERSPECTIVE FROM PHILOSOPHICAL AND THEOLOGICAL ETHICS* 74–75 (1986).

human person.³² One of the greatest misunderstandings of a Christian conception of the economy has been the separation of the ideals of justice and charity, and the view that they are somehow in opposition. For a Christian, they need to be two sides of the same coin. Charity and justice are virtues that are co-principles of living a Christian life. Too often they are seen as competing virtues, or worse, as alternatives—but each requires the other. It is important to remember that Aquinas's theories of justice and charity are based on "right relationships" and should not be used piecemeal to legitimate the status quo under the assumption that the status quo is based on "right relationships."³³

Social justice encompasses the conditions in which persons can lead moral and happy lives—that is, can fully develop through social participation toward their "perfection" (understood as becoming more like the God in whose image they have been made). It is important to note, as David Hollenbach does in *Christian Ethics and the Common Good*, that Aquinas makes a distinction "between the fullness of the common good and aspects of the common good that are necessary for social life to exist at all."³⁴ Although one can argue it is not the role of the state to promote the "fullness of the common good," only the most ardent libertarian would hold that promoting those aspects necessary for society to exist are legitimately public policy issues and should be part of our economic and political discourse.

We will see that the formulation of Welfare Reform was based on the neoclassical views of human nature and justice, which, as we have seen, Christians must reject as overly narrow. This, coupled with the exclusive use of theoretical reasoning discussed in the next section, helped to create a policy experiment which, I will argue, was at best a false prudential judgment.

II. PRUDENTIAL JUDGMENT IN PUBLIC POLICY

The purpose of the conference for which I wrote this article was prudential judgment in public policy.³⁵ All judgment starts with our understanding of the problem or issue at hand. In the case of this article, the issue is the existence and persistence of poverty in the richest society humanity has ever known. How we understand this issue thus will greatly influence our attempts to rectify it, should we decide to do so. In this section I will look at whether the underlying logic of welfare reform allowed for, or was

32. See Pope John Paul II, *Redemptor hominis*, No. 17 (Mar. 4, 1979), available at http://www.vatican.va/holy_father/john_paul_ii/encyclicals/documents/hf_jp-ii_enc_04031979_redemptor-hominis_en.html.

33. See Stephen J. Pope, *Overview of the Ethics of Thomas Aquinas*, in *THE ETHICS OF AQUINAS* 30, 38 (Stephen J. Pope ed., 2002).

34. DAVID HOLLENBACH, *THE COMMON GOOD AND CHRISTIAN ETHICS* 192 (2002).

35. Terence Murphy Institute, Conference: Public Policy, Prudential Judgment and the Catholic Social Tradition (Apr. 6–8, 2006).

based on, prudential judgment. Of particular importance is the use of practical reasoning in addressing the problem of poverty. Thus we need to look first at the distinction between theoretical and practical reasoning.

In *Nicomachean Ethics*, Aristotle makes the important distinction between theoretical, or scientific reasoning, and practical reasoning. Theoretical reasoning considers objects or things that cannot be otherwise, things that are eternal and invariant.³⁶ Thus, our knowledge of them can be exact and precise, as the object of our analysis is unchanging. The natural world fits easily into this category, as its rules, the laws of nature, are considered fixed and eternal, and the objects are either unchanging or change according to set rules that are themselves unchanging. Practical reasoning, however, deals with objects that can be otherwise, that are not invariant—where choice and discretion play a role in the generation of the object of analysis. It is through theoretical reasoning that we discover our ultimate ends (which, for the Christian, also come from sacred scripture); practical reasoning guides us in pursuing these ends given the various contingencies we face in everyday life.³⁷ The distinction between theoretical and practical reasoning is important for policy formation because theoretical reasoning excludes historical or social context from the analysis, whereas practical reasoning emphasizes their importance and inclusion. The form of reasoning one uses thus determines which factors will be deemed important and which will be ignored. Theoretical reasoning can, and will, ignore the actual particular causes of poverty, whereas practical reasoning will build on the actual particulars to discover the general causes of poverty.

Like practical reasoning, prudential judgment also emphasizes particulars, as it is geared toward actual, as apposed to theoretical, problems. “The function of prudence is not to set the goals of moral virtue, but simply to determine means to those goals. . . . Prudence presupposes the goals of moral virtue as general starting-points and determines what to do in particular.”³⁸ Aquinas further notes that the prudence necessary for promoting the good of the individual will be different from the prudence that promotes the well-being of the family and the State. “The idea that man need only seek his own private good conflicts with charity and with right reason, both of which prize the general good above all. So men need political prudence aiming at the general good and bearing the same relation to legal justice as ordinary prudence does to the moral virtues.”³⁹ The goals of ordinary, individual prudence must be in conformity with the moral virtues (so as to promote the well-being of that individual), while the goals of public prudence must be the general or common good.

36. ARISTOTLE, *NICOMACHEAN ETHICS* 146–73 (Martin Ostwald trans., Bobbs-Merrill Co. 1962).

37. See ALASDAIR MACINTYRE, *WHOSE JUSTICE? WHICH RATIONALITY?* 183–208 (1988).

38. AQUINAS, *SUMMA THEOLOGIAE: CONCISE*, *supra* note 12, at 377.

39. *Id.* at 378.

Aquinas's analysis of the component parts of prudence highlight both the role of historical and social context in understanding the right course of action, as well as a clear understanding of the problem one is addressing. This is particularly important for understanding social phenomena (such as economic outcomes), which are influenced by complex combinations of past and current factors, some of which are general and universal and some of which are singular and particular—always with the unpredictable element of free will and human freedom. If nothing else, prudential judgment calls for humility in policy-making, keeping in mind that one cannot know or control all the factors that are important. It is the prevalence of uncertainty in the actual economy that requires a clear understanding of both the legitimate goals of public policy (the common good), and the current situation to shape workable and effective public policy.⁴⁰ Failure to correctly diagnose the causes of poverty greatly limits the possible effectiveness of any policy which seeks to reduce it.

III. THE PROBLEM OF POVERTY IN THE UNITED STATES⁴¹

During the Great Depression, as President Franklin Delano Roosevelt noted, “[o]ne third of the nation is ill-fed, ill-housed and ill-clothed.”⁴² With poverty so widespread, it was clear that both its causes and its solutions needed to be systemic—a change in the system. The New Deal was designed to address the economic breakdown, and coupled with the spending from World War II, it helped lift the economy and millions of citizens out of poverty. By the 1950s, America had become an *affluent society*, with poverty being the exception rather than the rule. The 1960s saw the New Frontier and Great Society programs, which attempted to target those whom prosperity had left behind. These policies were designed to intervene in the market economy. Yet, after initial success in the mid- to late-1960s, poverty rates stopped responding to economic growth and the policies targeting it. While the Great Society programs emphasized equity, attention shifted in the mid-1970s to promoting more economic efficiency, partly in response to the decline in productivity and the stagnant economy of the late-1970s.

A. *Data on American Poverty*

Persistent poverty has been a major feature of the United States economy throughout the twentieth century. As of 2005, there were 37 million

40. “Nothing is more useful than to look upon the world as it really is.” Pope Leo XIII, *Rerum novarum*, No. 18 (May 15, 1891), available at http://benedittoxi.va/holy_father/leo_xiii/encyclicals/documents/hf_l-xiii_enc_15051891_rerum-novarum_en.html.

41. See generally Clark, *supra* note 13, at 6.

42. NATIONAL HOUSING CONFERENCE, NHC’S FIRST 75 YEARS 9 (2006), available at http://www.nhc.org/pdf/pub_nhc75years.pdf.

people who were classified as living below the poverty threshold.⁴³ While high poverty rates were a common feature of all capitalist economies in the nineteenth century, poverty rates since World War II have fallen dramatically in most capitalist countries, yet they clearly have fallen more in some countries than in others.⁴⁴ Table 1 provides a comparison of poverty and income inequality in the United States and ten other advanced capitalist countries at the end of the twentieth century. Here we see that the United States has the highest level of relative poverty, child poverty, and income inequality, and the third highest level of elderly poverty. All of these countries are advanced capitalist economies with similar standards of living, thus they all have similar means for dealing with poverty. The lack of success in the United States is not due to a lack of means.

TABLE 1⁴⁵
RATES OF RELATIVE POVERTY IN ELEVEN
ADVANCED CAPITALIST ECONOMIES

Country	Poverty rate (50% of Median)	Child Poverty (50% of Median)	Elderly Poverty (50% of Median)	Income Distribution (Gini Coefficient)
Norway 2000	6.4	3.4	11.9	.251
Sweden 2000	6.5	4.2	7.7	.252
Belgium 2000	7.7	7.8	13.7	.277
France 1994	8.0	7.9	9.8	.288
Germany 2000	8.3	9.0	10.1	.264
Canada 2000	11.4	14.9	5.9	.302
UK 1999	12.4	15.3	20.5	.318
Italy 2000	12.7	16.6	13.7	.333
Australia 1994	14.3	15.8	29.4	.311
Ireland 2000	16.5	17.2	35.8	.323
USA 2000	17.0	21.9	24.7	.368

It is important to note that the above chart applies the same measure of poverty to each country. In contrast to most European countries, who measure poverty in relative terms, the United States' "official" measure of poverty is an "absolute" measure, in which the poverty threshold (adjusted for

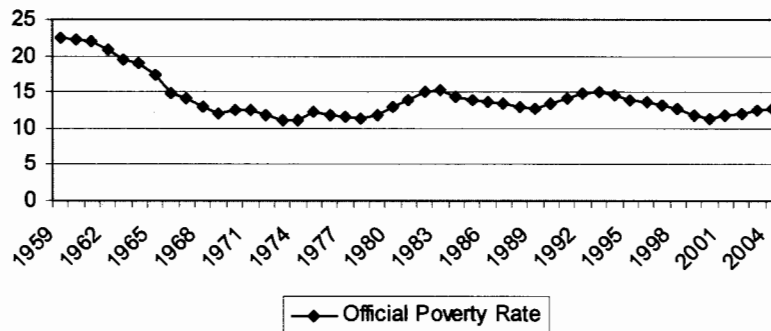
43. U.S. CENSUS BUREAU, HOUSING AND HOUSEHOLD ECONOMIC STATISTICS DIVISION, POVERTY: 2005 HIGHLIGHTS, <http://www.census.gov/hhes/www/poverty/poverty05/pov05hi.html> (last visited Mar. 26, 2007).

44. See ALBERTO ALESINA & EDWARD GLAESSER, FIGHTING POVERTY IN THE US AND EUROPE: A WORLD OF DIFFERENCE 1-54 (2006), for an analysis of the role of redistribution in poverty reduction.

45. Data compiled from data available at Luxembourg Income Study, <http://www.lisproject.org> (last visited Mar. 26, 2007).

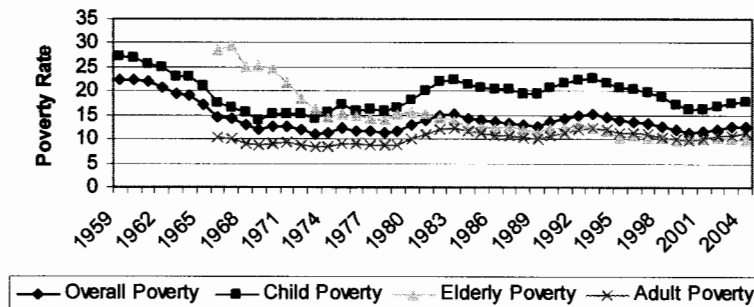
family size) is based on the cost of a basket of goods constructed in the early 1960s and adjusted each year for inflation.⁴⁶ Many note that this measure systematically underestimates poverty levels, for it has not been adjusted for the major changes in the budget of poor families, as well as regional changes. Graph 1 shows how the official poverty rate has changed from 1959 to 2004. After falling steadily from 1959 to 1973, the poverty rate has fluctuated between eleven percent and fifteen percent over the past thirty years.

GRAPH 1
OFFICIAL POVERTY RATE, USA, 1959–2004



In Graph 2, we see the differences in poverty rates by age. While elderly poverty has continued to fall throughout this time period, adult and child poverty rates, while fluctuating with the business cycle, have increased slightly.

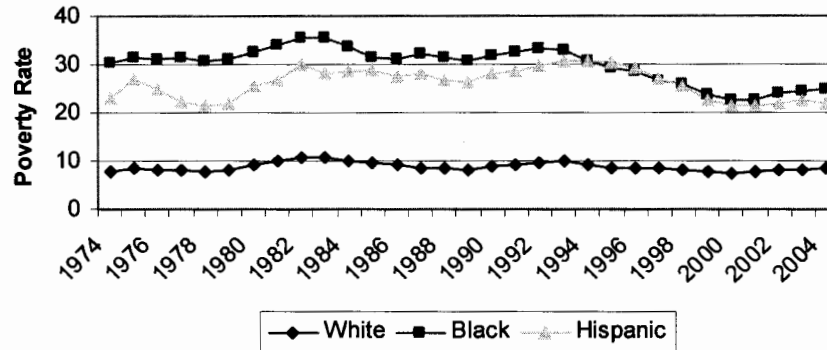
GRAPH 2
POVERTY RATES BY AGE, USA, 1959–2004



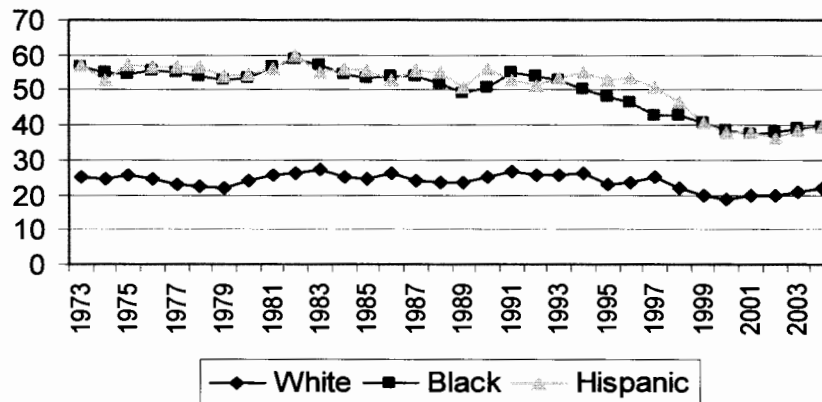
46. Charles M. A. Clark, *Does a Rising Tide Lift All Boats? How Poverty has Become Immune to Economic Growth*, available at <http://www.vincenter.org/99/clark.html>. In the 1960s it was estimated that one-third of a poor family's budget went for food, so they multiplied the food budget by three to get the poverty threshold; yet, other costs have risen much faster than food prices in the subsequent 40 years.

Graphs 3 and 4 indicate that there are very different experiences of poverty depending on both race and household structure. These are not individual characteristics, but instead are social and historical factors (that is, they are not due solely or mostly to individual choices in the marketplace). This suggests that something other than market forces are operating here.

GRAPH 3
POVERTY RATES BY RACE, USA, 1974–2004



GRAPH 4
POVERTY RATE OF FEMALE HEADED HOUSEHOLDS BY RACE,
USA, 1974–2004



B. Poverty and Growth

One of the most consistent aspects of our economy over the past three decades has been the inability of economic growth to significantly reduce poverty rates. From 1973 to 2001 real Gross Domestic Product (hereinafter "GDP") grew by 149% and real per capita GDP grew by 82%, while the official poverty rate experienced no real improvement—going from its all-time low of 11.1% in 1973 to 11.7% in 2001 (with 11.3% in 2000 being the

lowest level since 1973).⁴⁷ For most of this time, as we see in Graph 1, the poverty rate fluctuated between 12% and 15%, showing no long-run trend downward (while there is a clear trend upward in GDP). This is in stark contrast to the period of 1959 to 1973 when real GDP grew by 78%, per capita GDP grew by 49%, and the official poverty rate declined in a steady fashion (with some expected increases due to recession) from 22% to 11.1%. The effect of economic growth on poverty rates can be seen in Table 2, which looks at the relationship between changes in GDP and poverty rates over the business cycle since 1960.

TABLE 2⁴⁸
EFFECT OF ECONOMIC GROWTH ON POVERTY RATES,
1960–2001

Business Cycles	1960–1969	1969–1973	1973–1980	1981–1991	1991–2001
Constant	18.337	12.816	12.100	14.092	13.591
	(5.083)	(35.724)	(40.420)	(30.466)	(17.078)
GDP Growth	–0.1985	–0.2191	–0.1151	–0.0627	–0.0759
	(–0.2595)	(–2.4845)	(–1.5337)	(–0.5303)	(–0.3079)
R squared	.0084	.6729	.2816	.0340	.0093
Average Poverty Rate	17.46%	12.04%	11.76%	13.92%	13.36%

The coefficient for GDP growth indicates the impact of economic growth on the poverty rate (its negative sign indicates that as economic growth increases, poverty rates decrease). We can see that the coefficient for GDP growth declined significantly during the 1969–1973 business cycles and again in the 1981–1991 business cycles. The slight increase in the 1991–2001 business cycles is still one-third of the 1969–1973 level. The lack of success in reducing poverty rates via economic growth should cause us to rethink our anti-poverty policy.

IV. CAUSES OF POVERTY

After recognizing the extent of the problem of poverty, one must then look to its causes. How one explains the causes of poverty is greatly influenced by the economic model one chooses. Neoclassical economic theory attempts to explain all economic actions and outcomes in terms of individual behavior (methodological individualism).⁴⁹ This means that both this

47. See US CENSUS BUREAU, HOUSING AND HOUSEHOLD ECONOMICS STATISTICS DIVISION, HISTORICAL POVERTY TABLES, <http://www.census.gov/hhes/www/poverty/histpov/histpovtb.html> (last visited Mar. 26, 2007).

48. Parentheses indicate t-statistic.

49. See CLARK, *supra* note 22, at 171–78.

phenomenon and its causes are understood in individualistic terms. The problem of poverty is recast as the problem of numerous poor individuals, with the primary cause of each individual's poverty being his or her individual characteristics and choices. Non-neoclassical economists look at the poverty rate as an aggregate phenomenon, which is the outcome of economic and non-economic forces and structures.

In the real economy, poverty is the result of both individual and social factors, which are often impossible to separate.⁵⁰ We have seen above that some of the characteristics that are common in poor households, such as single-parent households, are the result of bad decisions. Yet, we need to remember that individual actions are socialized, and if we want to explain the frequency of actions we need to understand them in their social context.⁵¹ Social institutions adjust and change due to the actions of individuals, just as individual actions are influenced by social institutions. Thus, poverty is the result of the interaction of individual choices, social institutions, and structures. This does not explain all individual behavior, as each individual is a person with free will, but it allows us to see overall trends.

People are poor, according to neoclassical economic theory, because they have low incomes (or assets that can be turned into income), and they have low incomes because they yield low rates of return for the factor services they sell in the market. These factor services include, among other things: labor power, the use of land or natural resources, the use of productive capital, and the lending of capital. For obvious reasons, economists concentrate on why poor individuals receive low rates of return for their labor, as almost by definition a poor person is someone who does not own enough of the other factors of production to yield sufficient income.

Most frequently, human capital theory is used to explain why poor people receive low income from their labor.⁵² Under human capital theory, an individual's income is determined by his or her skill level (human capital), which in turn is determined by past investments. Those with low levels of human capital are those who, in the past, chose current income over investing their time and money into training and education. According to this approach, labor incomes are based on choices and are thus deserved. Furthermore, neoclassical economic theory explains other forms of income (rent, interest, profits) with the same type of analysis—as rewards for past investments.

Given that the neoclassical model assumes full employment as the norm, the existence of poor individuals is explained by their choices. This naturally leads to a policy approach that promotes changing individual behaviour. If one can influence the economic signals that poor individuals

50. See generally Clark, *supra* note 13.

51. *Id.*

52. See BRADLEY R. SCHILLER, *THE ECONOMICS OF POVERTY AND DISCRIMINATION* 38–63 (2003).

receive, then one can hope to change their responses to these signals. By raising the costs of bad choices, it is hoped that there will be fewer bad choices.

V. PROPOSED SOLUTIONS

The effort to promote economic growth through helping the rich get richer (supply-side economics) has been the primary economic and anti-poverty policy since 1980. Yet, as we saw in Table 2, economic growth has not had the same positive impact on reducing poverty it had in the previous forty years.⁵³ Furthermore, since the 1980s and 1990s, conservative economic opinion has argued that government intervention into the economy was a cause of poverty rather than a solution.⁵⁴ The argument was that government programs caused the poor to become dependent on public assistance, thus preventing them from learning the skills necessary for independence and self-sufficiency. The idea behind welfare reform was to allow market signals to play a stronger role in leading the poor to change their behavior and raise themselves out of poverty. The logic of this policy is straight neoclassical economic theory—concentrated on individual actions and market signals.

By 1994, welfare spending had reached \$22.8 billion (\$12.5 from the federal government, \$10.3 from state and local governments), with rising numbers of people on the welfare rolls.⁵⁵ While the average length of time on public assistance was not very long, it was possible for some to remain on assistance indefinitely. Furthermore, there was the problem of intergenerational dependence on public assistance.⁵⁶

Interestingly, the legislation did not mention poverty reduction as a goal.⁵⁷ TANF differed from AFDC by imposing time- and lifetime-benefit limits and work requirements, as well as increased funds for childcare (while also allowing for reductions in spending for needy children).⁵⁸ A major goal of the new legislation was to reduce the number of children born to single women and living in single-parent households (i.e., promote marriage), as well as to reduce dependency on welfare.⁵⁹ An essential aspect of the new policy was to allow for each state to experiment with different policies (within limits, such as the need to keep assistance spending at least

53. See Clark, *supra* note 46.

54. For an analysis and rejection of this thesis see BENJAMIN I. PAGE & JAMES R. SIMMONS, *WHAT GOVERNMENT CAN DO: DEALING WITH POVERTY AND INEQUALITY* (2000).

55. H. COMM. ON WAYS AND MEANS, 108TH CONG., 2004 GREEN BOOK 7-1-7-2 (Comm. Print 2004).

56. See generally REBECCA BLANK, *IT TAKES A NATION* (1998).

57. H. COMM. ON WAYS AND MEANS, *supra* note 55, at 7-4.

58. *Id.* at 7-2-7-4.

59. *Id.*

75% of pre-TANF levels).⁶⁰ The legislation also included bonuses to states that showed progress in achieving these goals.

VI. EVALUATING WELFARE REFORM AS AN ANTI-POVERTY PROGRAM

There can be no denying that welfare rolls have shrunk since the *Personal Responsibility and Work Opportunity Reconciliation Act* was passed in 1996. How much of this decline is due to the replacing of AFDC with TANF and how much is due to the expanding economy in combination with the increase in the Earned Income Tax Credit is a major debate amongst economists, but it is not our concern here. Even with the slowdown of the economy in 2000–2001, and the subsequent rise in poverty rates (from 11.3% in 2000 to 12.7% in 2004), the numbers benefiting from public assistance, and total spending on TANF, have continued to fall. The rise in the poverty rate—especially the increase in those in deep poverty (50% of the official poverty threshold), as well as the increased numbers participating in the Food Support Program (49.4%)⁶¹; Women, Infants, and Children (hereinafter “WIC”) (11.6%); and child nutrition (8.7%)⁶² programs—all demonstrate that the needs of the poor have significantly increased since 2000. Yet, the main program designed to help these families (TANF) has continued to decrease its support.⁶³

Common sense tells us that assistance programs should adjust to the needs they were designed to address, thus as the economy grows the welfare rolls should shrink, and as the economy stagnates or decreases the numbers on welfare should increase. This has been the experience in the past, and it continues to be the experience with other anti-poverty programs. Thus, since the 1970s, AFDC caseloads went up and down at the same time, and in similar proportions, with the Food Support Program rolls.⁶⁴ If TANF was designed to meet the needs of the poor, then TANF rolls should be much higher—about 50% higher—than they are currently. The evidence clearly shows that the needs of the poor since 2000–2001 have increased, yet there has been a steady decline in both caseloads adopted and spending on those caseloads. Thus, as an anti-poverty program—specifically, one that is designed to either help those in need or reduce the need for assistance—the TANF experiment was not considered a success.

60. *Id.* at 7-3.

61. Formerly known as the Food Stamps program.

62. The child nutrition programs include the National School Lunch Program, School Breakfast Program, Summer Food Service Program, Child and Adult Care Food Program, and the Special Milk Program, all of which are USDA programs.

63. *See supra* fig.3.

64. Blank, *supra* note 4, at 1138.

TABLE 3⁶⁵
PUBLIC ASSISTANCE LEVELS, 1996–2005

Year	TANF		Spending (Millions)	Food Stamps (Thousands)	WIC (Thousands)	Child Nutrition (Millions)
	Families (Thousands)	Recipients (Thousands)				
1996	4,434	12,321	\$31,931	25,543	7,186	4,313.2
1997	3,740	10,376	\$25,569	22,858	7,407	4,409.0
1998	3,050	8,347	\$23,473	19,791	7,367	4,425.0
1999	2,554	6,824	\$22,747	18,183	7,311	4,513.6
2000	2,215	5,778	\$23,335	17,194	7,192	4,575.2
2001	2,104	5,359	\$24,543	17,318	7,306	4,584.8
2002	2,047	5,064	\$23,356	19,096	7,491	4,716.8
2003	2,024	4,929	\$22,856	21,259	7,631	4,763.1
2004	1,981	4,745	\$20,863	23,858	7,904	4,841.8
2005	1,909	4,492	NA	25,682	8,023	4,973.2

TABLE 4⁶⁶
OFFICIAL POVERTY RATE AND DEEP POVERTY RATE,
POST-WELFARE REFORM

Year	Official Poverty Rate	Deep Poverty Rate	Median Family Income (\$2004)
1996	13.7%	5.4%	\$42,544
1997	13.3%	5.4%	\$43,430
1998	12.7%	5.1%	\$45,003
1999	11.9%	4.7%	\$46,129
2000	11.3%	4.5%	\$46,058
2001	11.7%	4.8%	\$45,062
2002	12.1%	4.9%	\$44,546
2003	12.5%	5.3%	\$44,482
2004	12.7%	5.4%	\$44,389

65. U.S. Census Bureau, The 2007 Statistical Abstract: Social Insurance & Human Services, http://www.census.gov/compendia/statab/social_insurance_human_services; USDA Food and Nutrition Service, Food Stamp Program Annual Summary, <http://www.fns.usda.gov/pd/fssummary.htm>; USDA Food and Nutrition Service, WIC Program Annual Summary, <http://www.fns.usda.gov/pd/wisummary.htm>; USDA Food and Nutrition Service, National School Lunch Annual Summary, <http://www.fns.usda.gov/pd/slsummary.htm>.

66. U.S. Census Bureau, Historical Poverty Tables: Poverty Status of People by Family Relationship, Race, and Hispanic Origin: 1959 to 2005, <http://www.census.gov/hhes/www/poverty/histpov/hstpov2.html> (last visited Apr. 2, 2007) (Official Poverty Rate); U.S. Census Bureau, Historical Poverty Tables: Number and Percent of People Below 50 Percent of Poverty Level: 1975 to 2005, <http://www.census.gov/hhes/www/poverty/histpov/hstpov22.html> (last visited Apr. 2, 2007) (Deep Poverty Rate); U.S. CENSUS BUREAU, INCOME, POVERTY, AND

The reason TANF rolls have shrunk while need has increased is that the system for determining eligibility under TANF is specifically designed to make it difficult to attain assistance. Part of this was a change in the rules, but part of it was also a change in attitudes toward the poor and the incentive structure to encourage caseload reductions at all costs. Some cities designed criteria that were even more difficult to meet than federal guidelines (and in some cases the courts had to intervene).⁶⁷ To give an example, a common practice was to automatically deny benefits, or to impose a waiting period, so that only the most persistent would receive assistance. Yet, even without the less-than-just methods of caseload reductions used, TANF, unlike AFDC, was established with the goal of reducing welfare caseloads and spending, with, at best, the hope that this harsher market signal would create a crisis in the lives of the poor, thus causing them to change their behavior believed to have caused their poverty.

VII. ON THE JUSTICE AND PRUDENCE OF WELFARE REFORM

Political policies need to be based on a clear understanding of the problems at hand and a clear vision of a just future toward which to work. Prudence and justice are the cornerstones of public policies that promote the common good. Yet, the conception of justice must be one that is centered on the common good, and the prudential judgment required is public prudence, not simply ordinary or private prudence. The underlying concept of economic justice is based on self-interest and not the common good, as understood in the Catholic Social Thought tradition, or as it has been understood in the classical philosophical tradition. Christian and Catholic conceptions of justice are based on the principle of the Preferential Option for the Poor, which calls for the evaluation of all economic policies and actions based on how they might affect the poor.⁶⁸

The welfare reform policy was based on an understanding of poverty that assumes that most, if not all, causes of poverty are individual, and thus the solution is to force poor individuals to change their behavior. This ignores the fact that poverty is caused by both structural and individual factors. Higher poverty rates for African-Americans, Hispanics, women, and children indicate that there are structural factors to poverty, even if they are the lasting impact of past historical discrimination, which also needs to be accounted for. Moreover, many of the structural factors are cultural and/or

HEALTH INSURANCE COVERAGE IN THE UNITED STATES: 2004, at tbl. A-1 (2005), available at <http://www.census.gov/prod/2005pubs/p60-229.pdf> (Median Family Income).

67. For example, in *Reynolds v. Giuliani*, No. 99-7254, 1999 WL 822512 (2d Cir. Sept. 28, 1999), the Court ruled that New York City illegally discouraged applications for public assistance, using a policy of "diverting" applicants to decrease the city's welfare rolls.

68. U.S. Conference of Catholic Bishops, *Economic Justice for All: Pastoral Letter on Catholic Social Teaching and the U.S. Economy* ¶ 52 (1986), available at http://www.osjism.org/economic_justice_for_all.aspx.

social, and thus the behavior they produce will not be so easily changed by merely adjusting the market signals. While some will certainly respond as the policy-makers hope, we cannot expect that this will significantly reduce the extent of poverty.

Furthermore, an important underlying assumption is that the economy has a tendency toward full employment. This produced an expectation that the increase in labor supply (due to the increase in labor market participation) will translate into higher levels of employment and at wages high enough to lift someone out of poverty. The evidence suggests that while many did find jobs, especially in the 1996–2000 period, only a small percentage found employment at wages that brought them out of poverty.⁶⁹ The biggest stumbling block to developing successful anti-poverty policies are the initial assumptions that: (1) economic outcomes are only the result of individual choices, and (2) that the market will generate employment for all at decent wages (that is, economic growth is necessary to significantly reduce the extent of poverty in America). These two barriers are the result of economic theories that reduce the person to a mere “homo economicus” (thus denying the human dignity of all individual persons) and which reject the social nature of the human person (and thus the importance of solidarity).

Prudential judgment requires both an understanding of the problem at hand and an understanding of the common good toward which to work. The Welfare Reform Act of 1996 was based on an unrealistic and inaccurate understanding of both the human person and the economy. We should not be surprised that it did not promote the common good.

69. The increased numbers in employment were not matched by a similar decrease in the numbers under the poverty threshold.