

On Economic Inequality

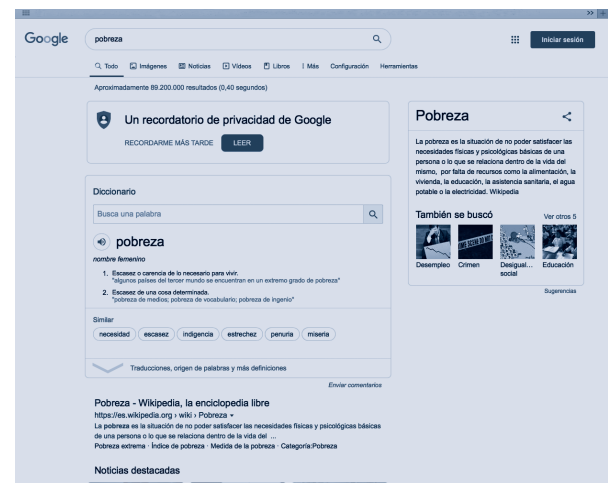
QUESTIONS LIKE THE EXTENT OF INDIVIDUAL LIBERTY, RESPONSIBILITY AND NEED REMAIN WITHIN PHILOSOPHICAL CONUNDRUMS. HOWEVER, ECONOMISTS HAVE TAKEN A DIFFERENT APPROACH BY ASKING WHICH ASPECTS OF INEQUALITY ARE MEASURABLE, AND HOW PHILOSOPHICAL THEORIES CAN BE APPLIED TO DESIGN MORE PRAGMATIC PUBLIC POLICIES

JUAN VIDAL DE LA PEÑA

It was not until John Rawls wrote his book, *Theory of Justice*, that humanity has been able to understand the relevance of inequality as a collective issue. Since then, the topic evolved in scope and comprehensiveness motivated by the societal and political significance of recent concern. Questions like the extent of individual liberty, responsibility and need remain within philosophical conundrums. However, economists have taken a different approach by asking which aspects of inequality are measurable, and how philosophical theories can be applied to design more pragmatic public policies. Nevertheless, the topic remains challenging for the amount of intricacies and complexities that revolve around the understanding of individuals and human communities.

History proves that societies flourish and prosper if the fruits of economic growth are largely distributed between members. Societies thrive when they embrace progress and there is a buoyant middle class. In the last century, many societies around the world have seen economic growth ac-

companied with an increase in living standards. The fundamental pillar of this growth has been the embracement of markets all around the world, which in many cases have in turn led to democracy (Our World in Data, 2016). However, since the 1980's liberal democracies have failed. George Washington, warned on the use of political parties as engines of self-serving interests in the 1796 farewell address "however [political parties] may now and then answer popular ends, they are likely in the course of time and things, to become potent engines, by which cunning, ambitious, and unprincipled men will be enabled to subvert the power of the people and to usurp for themselves the reins of government, destroying afterwards the very engines which have lifted them to unjust dominion"(George Washington,1796). Currently, this is the way liberal democracies are evolving. The ability of our enlightened democracies, sustained by the free market, to not widely distribute the gains from economic growth, has casted doubts on the current functioning of these systems. In the last decades, economic growth has been escorted by the growth of unequal access to opportunities.



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If this is bound to continue, the basic notion of democracy itself, is in danger. When democratic governments and market systems cannot deliver such prosperity to their citizens, the result is political alienation, a loss of social trust, and increasing conflict across the lines of race, class, and ethnicity. Inclusive prosperity nurtures tolerance, harmony, social generosity, optimism, and international cooperation and these are essential for democracy itself.. However, when did humans really begin contemplating poverty?

It has not been the case that humans have always cared about poverty. On the other hand, there has never been an awareness of

poverty like there is today. When looked at Google n gram, at the word “poverty”, the Google search engine shows the results as a moving average of the incidence of that word, normalized by the total number of words in the books published that year. In other words, how many references there are on the word “poverty” as a percentage of all available books to Google. Between 1740 and 1790 there is a sharp expansion in the frequency of references to poverty. This coincides with the end of the Enlightenment and, thus, during the period where the French and American upheavals took place. Ravallion calls this, a “Poverty Enlightenment”. However, attention to this word washed-out until the second half of the 20th century. What increases interest in poverty? Ravallion uses the search of poverty in English and French. As mentioned before, distributive justice developed at the end of the 20th century to be understood as the provision of certain levels of means, whereby the state should be the guarantor of such. However, assuring support to the destitute is something of a modern conception, developed in the last two centuries. Initial conceptions of justice, like those of Aristotle’s, were interested in the division of power and political systems, but not poverty. It was not until the work of eighteenth-century intellectuals like Adam Smith and Kant, that came to fruition that justice was related to poverty. At the beginning of the 18th century any concern for the poor was lacking. Philippe Hecquet a moralist and famous French doctor wrote in 1740: “The poor are like the shadows in a painting: they provide the necessary con-



trast”. Another English writer and economist, Arthur Young, wrote: “everyone but an idiot knows that the lower classes must be kept poor or they will never become industrious”. Hence, poverty was regarded either the desire of God, a natural state, or a product of one’s doings, such as sluggishness. Deprivation was sometimes thought to be wholesome, a driver for one to work. Nevertheless, at the end of 18th century, in Paris, modern poverty conceptions were born. By this time, in 1780, Pierre Baumarchais, wrote the opera “The Marriage of Figaro” (Le nozze di Figaro). This revolutionary opera aroused governmental anger not only by its outright calls for social equality, but also for the contempt with which persons of noble birth were treated: servants were cleverer and more humane than the aristocracy they served. In this context of political volatility prior to the French Revolution, the first Poverty Enlightenment took place,

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and thus, poverty was beginning to be observed as a political-economic outcome. At the same time, other important economic drivers were taking place: The industrial revolution occurred at the commencement of the 18th century and gathered steam during the 19th century. This revolution was the economic process which transformed societies from being agrarian to industrialized economies. It began in Northwestern Europe and spread to the entire world. This revolution allowed for unprecedented economic growth and societal revolutions: poor people were rich if compared to previous times, common people became able to participate in politics, women began working outside the home, children became more educated, followed by greater universal literacy, increased life expectancy and flourishing of the arts and the sciences (Deirdre McCloskey, 2007). Under these conditions, poor people could now seek different opportunities. However,

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even though contexts and poverty awareness improved, poverty was still seen as an unavoidable circumstance of life. Economists of these times did not propose much solution to change this conception. Debate did not suggest to that increased real wages would decrease poverty. In Adam Smith's (1776) words: "Whenever there is great prosperity, there is great inequality. For one very rich man, there must be at least five hundred poor, and the affluence of the few supposes the indigence of the many." Around the same time as Smith, another author Malthus saw famine and poverty as natural outcomes.

In this way, if in 18th century Europe emanated the first Poverty Enlightenment, the idea that everyone should be able to attain a minimum standard of living, the public effort to deal with poverty perished for 170 years, despite the seldom writings by some intellectuals. Alfred Marshall (1890) in his book *Principle of Economics* besought, 'may we not outgrow the belief that poverty is necessary?' However, it was not until the 1960's that consciousness on poverty thrived again. It was at this time on the other side of the world where it germinated, the United States. As M. Ravallion argues it happened in the awakening of the civil rights movement, it was in the wealthy and prosper second half of the 20th century America, when John Kenneth Galbraith (1958) wrote *The Affluent Society* and Michael Harrington (1962) wrote *The Other America*. Examples such as these shaped the American political consciousness on poverty. Under the Johnson administration's War on Poverty, the Poor People's Campaign sought to address poverty through income



and housing, irrespective of race. These policies were not appraised by everyone, critiqued by intellectuals like James Baldwin for examining the situation deep enough. As US administrations changed, so did the views on poverty and the War on Poverty led to the War on Welfare. Poverty is not a well-liked political dispute, and the transition from one conflict to the other has been studied by Marisa Chapbell. During the Johnson and Nixon administrations, the United States experienced higher unemployment rates, a combination of price increase and wage stagnation, as well a growing inequality. The amalgamation of this factors, alongside with plans like Nixon's Family Assistance Plan, moved great amounts of mothers into the workforce. Meanwhile, unions and activists supported large federal investments in achieving complete employment and income provision for male labourers. At the same time, those same groups and activists denounced certain governmental programs such as Aid to Families with Dependent Children (AFDC) for allegedly discouraging marriage. This gave way for effective right-wing assaults on welfare and the War on Poverty.

Until today (or nowadays), there is an ongoing discussion on both poverty and inequality worldwide. Above it was mentioned how individual responsibility may be taken into account when debating distributive justice. Henceforth, on the not-so philosophical interactions, how much a person should be blamed for their poverty was also part of the political agenda. Many theories and mathematical formulas have aided in increasing awareness and providing solutions. Intergovernmental institutions like the World Bank decided to move forward on tackling this issue. A symbolic, yet signifying act happened in 1990 when this same institution adopted the maxim "our dream is a world free of poverty". In that same year, the World Bank started the World Development Report (1990). A comprehensive study of empirical research on poverty and inequality followed.

This evolution has transformed the conception of poverty to a new extent whereby society, businesses, the economy and government ought to be evaluated on how they perform in reducing poverty and inequality. In a few words, more generalized wealth has allowed large parts of populations within

many countries to escape poverty, which in turn, paved the way for a change in the conception of poverty. Once a word defended by many became inexcusably and apologetically discussed. These actions strengthened our liberal democracies by admitting and encouraging the voices of poor people. The bigger and wider voice the issues received, the greater the possibility for a better and more knowledgeable response. Nonetheless, research demonstrates that inequality seems to be returning to western democracies, and as we seem to be observing, there is higher skepticism towards those economic forces (e.g. globalization) that previously allowed for growth. There are reasons to be concerned. If the resources of the economy are too unevenly distributed, it may threaten social cohesion and a common sense of belonging. The case is made that if our societies (and democracies) are to survive, increased inequalities could be seen as a disgrace. There is hope in views like those of the European Union (Europe 2020 strategy), which pledged for smart, sustainable and inclusive growth and set targets to lift at least 20 million people out of poverty and social exclusion and to increase employment.

There is a need to convert the increase in poverty awareness into successful policy, social and economic action. There is also reason to be mindful that there is no silver bullet to tackle growing inequalities; there has to be complementary policies, tools and approaches. When there are increasing inequalities, public policy tends to reward deregulation and tax breaks, which in turn tend to shift investments away from collective goods (e.g. educa-



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tion) fundamental for economic growth. Such is a vicious cycle, since deregulation causes higher inequality which sequentially rises income, making the situation more unsustainable. The second poverty Enlightenment has involved a great deal of successes and failures to combat poverty and inequality this offers previous experience to work upon. Some patterns can help navigate its disordered origins. It can be seen that the higher the level of affluent, societal benefits, the more the absence of them matters. If money only buys one a bigger house, then money seems relatively insignificant to those without mansions, provided they have a house. However, when the provision of money grants one access to advances like better education, healthcare and political influence rather than just luxury goods, the distribution of income and wealth gains a greater

significance in determining the well-being of a person. There are inestimable implications on society when gaps of this nature persist. The fundamental pillars of liberal modern western societies are constructed under the principles whereby everyone has civil and democratic rights and duties. When inequality increases, obligations do not abide equally to everyone, and mechanisms that privilege the elite develop. In order to preserve the prosperity of this system, forces of equalization should materialize. The increased inequality within countries has raised insightful questions on the roles of individuals, corporations and governments. A re-examination of the different societal stakeholders clarifies the plans of civilisations around the world. As governments in the world are more knowledgeable of inequality, strengthening the middle class,

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empowering the destitute, and prioritizing their inclusion is evermore present. The multifaceted layers that comprise inequality will mark robust challenges ahead, but with the help of technological progress and increased public awareness, there are hopes to deal with inequality in a comprehensive manner. Just as other times had other obstacles to surpass, inequality is one of the most pressing of present times.

What the underdeveloped countries lack are resources, coming in all different forms. Since affluent societies have abundant resources, they are the most capable of helping them. Assuming the premise

that a human should not be valued upon the amount of resources or capacities that they have, it seems most logical to conclude that societies around the world should teach students to become global-minded egalitarians. Many people live under historical conditions of western societies, and though individuals may be unrelated between countries, there is an unassumed responsibility to assist the impoverished. Wealthy societies can foster growth in developing countries without experiencing detrimental decline in their respective societies. Therefore, well-designed public policy and impartial international reg-

ulations can support the rise of those in the bottom and lift them out of poverty.

Parties across the spectrum differ on how to confront inequality and research also has certain political motivations and biases. Therefore, information collected from individuals can determine more appropriate intervention policies and tools. By gaining knowledge of where and which policy implementations really work, they can accurately match the particular needs of each community. Only from personalized studies can conclusions be drawn to adequately deal with inequality according to each specific form and circumstance •

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ACTIVIDADES Y FOROS

II JORNADA INTERNACIONAL DE PROFUNDIZACIÓN EN HUMANIDADES PARA DIRECTIVOS

Se celebró la semana del 30 de septiembre al 4 de octubre en Pamplona.

Participaron alumnos de la Maestría en Gobierno de las Organizaciones del PAD (Escuela de Ne-

gocios de la Universidad de Piura). El Programa de Humanidades para Directivos pretende abordar estos desafíos desde la óptica de la dirección, apoyándose en disciplinas como la historia, la sociología y la ética. Se trata de profundizar sobre el valor de la persona y de su importancia en el desarrollo de la

actividad empresarial. El programa complementa a la formación tradicional en habilidades y competencias directivas ofrecida desde el ámbito de los negocios, con una visión humanística que sirva para proponer nuevas formas y claves de actuación en la dirección empresarial.