

CASE 12: INCOME INEQUALITY, POVERTY, AND JUSTICE

The Big Picture

The headline in the financial section of the January 20, 2015 edition of *USA Today* read, “By 2016 1% will have 50% of total global wealth.” The study published ahead of the World Economic Forum at Davos, Switzerland cites “Staggering” inequality between rich and poor. In 2014, the richest people had a collective wealth of 1.9 trillion—a rise of \$600 billion, or 50% in four years, according to a report, “Wealth: Having It All and Wanting More.” The report used data taken from *Forbes* billionaires list and also from Swiss financial services group Credit Suisse. The report notes that in 2014 there were 1,645 people listed by *Forbes* as billionaires and that about 30% of them (492) are from the USA with 90% of them being male.

Income inequality in the United States has grown significantly since the early 1970s. The U.S. consistently exhibits higher rates of income inequality than most developed nations due to the nation’s strong support of free market capitalism. This inequality has been on the rise for decades and is now highest since 1928 (PEW research). Ninety-five per cent of all economic gains in the U.S. since the Great Recession went to the top 1% (Sojourners). Even Standard and Poor’s, the Wall Street ratings agency, recently stated that inequality is so severe that it retards economic growth. The *wealth* inequality which includes all assets people own is even greater. Ten percent of the households in the U.S. own 76.7 percent of the wealth. Only 7% of Americans, Gallup reports, currently feel “very satisfied” with our nation’s distribution of income and wealth.

Definitions

- Poverty: the lack of adequate resources to be able to provide the basic needs of food, water, clothing, housing, medical care, and education.
- Poverty rate: the percentage of people living at or below an income threshold.
- Income inequality: a measurement of the distribution of income that highlights the gap between individuals or households making most of the income in a given country and those making very little; an indicator of how material resources are distributed across society. *Wealth* inequality includes all one’s assets.
- Living wage: the minimum income necessary for a worker to meet their needs that are considered to be basic to maintain a safe, decent standard of living within the community.

Poverty and Low Income (Note: The facts in this case were reviewed in 2016 and it was found that the change in the poverty rate and income inequality have not significantly changed since 2012 and 2013).

The official poverty rate varies depending on the ages of family members and the size of the family. In 2012, the poverty threshold for a single person under the age of 65 was \$11,945; for a family of four with two children under the age of 18 the threshold was \$23, 283. The median household income for 2012 was \$51,017, a 9% decline since its peak in 1999. (Joint Economic Committee, U.S. Congress). By 2013 the median household income was \$52,047.

The poverty rate in the 1960s declined sharply. Since the 1970s progress on the poverty rate has stalled, with the poverty rate fluctuating between 11% and 15%. In 2015, 13.5% or 43.1 million of Americans were living in poverty. Poverty disproportionately affects certain groups, for example: children (21.8% in 2012); African Americans and Hispanics (27.2% and 25.6% respectively); those unable to work 28% in 2012; and level of education with those with no high school diploma 26.1% compared to 4.9% with at least a bachelor's degree (Joint Economic Committee, U.S. Congress, 2014)

The middle-class household income has been shrinking since its peak in 1999 with a median income of \$56,080 and declining 9% to \$51,017 in 2012. Wages have even fallen in some industries and in the service sector where much of the job growth has occurred, wages are down. This downward trend of the economic situation of low- and middle-income Americans has been accompanied by a rise in income inequality. This trend continues into 2018. The rich have been getting richer and the poor getting poorer. The top 10% of workers in America now earn more than half of total income (Joint Economic Committee, U.S.

Congress). According to the Organization for Economic Co-operation and Development (OECD), the United States has one of the largest disparities in incomes among advanced economies.

U.S. Poverty Statistics

- The number of poor in America has been on the rise. The poverty rate in 2015 was 13.5% or 43.1 million, a slight decline from 46.5 million in 2012. Over 1 in 6 Americans live in poverty; 1 in every 4 children, the highest poverty rate of any industrialized nation. 32.3 million members of low income working families live in poverty.
- Comparison among groups: Poverty rates among the elderly have risen by 20% in recent years, wavering between 10% and 12.5% since the 1980s; child poverty by race--Black 35%, Hispanic 31%, American Indian 31%, Asian 15%, White 11%.

U.S. Ranking Internationally

- Of the 19 OECD nations, the USA has the highest rate of income disparity and poverty other than Mexico and Turkey, the highest in the developed world. The UN Poverty Index ranks the US 17th out of 19 countries. All northern and western European countries rank above the U.S.
- 34% of all billionaires are Americans.
- The US ranks at the bottom of health statistics compared to other industrialized nations for infant mortality and life expectancy.

Causes and Contributing Factors

- Declining demand for low-skilled workers
- Globalization of the economy—competition from low-paid immigrants and workers overseas
- Changes in the labor market such as declining membership in labor unions and the minimum wage
- Risk factors for poverty: inadequate assets, high debt, not graduating from high school, young single parent, divorce, esp. wife, inadequate health insurance
- Bumps in the road for those without assets or adequate income: illness needing medical or dental treatment, car or house repair, missing work due to care for sick family member, spousal abuse, alcoholism or drug abuse, affordable day care, increase in living expenses without an increase in wages
- Our economic system and government policy favor the wealthy according to some economists. The Supreme Court has ruled that corporations are to be treated as "persons" in the eyes of the law and "money" is speech making reform of the political system more difficult.

The Redistribution Debate

Redistribution of wealth is simply the transfer of wealth, property or income from one individual to another. The redistribution is caused by social mechanisms such as nationalization, charity, taxation, welfare, or tort law. Typically, the redistribution is progressive, referring to a transfer of wealth from the rich to the poor. The argument is between the current “ethics of individual rights” and an “ethic of the common good.”

Pros to the Redistribution Debate

One positive aspect of the redistribution is that it applies to the human sense of fairness. Humans have an intrinsic sense of fairness, proven by psychological studies and experiments. Fairness within the world of wealth certainly does not always exist, particularly in the United States. Redistribution of wealth allows citizens that a sense of fairness has been established. Next, redistribution of wealth is good for both the poor and the rich. When the disparity between the rich and the poor is too large, economic inefficiencies occur. The rich want to stay rich, but without allowing the poor some sort of cash flow the rich cannot stay rich. Social justice requires that social, economic, and political policies and practices are beneficial to all. It is that which benefits society as a whole, in contrast to the private good of individuals and sections of society.

Redistribution can also help contribute to the peace and stability of the nation. As demonstrated with protests such as the Occupy Wall Street movement, when the disparity between the rich and poor is too great society falls out of balance. This leads to social unrest and eventually civil disturbances, looting and even revolutions. Redistribution of wealth can help eliminate poverty and hunger for that part of the population.

Cons on the Redistribution Debate.

There are also arguments against the redistribution of wealth. First, redistribution works against America's economic system of free capitalism. Government interference and calls for redistribution oppose the fundamental values of capitalism. Also, redistribution may take away from a society's growth opportunities. Redistribution may mean that the rich cannot start new businesses or hire new employees and ends up hurting the economy. Individual initiative is likely to be reduced when wealth (earnings, income) is likely to be taken away by taxes and other disincentives. Another argument against redistribution of wealth is that it may cause laziness. Those who are dependent upon the redistribution of wealth might become reluctant to do their fair share, as they no longer have to work in order to live. Redistribution is often considered bad because it is a form of forced charity. The wealthy might not choose to donate the money of their own accord, and instead are forced to give up their money. Those who argue against redistribution believe that the poor should only receive help from private groups that willingly help the poor through the many charity organizations.

Philosophy for Free Market Capitalism and Individual Rights.

Free market capitalism is based upon individual rights and the self-interest of businesses to produce goods and services for a profit with minimal government regulation. Any person or company should be free to compete with any other person or company. Individual initiative leads to greater innovation and production. This provides a much wider range of products, process, and quality of goods and services. Thus, customers are given wider range of choice. Businesses will self-regulate on the basis of customer needs, preferences, and choices. Providing goods and services are a benefit to the employees, customers, and to society. The economic freedom allows for individual initiative to drive economic growth and efficiency in the achieving of profits, the basic reason for the existence of the business. The goal is to maximize profits and minimize costs, promoting robust competition between businesses as they meet the demands of consumers.

The main motive behind the working of capitalism is the profit motive which is driven by the desire for personal and organizational gain. Competition is one of the major features. It is competition among buyers and sellers that determines the production, consumption and distribution of goods and services. Prices adjust themselves in demand, in production techniques, and in the supply of factors of production. Changes in prices, in turn, bring adjustments in production, factor demand and individual incomes. The automatic working of the price mechanism under capitalism brings efficiency in the production and distribution of goods and services without any central plan, and promotes the maximum good to the community. The state's role is confined to protection of the institution of private property through laws.

The government has limited and minimal involvement in the market. The term “laissez-fare” is used by economists and politicians to mean “leaving things to take their own course.” Supporters of capitalism believe in limited taxation, a business owner’s right to set wages and minimal government-mandated labor policies, other than those designed to insure employee safety and protect against unfair hiring practices.

Philosophy for the Greater Good Capitalism and Common Welfare

In philosophy, ethics, and political science the common good (or common weal, also common wealth) is a “good” that is shared and beneficial for all or most members of a given community. A contemporary ethicist, John Rawls, defined the common good as “certain general conditions that are...equally to everyone’s advantage.” The Catholic religious tradition defines it as “the sum of those conditions of social life which allow groups and their individual members relatively thorough and ready access to their own fulfillment.” As an ideal it would mean “the greatest possible good for the greatest number of people.” It requires that the state recognize the individual’s basic right in society, namely, the right of everyone in the community to freely shape his or her life by responsible action in accordance with the moral law.

Greater good capitalism still provides for private ownership and management but includes the regulation necessary to protect and provide for the greater good and the well-being of all citizens of the nation. Socialism differs from greater good capitalism in that ownership and production of goods and services are owned and managed by the government. Greater good capitalism does not oppose the above tenants in the production of goods and services but is concerned that the welfare of all the citizens benefit from the economics of the system. Private ownership in an unregulated market enables firms in certain industries to have exclusive control in prices, politics, and treatment of employees. This power can result in a monopoly of product and labor markets. Exploitation of workers can occur through low wages, harmful working conditions, and long hours not to mention the exploitation of resources and pollution of the environment. A free minimally regulated market tends toward a gross inequality of wealth and inherited wealth. A greater good philosophy argues for all persons to benefit from the production and use of goods and services. If the free market does not provide for a living wage, some regulation is necessary to meet the basic needs of the citizens. All citizens should have an equal opportunity to achieve a living wage and therefore a greater share of income distribution. The Judeo-Christian scriptures (the Bible) include more than 2000 verses about the poor, wealth, poverty, and social justice.

Reframing the Argument. Perhaps the definition and use of *redistribution of income* is misleading in discussing income inequality. It can imply that wealth will be *taken* from the wealthy and *given* to the poor and low-income people. If the discussion is framed in the context of the *creation and redistribution of opportunity* for income equality, the arguments pro and con raise different ethical issues.

This case is presented as an issue that looks at the inequality of income within our current capitalist economy.

Discussion of the issues, pro and con, should be within this context and not compared to any other economic system. Citing the failures of communism and socialism in which the production of goods and services are nationalized will only derail the core focus of the discussion—what are the issues and options in striving for an income equality that enables all persons to live above a poverty level within our economic system of capitalism.

Questions for Discussion

How the US provides for distribution of or access to income and wealth is driven by individual initiative, our free market economy, and government policy. Given the system as it now exists, we have the highest poverty rate of any of the developed countries. Yet, most likely everyone would agree that each individual or family has a right to the basic necessities.

1. Is high economic inequality a moral issue in our country? Why or why not? Is your position economic, political, philosophical, religious, or otherwise? Recently Pope Francis said: “Just as the commandment ‘Thou shalt not kill’ sets a clear limit in order to safeguard human life, today we also have to say ‘thou shalt not’ to an economy of exclusion and inequality.” Comment?

2. Do government and/or business have a social responsibility to reduce income inequality so that the

basic living needs of all citizens are met? What is the ethics of your answer for a country that is the wealthiest nation in the history of humankind?

3. What are human beings worth for employment. Should their worth be viewed the same as a robot or a machine in the sense of cost and profit only? Or, might they be assured a minimum wage approaching a *living wage*? A *living wage* has been proposed as one way to enable individuals and families to provide for the basic necessities of life. Should everyone who works hard, full time, and plays by the rules be assured a living wage? What are the ethics of your answer?

4. Is there an ethical obligation to redistribute money to those who seem unwilling to work and whose basic needs are barely being met?

5. Is *equality of opportunity* a better way to frame the ethical debate over income inequality and redistribution of wealth? If so, how does this make it more ethical? How can we create greater opportunity?

8-16-15 Mel Witmer with contributions from Fred Manske; College Ethics Symposium, Low Country Men of the Church, Hilton Head,