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## WE ARE GETTING INCOME INEQUALITY WRONG – AND THAT’S DANGEROUS

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16 de agosto 2017

Fuente: Acton Institute

<https://acton.org/pub/commentary/2017/08/16/we-are-getting-income-inequality-wrong-and-thats-dangerous>

The topic of income inequality is not new, but it is increasingly dominating [academic and policy conversations](#). When French economist, Thomas Piketty, wrote a 704-page [tome on income inequality](#) in 2014 it sold out quickly. How could a massive book on such a technical concept generate so much popular interest? Piketty tapped into some deep and growing concerns that Americans have about income inequality. Is the large gap between the rich and poor in the United States a problem and is it getting worse? If so, what should we do about it and what can we do about it? Christians must wrestle with these questions if we truly want to help not only the poor, but all those who might be increasingly marginalized by a rigged system.

For Piketty and many others, the story on income inequality is straightforward as is the solution. The rich are accruing riches at an increasing rate and that leaves less for the poor and it makes the poor less able to escape their situation. Their solution? Tax the rich at very high rates, [in some cases 75 percent](#), and that wealth will be redistributed to even the playing field.

### What does the Bible say?

For Christians, even if it were as simple as the above suggests, we must first ask what the Scriptures have to say about the rich and the poor. What we know is that anyone can be tempted by the seduction of wealth and that seduction makes wealth an idol. You can make an idol of wealth regardless of whether you are currently rich or poor ([1 Timothy 6:10](#)). But money itself is not evil; it is the love of money that generates all types of evil.

Some people have a great deal more money or income than others. This in and of itself is not sinful, assuming it was earned legitimately. Scripture also exhorts us to work hard and be industrious. [2 Thessalonians 3:9-11](#) tells us that if you are unwilling to work you shall not eat. This gives us another biblical principle for understanding modern income distributions. You must work as hard as you are able with the talents God has given you. But we don't stop there and assume that those who are at lower income levels are lazy or don't work as hard as they can.

The market process of commercial exchange that occurs in societies with a great deal of [economic freedom](#), like the United States, provides people with good incentives to work and when they apply their creativity they can become very rich. Market economies encourage us to seek out problems and act entrepreneurially to solve them. This happens through voluntary exchange, which means that the riches are earned from productive activity. Bill Gates is rich, in part, because I pay him for his products, and I am happy to do so because I cannot create these products on my own. I need Bill Gates and he needs me. This is how market economies work. Great entrepreneurial breakthroughs make us all richer, but some get very rich. These riches are earned and thus are legitimate, but can still result in a large gap—such as the gap between Gates and me.

Finally, Scripture is clear on lying, cheating and stealing: it's always wrong. If one earns wealth through cheating, lying, and rigging the system then we have a problem. The income earned through that type of activity is not in fact, *earned*; it is taken from others. This type of income generation is zero-sum: I win because you lose. Market exchange is win-win or positive sum. We all win and thus we all become richer; poverty and exploitation become the exception not the norm.



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In our efforts to understand whether the income gap in the United States is a problem, we need to understand more than just the income distribution. We need to understand how that income is acquired—through service or plunder?

What does income inequality tell us?

When economists try to measure income inequality in a society they use a measure called [the Gini Score](#). This is a statistical disbursement measure that tells us how income is held over a given population. We could measure this for a village, a city, or across countries. The Gini Score ranges from zero to one. A score of zero implies perfect income equality: every person has the exact same income. A Gini Score of one implies perfect income inequality: One person holds all the income and everyone else has zero.

We don't live in world of either extreme and the Gini Score in the United States is about [0.42 by World Bank estimates, and that is up from a score of 0.38 in 1986](#). This confirms the fear that Piketty and others have: income inequality is increasing in the United States. Does it matter?

This is not an obvious or easy question to answer. We cannot simply brush off income inequality as a non-issue because we live in a society with a great deal of economic and political freedom. True, we do have a great deal of freedom but that doesn't mean that there aren't problems such as corruption and cronyism that we must address.

The problematic nature of the Gini Score is that it tells us nothing about *how* the income is earned; it just tells us about the current distribution, which we can compare with the past. What is doesn't tell us is, in fact, what is most important: How and why are the rich getting richer and how are the poor faring?

#### **What more do we need to know?**

What will help us fill in the gaps is to look at how income is earned, particularly in the top quintiles. This is much more difficult to ascertain. It does however, give us a way to think about the corrosive forces of cronyism. If those at the top are using subsidies, political financial contributions, and bribery to rig markets for their benefit, we have a problem. This cronyism or corporatism allows the rich to get richer at the expense of everyone else.

If a corporation sees that there are threats to market share or price from competitors and they can use political and financial capital to get legislation that protects them, they often will engage in these bribes. This hurts small competitors who are unable to hire million-dollar lawyers and lobbyists. This generates the worst type of income inequality: it makes the rich richer through theft and gives them incentives to be less productive.

Another factor that is important to try and understand is the income mobility in a society. How quickly are the poor able to escape poverty? In anything other than a society of perfect income equality (a practical impossibility) there will always be relatively higher and lower incomes. What is important is how stagnant those categories are. If the poor are trapped in the lowest income quintiles, then that tells us something about the vibrancy and dynamism of a society.

What we want for the poor is for them to no longer be poor. What we want for the rich is that they work hard and use their creativity for productive purposes. Simply looking at the Gini Score in the United States will not get us very far in understanding whether the growing income gap is something to be worried about. Equally challenging is that measuring income mobility and cronyism is difficult because the data required is not easily acquired. This doesn't mean we are left with nothing to do. It does mean that a global wealth tax of 75 percent won't necessarily solve the problem. It hurts those at the top who are being productive, making everyone worse off. Even if we could rely on the state to redistribute all of that tax, would that help people escape poverty? Not necessarily. In fact it could stifle income mobility in the poorest quintiles.

People tend to be poor because they are excluded from market exchange. Wealth redistribution doesn't change that but reforming cronyism does. What we need to ensure is that financial capital doesn't become equivalent to political power for corporations.



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This doesn't mean we should never give the poor financial support. It means that we must be thoughtful about the income gap knowing that our guidance must first come from scripture and we must recognize that the problem is nuanced. As Christians, we must understand the danger of cronyism, which explicitly benefits the rich at the expense of everyone else. Where we see it, we must fight against it.

We can and should be a country of great opportunity whether one is born rich or poor, but we must know what to agitate for. Income inequality is not always bad, but if we misunderstand the problem we too are dangerous, for then we can't possibly know what to fight and what to fix.