

## **Bridging the Economic Divide    November 8, 2018**

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### **Introduction**

1. The economic divide includes income inequality (all the money received from wages, investments, pensions, rent) and wealth inequality (total amount of assets of an individual or household including bonds and stocks and property).
2. Christian perspectives from the Bible, official documents, including Pope Francis and Catholic Social Teaching.

### **I. The situation**

#### **A. Thomas Piketty *Capital in the Twenty-First Century***

1. English translation 2014; NYT best-seller list number one; Paul Krugman called it a “landmark” and others called it “one of the watershed books on economic thinking.”
2. In simplified terms, it claims capitalism produces inequality that threatens the democratic order and requires state intervention. This happens when the return on capital is greater than the growth in income, enriching those already wealthy.
3. Recently, inherited wealth has dominated the economy increasing the influence of the wealthy.
4. He proposes progressive annual global tax around 2% and more progressive income tax rates as high as 80% although he knows this is politically impossible.
5. His book has generated a vast literature on economic inequality.
6. Positive responses: Paul Krugman called the book a “magnificent meditation on equality,” some agree with the fundamental argument that current trends are leading to a dangerous plutocracy giving too much power to the wealthiest citizens.
7. Critiques of Piketty: He shows that inequality exists but not why it matters; he is more concerned about the rich than the poor; it promotes destructive state regulation of the free market; he does not see the mobility of the wealthy. Of the 400 wealthiest Americans in 1982 only 10% remain on the list in 2012; he does recognize that the growth in capital comes from surging house and land values; his proposals are unrealistic.

#### **B. Current wealth distribution in the United States**

1. In 2017 based on household income the lower 50% of Americans owned 1.1% of the total wealth the top 1% possessed 35.5% of the wealth; the lowest 20% had .5% of total wealth, the top 20% had 87%.
2. Wealth inequality is greater in the United States than any other major developed nation. (net worth includes assets minus liabilities) Wealth inequality is greater

than income inequality. The 1982 Forbes list of the 400 richest had a net worth of \$80 million with the average member worth \$230 million. In 2016 the average worth was \$6 billion. In the 21<sup>st</sup> century the net worth of most U.S. households fell while only the top 2% increased their wealth. The top 1% holds nearly half of the national wealth invested in stocks and mutual funds. The bottom 90% took the biggest hits during the Great Recession and hold almost three quarters of American debt. The 400 richest Americans have as much wealth as 16 million African American and 5 million Latino households.

3. Urbanist Richard Florida in *The New Urban Crisis* According to the GINI coefficient (0 is perfectly equal and 1 is perfectly unequal) the U.S is 4.5 which is worse than Iran.
  4. Middle class neighborhoods are disappearing. In the 1970s about 70% of Americans lived in middle class neighborhoods compared to 40% today. The wealthy increasingly live in large cities walling themselves off from those less fortunate.
  5. Wealth inequality grows in part because of “spatial geographic inequality.” Our political divide between urban dwellers and rural dwellers reflects the wealth and class divide.
- C. Those who think economic inequality hurts the economy and our democracy.
1. Joseph Stiglitz, Nobel laureate in economics, Columbia University: Inequality stifles, restrains, and holds back our growth. The State should prevent abuses and shape market forces, lowering inequality while creating more opportunities especially for the young through education and health care.
  2. Warren Buffet opposes increasing income inequality and supports a more progressive tax structure. The wealth of the 400 richest Americans (himself included) has increased five-fold over the last 20 years, hurting the middle class.
  3. International Monetary Fund (IMF) an international organization of 189 countries working to foster sustainable growth, lending money to countries struggling with debt payment problems: “Inequality tends to cause economic volatility.” Sustainable economic reform is possible only when its benefits are widely shared. It is not true that pursuing equality reduces incentives to work and invest. “Equality helps promote sustainable growth.”
  4. Brookings Institute: income inequality is growing and threatens social mobility; top 1% of Americans own 38% of U.S. wealth while the bottom 40% own less than 1% of U.S. wealth. We need a more progressive tax structure and expanded tax instruments such as a carbon tax or Value Added Tax (VAT) which differs from Sales Tax by taxing each stage of the process of producing a final product, for example, purchasing coffee beans, shipping, roasting, packaging, shipping and selling the coffee.

5. Walter Scheidel, historian author of *The Great Leveller*: The GINI coefficient underestimates the income and wealth of the superrich who have off shore reserves etc. Inequality is growing and will only stop if there is total war or very violent revolution. Only WWI reduced the inequality of the early 20<sup>th</sup> century. Other scholars think that the current inequality in the U.S. provides a class of elites who wield great power over politicians, influencing them to do nothing to reduce inequality and to adopt policies (like the 2018 tax cut) that favored corporations and the wealthy, while doing little to help the middle class. The solution is not violence but mobilizing a coalition convinced that the inequality is morally wrong and harmful to society. Some studies suggest that two-thirds of Americans are currently concerned about inequality. Wealthy elites have great political power because they make large contributions to elect candidates favorable to their views. Those worth \$40 million or more overwhelmingly favor cutting spending on many social-safety-net programs. Some 30,000 people account for 80% of the money raised by political parties. They fund think tanks and control media outlets, helping to change public narratives more in favor of halting crime and immigration than social institutions (cf an *Economist* on-line publication).
- D. Those who play down the problem and oppose moral considerations as well as State solutions
1. Michael Goodwin, Fox News: while income equality is real, it is used as a political ploy “to get into other people’s wallets.” Redistribution is not the solution, it does not expand wealth it only shuffles it and puts obstacles in front of job creation and growth.
  2. David Malpass, Economist for Council on Foreign Relations: the policy goal should not be to achieve greater equality, but to allow the private sector to create more for all. Rapid growth increases the income of the poor and the rich even more. Slow growth hurts the poor the most. The policy should be to grow the economy faster, which will help the poor the most, and not to get more equal distribution.
  3. William McBride, Chief Economist for Tax Foundation: questions the statistics: income stats come from the IRS and does not include fringe benefits such as health care and government transfer payments. Millions of low-skilled immigrants slow the rate in income growth. Aggregate numbers tell us very little of how individuals are doing.
  4. Arthur Okun (1928-1980), Yale and Brookings economist, known for Okun theory in his 1975 book *Equality and Efficiency*; pursuing equality is harmful, reducing efficiency and incentives to work (theory rejected by many economists).

5. American Enterprise Institute (AEI): the U.S. is still a land of opportunity and upward mobility despite what critics say: most working Americans initially in the bottom 20% of income earners rise to the top 20%. Comparing the top and bottom income brackets neglects the actual progress made by actual individuals.
6. Paul Krugman, teaches at Princeton and is a *NYT* columnist: high praise for Picketty's book: we do not have the theoretical models we need to analyze disparity. We can have full employment with current spending of the wealthy. "You don't have to like it, but economics is not a morality play." Our tax system (including federal, state and local) is "mildly progressive" but should be more.

## II. Christian Perspectives

### A. Hebrew Scriptures

1. In the Exodus, God freed the Israelites from the cruel fate of slaves in Egypt.
2. The prophets called for care for the most vulnerable, widows, orphans, and aliens (Isaiah 1: 17).
3. "Speak up and judge fairly: defend the rights of the poor and needy" (Proverbs 31:91).
4. The Psalms are filled with admonishments to care for the poor and oppressed (Ps 82:3-4).

### B. New Testament

1. Jesus was a Galilean peasant subject to heavy taxation (Rome, King, Temple).
2. In his initial sermon, he said he came to liberate captives and preach the good news to the poor (Luke 4).
3. He was a community builder, trying to reconstitute Israel as a light to the nations. He had cured lepers show themselves to the priests so they could re-enter the community.
4. He said "Blessed are you who are poor, for yours is the kingdom of God" (Luke 6:20).
5. The rich man is punished for failing to notice the poor man Lazarus (Luke 16:19-31).
6. Christ identified himself with the hungry, thirsty, stranger, sick, naked and prisoner (Matt 25: 3-46).
7. Parable of Laborers in vineyard (Matt 20: 1-16) In the story the poor get a break, God is generous: the last called could feed their family that day.

### C. Papal and Conciliar Teaching

1. The first 70 years of CST (1891-1961) expressed care for the poor but within the framework of defending the right to private property.
2. Vatican II: "Excessive economic and social differences between the members of the one human family or population groups cause scandal and mitigate against

social justice, equity, the dignity of the human person, as well as social and international peace” (Gs 20). In his encyclical *Mater et Magistra*, John 23 said “the economic prosperity of a nation is not so much its total assets in terms of wealth and property, as the equitable division and distribution of this wealth” (n 74).

3. American Bishops 1986 Pastoral Letter “Economic Justice for All:” the importance of meeting the basic needs of the poor and increasing participation in the nation’s economic life “establishes a strong presumption against extreme inequality of income and wealth as long as there are poor, hungry, and homeless people in our midst. They also suggest this extreme inequality is detrimental to the development of social solidarity and community” (n185).

D. Pope Francis in his 2013 Apostolic Exhortation *Evangelii Gaudium*

1. He deplores that “inequality is increasingly evident,” noting that “while the earnings of a minority are growing exponentially, so too is the gap separating the majority from the prosperity enjoyed by those happy few” (n56).
2. He criticizes “trickle-down theories” which assume that market driven economic growth will inevitably bring greater justice and inclusiveness (n54).
3. We need structural reform based on a sense of “solidarity” that recognizes the “social function of prosperity and the universal distribution of goods are realities which come before private property” (n189). All people, including the poor, deserve “a general temporal welfare and prosperity” which requires “education, access to health care and above all employment” (n192).
4. For him the “option for the poor” is based on fidelity to the Gospel and carried out by a “Church which is poor and for the poor” (n198).
5. To solve the problem of poverty we need to transform the structural causes of inequality and reject the “absolute autonomy of the market and financial speculation” (n202).
6. For him: “Inequality is the root of social ills”(n202).
7. Francis understands that applying these ideals to our complex economic challenges is exceedingly difficult.
8. His critics, especially American conservative economists contend that he does not understand U.S. capitalism, does not realize there are no actual existing free markets that he equates all capitalism with the “crony capitalism” that ruined Argentine economy, that he does not realize free markets have lifted billions out of poverty even though the gap between rich and poor has grown. They generally argue that voluntary charitable giving (for example, the Gates Foundation) is a better way of helping the poor than government redistribution.

E. Operative principles of Catholic Social Teaching (from Leo XIII 1891 Encyclical *Rerum Novarum* to Francis 2015 *Laudato Si*)

1. The need to work for the common good, “the sum of those conditions of social life which allow social groups and their individual members relatively thorough and ready access to their own fulfillment” (GS 26). We are essentially social, interdependent persons who find fulfillment in various forms of communal life (family, neighborhoods, parish, city, state, nation, human family) by contributing and receiving benefits. Promoting the common good requires protecting human rights of all. Promoting the common good rules out excessive individualism and collectivism. It rejects making an idol out of the nation state. The final common good is the unity of all persons in the kingdom of God who is “all in all.”
2. Universal destination of goods: the traditional defense of private property must be seen in the larger perspective that says the goods of the earth are for all and that private ownership involves social responsibility. The state has the right and duty to regulate private ownership for the common good. Pope Paul VI insisted that the earth belongs to everyone and not just the rich. Sr. Ambrose said in giving to the poor we are giving back what is theirs. The Catholic Catechism says we should use our possessions with moderation and to help the sick and needy (2405).
3. The preferential option for the poor: Jesus has special care for the poor and marginalized and warned of the danger of riches; Latin American liberation theology explicitly developed the preferential option for the poor; the poor include all who are banished to the margins including women, racial minorities; the privileged are called to recognize their advantages and to make a decision to help or empower the less fortunate; groups of disadvantaged are called to join together to help each other (poor whites joining with poor blacks). The Vatican insists it not be used to justify class warfare. Effective action includes a careful analysis of the roots of the injustice, avoiding collusion with those causing the injustice, careful planning of strategies to combat injustice, design realistic alternatives (cf Donal Dorr).
4. Solidarity: virtue that inclines us to work for the common good which is incompatible with high levels of inequality; we can avoid paternalism by walking with the poor, learning about their struggles, recognizing our advantages. This provides the basis for developing the virtue of solidarity that moves us to speak of us rather than them. There are limits to being in solidarity with others who are different (the affluent cannot fully understand what it means to be poor). Pope John Paul II called solidarity the virtue that commits us to “a firm and persevering determination to commit oneself to the common good.” Modern science demonstrates that we are members of the one human species, Christian faith teaches us we are all God’s children redeemed by Christ animated by the one Spirit.
5. Subsidiarity: the need for consultation and decisions at lower appropriate levels of society; distinguishing society and state which has a limited role in reducing

inequality. The purpose of intervention by higher authorities (state, nation, international) is to promote the common good, to ensure greater economic equality that cannot be accomplished at the local level.

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