

CASE 12: INCOME/WEALTH INEQUALITY, POVERTY, AND JUSTICE

"If a free society cannot help the many who are poor, it cannot save the few who are rich."

President John F. Kennedy, Inaugural address

The Big Picture

There are substantial differences between the income and wealth of the most-wealthy and the least-wealthy in the United States. The situation is even greater most developing nations and between developed and developing nations. Research indicates that these disparities (sometimes referred to as "the wealth gap") have increased significantly over time and that the United States ranks poorly in terms of inequality when compared to other nations in the developed world. Economists offer many reasons for this "wealth gap" which include the globalization of economies, the declining demand for low-skilled workers (in developed nations), the changing nature of the labor market due to technology and mechanization of production, political structures, inequality of educational and thus employment opportunity, and a host of others. These are richly debated within political, business and academic circles. These factors affect the people of every nation; however, for our discussion we will focus on the U.S. situation. Rather than provide a long list of statistics; this closing paragraph from a July 2, 2019 Associated Press article by Christopher Rugaber illustrates the issue: "Household wealth - the value of homes, stock portfolios, and bank accounts, minus mortgage and credit card debt and other loans - jumped 80% in the past decade. More than one-third of that gain - \$16.2 trillion in riches - went to the wealthiest 1%, figures from the Federal Reserve show. Just 25% of it went to middle-to-upper class households. The bottom half of the population gained less than 2%." Here are some definitions that are used when discussing policies that deal with income, wealth, taxation, and the redistribution of income.

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. This can be measured in absolute terms (what is necessary to provide basic shelter, food, clothing, etc.) or in relative terms (income of the lowest income households compared to that of the median, or average income in a nation).
- **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 most 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 the needs that are considered to be basic to maintain a safe, decent standard of living within a community.
- **PROGRESSIVE TAXES:** takes a larger percentage of income from high-income groups than from low-income groups and is based on ability to pay. (IRS - The Whys of Taxes)
- **REGRESSIVE TAXES:** A tax that takes a larger percentage of income from low-income groups than from high income groups. (IRS - The Whys of Taxes).

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 “ethic 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 a nation. As protests such as the Occupy Wall Street movement demonstrate, 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 portion of the population.

Cons to the Redistribution Debate.

Arguments against the redistribution of wealth: First, redistribution works against America’s economic system of free capitalism. Government interference and calls for redistribution oppose fundamental values of capitalism. Capitalism favors incentivizing people to work productively and make economic decisions based on preferences rather than government mandates. Redistribution may also 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. When forced to give up their money the wealthy might choose not to donate the money of their own accord and to their desired charity. 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. Competition among buyers and sellers 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. Governments' involvement in markets carries the risk of distorting the demand and supply of goods and services.

The government has limited and minimal involvement in the market. The term "laissez-faire" 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 the means of 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, many researchers say that we have the highest poverty rate (using income levels relative to the U.S. median income) 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?

6. In regards to a specific proposal addressing this issue: In this highly charged political season, a candidate, Elizabeth Warren, has presented a proposal to cancel up to \$50,000 of student debt for every American with a household income under \$100,000 and those with incomes between \$100,000 and \$250,000 would also receive some debt relief. There are other "relief" measures in her proposal which add up to an estimated cost of \$1.35 trillion over 10 years. This would be paid for by a tax on accumulations of wealth collecting 2% of \$50 million or more of household net worth, and an extra 1% on \$1 billion and up. It is projected that this tax would hit about 75,000 families and raise \$2.75 trillion over 10 years (assuming nobody leaves the country over it). Without considering the legal challenges to this idea; there are moral issues as well. Is it fair to tax wealth after it has already been taxed as income? Ability to repay is different for each student, is it fair to forgive all without regard to financial need? Is this fair to those students and/or parents who worked or financed their education without taking loans? Discuss these ethical questions and others you think apply to this proposed program.

8-16-15 Mel Witmer with contributions from Fred Manske; revised by David Quast and Jeff Myers 8-8-19