PART ONE

# *Contextualizing inequality*

CHAPTER I

# *Introduction: inequality matters*

"Why is Inequality Back on the Agenda?" Economists Ravi Kanbur and Nora Lustig pose this question as the title of a recent essay.[1] Their own careful answer contributes to the growing chorus of international and domestic voices attending to inequality, its causes and its effects. While economic and political analyses have been at the center of this renewed public discussion, less prominent has been an explicit focus on the moral dimensions. How and why does inequality matter morally?

The stated purpose of the series, New Studies in Christian Ethics, is to engage a secular moral debate and to demonstrate the distinctive contribution of Christian ethics to that debate. To that end, this book considers the various dimensions of the public discourse on inequality. It offers a constructive approach that engages resources in Christian social ethics along with perspectives in political philosophy and development economics. The book seeks not only to contribute to the wider moral debate about inequality, but also to shed light on how moral values operate (and should operate) in all aspects of the discussions. It aims to understand and then move beyond the numbers, providing a moral framework for understanding and responding to them.

At the beginning, it is important to clarify the distinction between *poverty* and *inequality*: while poverty is a condition of

[1] Ravi Kanbur and Nora Lustig, "Why is Inequality Back on the Agenda?" Paper prepared for the Annual Bank Conference on Development Economics, World Bank, Washington, DC, April 28–30, 1999 (version: April 21, 1999).

people at the bottom end of a socioeconomic distribution, inequality is a phenomenon of a distribution as a whole. While poverty can be understood in either absolute or relative terms, inequality is necessarily a relational concept. Related empirically and conceptually, the two concepts are distinct. As one example of the difference between poverty and inequality, consider the context of the United States: while the official US poverty rate was roughly the same in 1996 as it was in 1968,[2] inequality of income expanded significantly over that period. (This is largely due to the fact that the "top" fifth of the population saw their incomes rise significantly, while the poorest fifth experienced little or no rise in real income.) The most explicit focus of this book is on the moral and social aspects of inequality.

In order to assess contemporary realities and recent trends, it is necessary to employ one or more measures of inequality. The choice of measure(s) is not without controversy, since no one indicator can fully capture the complexities of the issue. While various measures will be used, much of the analysis will employ a standard, summary measure of inequality called the *Gini coefficient*. The Gini coefficient for a population can vary from 0 to 1; values near "0" represent very low levels of inequality, and values near "1" represent high levels of inequality. Thus, if a Gini coefficient for a country increases significantly over time, as it has in the United States in the past three decades, it indicates rising inequality.[3]

This chapter introduces the contemporary state of, and the public debate over, inequality of various kinds and in different contexts. The chapter concludes with an outline of the argument and structure of the book. Perspectives from Christian social ethics can make a vital contribution to the wide public

[2] The official US poverty rate for all persons in 1996 was 13.7 percent, while in 1968 it was 12.8 percent (US Census Bureau, Historical Poverty Tables – Persons, table 2 <http://www.census.gov/hhes/poverty/histpov/hstpov2.html>). I do not mean to overlook important changes in the composition of the poor or the causes of changes in the poverty rate over this period; these are not, however, foci of my inquiry.

[3] The technical aspects and value-assumptions of the Gini coefficient are provided in appendix A.

debate. Toward that end, it is crucial to consider the multiple dimensions of contemporary realities and discussions of inequality.

## CONTEMPORARY INEQUALITIES AND PUBLIC DISCOURSE: THE US CONTEXT

Over the decade of the 1990s, economic inequality has become increasingly prominent as an issue within American public discourse. Social scientists and commentators from a variety of perspectives have taken notice that since the early 1970s, inequality of income has increased across periods of economic boom and bust. By all measures, income inequality stands at its highest level in the postwar period. Overall US income inequality between 1968 and 1994, as measured by the Gini coefficient, increased by over 23 percent for families and by 18 percent for households.[4] By the mid 1990s, the top 20 percent of the household income distribution received nearly half of total national income, exceeding the income of the middle 60 percent. The share of the top 20 percent also amounted to approximately thirteen times the share of the poorest 20 percent.[5] The current income distribution in the United States is the worst of all developed nations.[6] These trends and figures of inequality have received significant attention in the mainstream press and in scholarly circles.[7]

[4] US Census Bureau, Historical Income Tables – Families, table F-4, "Gini Ratios for Families, by Race and Hispanic Origin of Householder: 1947 to 1997," <http://www.census.gov/hhes/income/histinc.f04.html>, and US Census Bureau, Historical Income Tables – Households, table H-4, "Gini Ratios for Households, by Race and Hispanic Origin of Householder: 1967 to 1997," <http://www.census.gov/hhes/income/histinc.h04.html>. See also Daniel H. Weinberg, "A Brief Look at Postwar US Income Inequality," *Current Population Reports – Household Economic Studies* P60–191, US Census Bureau, 1996, p. 1, based on Census Bureau data.

[5] Weinberg, "US Income Inequality," p. 2, based on Census Bureau data. In 1997, the highest fifth of households claimed 49.4 percent of total income, the middle three-fifths earned 47.1 percent, and the lowest fifth dropped to 3.6 percent (US Census Bureau, Historical Income Tables – Households, table H-2, "Share of Aggregate Income Received by Each Fifth and Top 5 Percent of Households (All Races): 1967 to 1997," <http://www.census.gov/hhes/income/histinc.h02.html>).

[6] See my discussions in chapter 4.

[7] Some of the recent articles and opinion-editorials on various dimensions of economic inequality in the *New York Times* include Steven A. Holmes, "Income Disparity

Inequality has not always been such a focal issue of public discussion and debate in the United States. In 1958 John Kenneth Galbraith asserted in a widely read book that "as an economic and social concern, inequality has been declining in urgency." He went on to state that "liberals and conservatives alike" agreed that increased production, instead of redistribution, was an appropriate social goal that would lead to reduction in inequality.[8] This claim was widely associated with the sentiment that "a rising tide lifts all boats." Alongside the focus on the increase of production, Galbraith emphasized the need for aid programs aimed specifically at that small percentage of

Between Poorest and Richest Rises" (6/20/1996), A1, A18; Louis Uchitelle, "Strike Points to Inequality in 2–Tier Job Market" (8/8/1997), A22; Tamar Lewin, "Women Losing Ground to Men in Widening Income Difference" (9/15/1997), A1, A12; Steven A. Holmes, "New Reports Say Minorities Benefit in Fiscal Recovery" (9/30/1997), A1, A26; Richard W. Stevenson, "Black–White Economic Gap is Narrowing, White House Says" (2/10/1998), A16; "Black–White Income Inequalities" (editorial, 2/17/1998, with letters to the editor, 2/23/1998); Peter Passell, "Rich Nation, Poor Nation: Is Anyone Even Looking for a Cure?" (8/13/1998), D2; Louis Uchitelle, "The Have-Nots, at Least, Have Shelter in a Storm" (9/20/1998), BU4; Lester Thurow, "The Boom that Wasn't" (1/18/1999); Michael M. Weinstein, "How Low the Boom Can Go" (6/13/1999); and Sheryl Gay Stolberg, "Racial Divide Found in Maternal Mortality" (6/18/1999), A18. An important article in the *Washington Post* is James Lardner, "Deadly Disparities: Americans' Widening Gap in Incomes May Be Narrowing Our Lifespans" (8/16/1998), C1, C4. Notably, the *Wall Street Journal* has also addressed this phenomenon: Alan Murray, "Income Inequality Grows Amid Recovery" (7/1/1996), A1; Irving Kristol, "Inequality Without Class Conflict" (12/18/1997), A22.

An important Census Bureau Report is: Weinberg, "US Income Inequality." The problem is discussed in chapters within many recent *Economic Reports of the President* (US Council of Economic Advisors: U.S Government Printing Office): *ERP 1992*, chap. 4; *ERP 1995*, chap. 5; *ERP 1997*, chap. 5; *ERP 1998*, chap. 4; and *ERP 1999*, chap. 3.

A much fuller review and discussion of the scholarly debate about economic inequality in the United States is contained in chapter 4. It is worth noting here just a few scholars who have offered analyses accessible to a wide public audience: Richard B. Freeman, "Unequal Incomes: The Worrisome Distribution of the Fruits of American Growth," *Harvard Magazine* 100/3 (January–February 1998), 62–64; Richard B. Freeman, with responses by Ernesto Cortes, Jr., Heidi Hartmann, James Heckman, Paul Krugman, Michael Piore, Frances Fox Piven, and James Tobin, "The New Inequality," *Boston Review* 21/6 (December 1996–January 1997); and Sheldon Danziger and Peter Gottschalk, *America Unequal* (New York: Russell Sage/Harvard University Press, 1995). An examination of inequality of wealth in the United States is Edward N. Wolff, *Top Heavy: The Increasing Inequality of Wealth in America and What Can Be Done about It* (New York: New Press, 1995).

8 Galbraith, *The Affluent Society* (New York: Mentor Books/Houghton Mifflin, 1958), p. 83.

people who would not benefit from growth. Such programs would comprise Lyndon Johnson's War on Poverty beginning in 1964. The combined emphasis on production and targeted programs led to the decline in public discussion on inequality as an issue of its own merit.

In the 1970s social analysts continued to focus on poverty rather than on inequality as the principal issue of public concern.[9] Sheldon Danziger and Peter Gottschalk introduce a 1993 edited volume in this way:

> Conventional wisdom about income inequality in America is radically different in the early 1990s than it was ten to fifteen years ago. At that time, Alan Blinder (1980) began a review article on the distribution of economic well-being by noting that "the more things change, the more they remain the same." Blinder's central conclusion was "when we . . . consider the *distribution* of economic welfare – economic equality, as it is commonly called – the central stylized fact is one of *constancy*. As measured in the official data, income inequality was just about the same in 1977 . . . as it was in 1947." (p. 416) Henry Aaron (1978) put it even more colorfully by stating that following changes in the income distribution "was like watching the grass grow." (p. 17) . . . Inequality, in contrast to poverty, was not much discussed in Congress or in the media.[10]

[9] There are, of course, notable exceptions. Arthur Okun's classic work, *Equality and Efficiency: The Big Tradeoff* (Washington: The Brookings Institution, 1975), calls for significant attention to inequalities alongside a focus on growth of production. Various works of Sheldon Danziger and colleagues, as well as of Lester Thurow, have been centrally important from the late 1970s to the present. In the 1970s, see, for instance, Danziger and Eugene Smolensky, "Income Inequality: Problems of Measurement and Interpretation," in Maurice Zeitlin (ed.), *American Society, Inc.* (Chicago: Rand McNally, 1977), and Thurow, *Generating Inequality: Mechanisms of Distribution in the U.S. Economy* (New York: Basic Books, 1975). The theoretical examination of inequality was expanded in the 1970s, most notably by A. B. Atkinson and Amartya Sen. For important contributions, see in particular Atkinson, "On the Measurement of Inequality," *Journal of Economic Theory* 2 (1970), and Sen, *On Economic Inequality* (Oxford: Clarendon Press, 1973). A full bibliography of the theoretical contributions up to the present day is contained in an "expanded edition with a substantial annexe by James Foster and Amartya Sen" of Sen's *On Economic Inequality* (Oxford: Clarendon, 1997).

[10] Danziger and Gottschalk (eds.), introduction to *Uneven Tides: Rising Inequality in America* (New York: Russell Sage, 1993), p. 3. The authors cite Alan Blinder, "The Level and Distribution of Economic Well-Being," in Martin Feldstein (ed.), *The American Economy in Transition* (Chicago: University of Chicago Press, 1980), and Henry Aaron, *Politics and the Professors: The Great Society in Perspective* (Washington: The Brookings Institution, 1978).

As Danziger and Gottschalk go on to argue, postwar trends in inequality looked very different to most analysts in the 1990s.

While there is now, in fact, a near-consensus that overall income inequality in the United States has increased over the past twenty-five years, significant disagreement persists regarding the relative importance of the causes for this rise in income inequality. The most discussed causes include the following: changes in tax policy, a structural economic shift to service and high-tech sectors characterized by bipolar earnings distributions, increasing relative returns to higher education, the greater impact on the US economy of low-paid labor in the developing world, changing demographic and household composition of the population, and the emergence of so-called "winner-take-all markets" across a variety of sectors.[11]

## CONTEMPORARY INEQUALITIES AND DEVELOPMENT DISCOURSE: INTERNATIONAL CONTEXTS

Parallel to this discussion of inequalities in the United States, scholars and policymakers have recently heightened their concern about severe inequalities in international contexts. Questions of global inequality and of "North–South development gaps" have long been an important and disputed part of public debates within the international development community – engaging scholars as well as officials within groups like United Nations agencies, the World Health Organization, the International Labour Organization, and even the World Bank and the International Monetary Fund. Yet the past decade, during which the United Nations Development Programme (UNDP) has published an annual *Human Development Report*, has been notable for increased interest in the relationship of development and inequality.[12] Discussions have focused on various

[11] For different discussions and perspectives, see Danziger and Gottschalk, *America Unequal*; *ERP 1997*, chapter 5; Lester Thurow, *The Future of Capitalism* (New York: W. Murrow, 1996); Freeman and respondents, "New Inequality"; and Robert H. Frank and Philip J. Cook, *The Winner-Take-All Society* (New York: Free Press, 1995).

[12] The United Nations Development Programme's annual *Human Development Report* (New York: Oxford University Press) was first published in 1990. The 1995 issue focuses specifically on gender-related inequalities of development. *HDR 1996* con-

dimensions of inequality, including gender- and race-related disparities, rural–urban gaps, and cross-national comparisons.

As just one striking illustration of global inequality, a 1996 calculation by the UNDP received significant public attention:

> Today, the net worth of the 358 richest people, the dollar billionaires, is equal to the combined income of the poorest 45 percent of the world's population – 2.3 billion people. This of course is a comparison of wealth and income. But a contrast of wealth alone, if it were possible, would be even starker, since the wealth of the poorest people is generally much less than their income.[13]

This startling juxtaposition helped to shed public light on the magnitude of international disparities. That calculation was updated in the UNDP's *HDR 1999* to indicate that the wealth of the two hundred richest people alone exceeds the annual income of 41 percent of the world's population.[14] The *HDR 1999* added that the world's wealthiest three human beings hold assets that exceed the combined gross national product of the world's forty-three "least developed countries" – with a total population of 568 million people.[15]

## INEQUALITIES AND THEIR MORAL SIGNIFICANCE

Public intellectuals have lined up with distinct interpretations about the moral and social significance of inequality. Conservative columnist George Will entitled a 1996 *Newsweek* essay, "Healthy Inequality," adding the byline, "Today's most discussed economic 'malady' is actually a recurring benign phenomenon." The rise in economic inequality evidenced since

tains significant discussion of trends and gaps of human development within countries. *HDR 1999* considers aspects of inequality in relation to "globalization." Chapter 3 below reviews and discusses the literature treating many dimensions and contexts of international inequalities, and chapter 10 examines initiatives related to inequality with the UNDP framework.

13 *HDR 1996*, p. 13. See my discussion in chapter 3. See also James Gustave Speth, "Global Inequality: 358 Billionaires vs. 2.3 Billion People," *New Perspectives Quarterly* (fall 1996), and Barbara Crossette, "U.N. Survey Finds World Rich–Poor Gap Widening," *New York Times* (7/15/1996), A3.

14 *HDR 1999*, p. 38. The data used for this UNDP calculation come from *Forbes Magazine*, 7/6/1998.

15 Ibid., and author's calculations based on table 16, *HDR 1999*, pp. 197–200.

1974, Will contends, is the result of the most recent technological revolution, a shift which will come to benefit society as a whole. But this social progress, like the Industrial Revolution, brings with it necessary short-term social costs, including inequality, that are decried only by those who fail to appreciate its longer-term benefits: "Such progress is, as usual, accompanied by a chorus from laments of sentimentalists who consider it a cosmic injustice that progress has a price. And the laments are loudest from those who make a fetish of equality."[16] From within the so-called "lamenting chorus," commentators who are concerned with rising inequality question Will's views of historical progression and inequality. In an article called, "Gulf Crisis," Michael Walzer asserts that the rise in inequality has brought with it long-term *perils* for societies like the United States:

> [I]nequality is dangerous for liberal democracy. And the dangers are self-perpetuating: disparities of wealth make it difficult to organize countervailing powers, and the absence of countervailing powers makes for increasingly radical disparities. The long-term effect of this process, the characteristic product of radical inequality, is tyranny in everyday life: the arrogance of the wealthy, the humbling of the poor.[17]

Walzer's concern is precisely one taken up in this book: what are the wider social, civic, and political costs of excessive socioeconomic inequalities?[18] What levels of which inequalities are socially problematic or morally objectionable?

A response to the latter question requires the building of normative claims about full and equal personhood and social solidarity. Seen one way, accounts of moral equality make

16 George Will, "Healthy Inequality," *Newsweek* (10/28/1996), p. 92.
17 Michael Walzer, "Gulf Crisis," *The New Republic* (8/5/1996), p. 25.
18 Stating the problem in this way suggests that inequality can be looked at as an "external cost" or "externality" to the market system, that is, as an effect that is not factored into decisions by individual economic actors but whose impact is felt by persons within that society. Such an approach is suggested in Lester Thurow, "Income Distribution as a Pure Public Good," *Quarterly Journal of Economics* 85 (May 1971), and Sheldon Danziger and Robert Haveman, "An Economic Concept of Solidarity: Its Application to Poverty and Income Distribution Policy in the United States," Research Series no. 37, International Institute for Labour Studies (Geneva: IILS, 1978). The insights of these thinkers inform my discussion in chapter 8.