

# ECONOMIC AND PHILOSOPHICAL REFLECTIONS ON PRIVATE WEALTH

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## Abstract:

This paper considers the idea of wealth and its treatment in recent CST, especially in *Gaudium et Spes*. The paper has two broad parts. It first discusses the relation of wealth to, and its difference from, income. The point is important to develop because modern CST has concentrated on relative and absolute income deprivation. Examples include the ongoing calls for a just wage and the statements in *Economic Justice for All* about unacceptably high levels of income inequality. It has said, by contrast, little or nothing about the sources and consequences of the even greater existing disparities in wealth. According to studies by the economist Edward Wolff and others, both total and financial wealth are now considerably more concentrated than is income.

Although income and wealth are related, they are not identical. Similar incomes can lead to very different wealth levels, since the social processes that mediate the conversion of income into wealth can be systematically biased in favor of certain groups. Elements of the tax code, racial discrimination in lending, residential housing segregation, pension rules, inheritances and so on, can allow some individuals and groups to generate more wealth from a given income flow than others. Moreover, the level of income currently received by members of one group can be much less indicative of the members' long-term financial situation than is the level of income for members of another group.

The second part discusses the concern that wealth plays in human self actualization, particularly from the tradition of Christian anthropological and ethical sources in contrast to the prevailing philosophical traditions of contemporary political economy. This part focuses on the ethical questions inherent in the relationships between wealth accumulation, the common good and human flourishing that flow from a reconsideration of the nature of wealth and its impact on the common good.

As many researchers, especially in sociology, have emphasized (e.g., Oliver and Shapiro (1995)), life chances and social stratification/mobility are more a function of wealth than income. The ability to take risks, afford education, start a business, and buy a home all depend on accumulated savings, not just current income. All this is to say that CST's focus on income has limited its ability to foster the full and authentic development of the person and community. CST can be usefully applied to scrutinize both the levels and types of wealth inequality, and the complex social processes from which they arise and provide a framework for reflection and action on determining just models for the accumulation of wealth.

*Finally, man painstakingly searches for a better world, without working with equal zeal for the betterment of his own Spirit.<sup>1</sup>*

This paper considers the idea of private wealth and its importance for Catholic Social Thought (CST), especially in the light of *Gaudium et Spes*. It begins by offering a treatment of *wealth* in papal documents prior to 1965, specifically Pope Leo XIII's *Rerum Novarum*, Pope Pius XI's *Quadragesimo Anno*, and Pope John XXIII's *Mater et Magistra*, followed by a philosophical reflection on the nature of wealth as a means of dominance drawing on the writings of Gerda Lerner, John Dewey, Karl Marx and *Gaudium et Spes*, especially the document's call to restore the goal of human flourishing through recognition of the importance of solidarity, equality and the pursuit of the common good.

Having established a philosophical and theological basis for questioning the ways in which wealth is actually used in capitalist economies, the paper then turns to the practical ways in which CST has employed the notion of wealth when discussing issues of economic justice. We argue here that the tradition has generally overlooked important economic aspects related to the generation and distribution of wealth, focusing instead on income. The virtually exclusive reliance on income represents a significant shortcoming in the writings on economic production and distribution, and constitutes a logical disconnect from the traditions conceptual groundings. Most importantly, it has prevented CST from making important contributions to the creation of an economic system consistent with Gospel values.

## Philosophical Reflections on Wealth Creation

It is helpful to begin this part of the paper with an examination of wealth in Pope Leo XIII's *Rerum Novarum*, Pope Pius XI's *Quadragesimo Anno* and Pope John XXIII's *Mater et Magistra*.

In *Rerum Novarum*, Pope Leo XIII's most notable achievement was the emphasis on human dignity, especially the dignity of the worker, which appears throughout all the succeeding encyclicals with the gradual evolution of more comprehensive treatment of social and economic rights and the emergence of a theory of "social justice" which first appears in Pope Pius XI's *Quadragesimo Anno*. The theory of "social justice" is rooted in the belief that human dignity is *social* rather than a purely individual achievement. The human community has a moral responsibility to establish "social justice" for all peoples. It is in *Quadragesimo Anno* that one finds the context for addressing the importance of sharing *wealth* with all classes of society for the common good:

*... By these principles of social justice one class is forbidden to exclude the other from a share in the profits. This law is violated by an irresponsible wealthy class who, in their good fortune, deem it a just state of things that they should receive everything and the laborer nothing.<sup>2</sup>*

In *Mater et Magistra* of Pope John XXIII, the term *wealth* is used in the context of commenting on Pope Pius XI's encyclical, *Quadragesimo Anno*. In the forty years since Leo XIII's *Rerum Novarum*, the historical and social changes were evident in the growth and acceptance of unrestricted competition. Wealth was seen as (1) a

concentration of power, and (2) concentrated in the few who “are frequently not the owners, but only the trustees and directors of invested funds, who administer them at their good pleasure.”<sup>3</sup>

Pope John XXIII commented on Pius XI’s discovery of the creation of a new force in the world:

*‘... economic power has been substituted for the free marketplace. Unbridled ambition for domination has replaced desire for gain; the whole economy has become harsh, cruel, and relentless in frightful measure.’ Thus it happened that even public authorities were serving the interests of more wealthy men and that concentrations of wealth, to some extent, achieved power over all peoples...<sup>4</sup>*

Pope John XXIII provides a lens for understanding the nature of wealth as it has evolved through changing historical conditions. The nature of the economy has changed due to unrestricted competition which results in a concentration of power or wealth as a kind of invisible power controlling the owners and workers of an institution. The corporate decision making is outside the relationship between owners of a business enterprise and the workers. The very *relationships* between employers and employees change dramatically because of an external will (which is empowered to make decisions affecting others) and removed from the social nature of the work environment. According to Catholic social teaching, the relationship between employer and employee ought to be governed by mutual respect that flows from the inherent dignity of the person who is made in the image and likeness of God. Relationships of mutual respect acknowledge the dignity and equality of each individual to enter relationships for the purpose of securing one’s needs and the fulfillment of the common good. The principle of subsidiarity in Catholic social teaching holds that functions and decisions should be made at the lowest levels possible in an organization enabling the members to claim some participation and decision-making power in the organization. If the levels within the organization cannot make appropriate decisive interventions, then a higher level needs to intervene. However, the problem that Pope Pius XI underscores is that decision making power is taken entirely outside the appropriate relationships of subsidiarity, thereby denying the working community of a quality of life that ought to be constitutive of working relationships. Such power is always rather seductive. Catholic social teaching has always emphasized the importance of scrutinizing the relationships of the economy from the standpoint of human dignity and social justice.

The description of the modern economy characterized by the power of domination is reflected in relationships of subordination and dominance that become accepted in the social context. It takes a while for these relationships to emerge and find acceptance in society. Gerda Lerner provides an interesting analysis of the domination of women and the ways social relations change through the power of dominance that might be helpful in critiquing the nature of dominance in the economy:

*As Meillassoux has pointed out, once male dominance is established, women are seen in a new way. They may, even earlier, have been seen as being closer to ‘nature’ than to ‘culture’ and thus inferior, although not devoid of power. Once exchanged, women are no longer seen as equal human beings; rather, they become instruments for the designs of men, likened to a commodity. Women become reified because they are*

*conquered and protected, while men become reifiers because they conquer and protect. The stigma of belonging to a group which can be dominated reinforces the initial destruction. Before long, women come to be perceived as an inferior group...*<sup>5</sup>

Relationships of dominance are predicated on a model of relationship characterized as superior/inferior that is reflected in a fragmented, exclusive and polarized social relationship. Perhaps there are elements of feminist critique that can provide a prophetic insight regarding the nature of wealth as dominance. The biblical sense of human nature portrays the individual as a being created by God, created in the image and likeness of God and is destined to reunion with God. The end of each person's life is determined by the choices the person makes in her/his life. We have come from God, we are created in God's image and likeness, and we will, at some point, return to God. This is a journey of the spirit.

The Christian tradition as evidenced in the Gospels consistently rejects material domination with regard to humans. As a parenthetical aside, it is only recently that the thinking of Catholic social teaching has evolved to include a rejection of the notion of "domination of nature."<sup>6</sup> The tradition rejects the theory that humans, regardless of race, ethnic origin or sex, be viewed and treated as *objects* of control by another human being. The human person is to be respected as having an inherent quality of dignity and sacredness. The Catholic Church's response to slavery is another matter, and Catholic social teaching evolved and only recently rejected all forms of slavery and racism.<sup>7</sup> *Gaudium et spes* was written during the decade of the civil rights movement in the United States and elsewhere. *Gaudium et spes* emphasizes that the Biblical story of humankind is one of liberation which flows from the assumption that all human beings are capable by nature of a freedom that is of God.

Returning to our consideration of wealth as dominance, not only do new forms of wealth control the economic enterprise, they also control other peoples. Pope John XXIII states in *Mater et Magistra*, "even public authorities were serving the interests of more wealthy men and that concentration of wealth, to some extent, achieved power over all peoples."<sup>8</sup> There is an interesting quality to this new emerging wealth – the power of invisible control over economic relationships and people. There is no social or economic structure of mutual accountability for the employers and employees because both are controlled by an invisible external force.

The impact of a world governed by the determinations of wealth in modern economy can be seen in the ways it affects relationships within the community by reducing labor relations to a materialistic base. The new form of wealth being described by Pope Pius XI and Pope John XXIII flows from a historically conditioned view of human nature that is materialistic. A materialistic view of human nature uses categories we ordinarily apply to nature at large and applies them to human nature itself. When people are used as instruments for securing profit, they are used as *means* for the accumulated wealth of a few who are removed from the very productive relationships that create the profit. This is a form of human bondage in the economic sphere. Such a view of humankind as employers and employees conceives of profit as primary and the development or flourishing of humankind as secondary. In such a society, technological development is pushed in the name of freedom, and societies, such as indigenous peoples, are diminished, if not wiped out.

Within the Christian tradition, we have long honored the potential sacramental quality of human encounter. There is no place for the use of domination or control of other people or between people. According to Charles Curran, *Gaudium et spes* asserts clearly in part one the communitarian and social nature of human beings. “The social aspect of human existence is not something added on to the person but an essential part of the human reality.”<sup>9</sup> It is in part one that this document underscores the importance of the Church’s social mission, a mission that involves each person in the important work of transforming a culture that celebrates individualism.

In American culture such transformation is even more difficult because our society privileges profit, rabid individualism, and technological control of the world’s resources and indirectly control of world populations such as third world countries that supply the raw materials for our successful lifestyles. American philosopher John Dewey in *Human Nature and Conduct* describes and identifies capitalism’s notion of the nature of the human person and Dewey provides a critique of same. The system of capitalism is described as one that involves the exploitation of some human beings for the advantage of others. Capitalism places us in a proprietary stance towards nature and other human beings, even toward oneself. The capitalism Dewey criticizes, as well as, the long standing history of the Papal encyclicals, is Liberal Capitalism which emphasizes radical individualism:

*No unprejudiced observer will lightly deny the existence of an original tendency to assimilate objects and events to the self, to make them part of the ‘me.’ We may even admit that the ‘me’ cannot exist without the ‘mine.’ The self gets solidity and form through an appropriation of things which identifies them with whatever we call myself... Possession shapes and consolidates the ‘I’ of philosophers. ‘I own, therefore I am’ expresses a truer psychology than the Cartesian ‘I think, therefore I am.’<sup>10</sup>*

What is the nature of the person that capitalism subtends? According to Dewey, capitalism identifies human nature as an individual moved only by an incentive of personal profit:

*Those who attempt to defend the necessity of economic institutions as manifestations of human nature convert this suggestion of a concrete inquiry into a generalized truth and hence into a definitive falsity. They take the saying to mean that nobody would do anything, or at least anything of use to others, without a prospect of some tangible reward. And beneath this false proposition there is another assumption still more monstrous, namely, that man exists naturally in a state of rest so that he requires some external force to set him into action.<sup>11</sup>*

According to Dewey, our ability to control even nature in the 20<sup>th</sup> century is thwarted by individualism, i.e. progress for the few – “But such progress will not be initiated until we cease opposing the socially corporate to the individual, and until we develop a constructively imaginative observation of the role of science and technology in actual society. The greatest obstacle to that vision is, I repeat, the perpetuation of the older

individualism now reduced, as I have said, to the utilization of science and technology for ends of private pecuniary gain.”<sup>12</sup>

What does all this have to do with wealth and human flourishing? The Judaic-Christian notion of the human person is operative for all persons; despite historical theories of economic growth that justify the greed and accumulation of a few over against the masses of humanity, and even go so far as to enshroud acquisitiveness and greed with the mantle of virtue. It is *justice* then that is understood and characterized as the *proper* relationship between people and not domination.

The nature of this kind of wealth is also characterized as exclusive by Karl Marx whose definition of the nature of private property might provide more insight into the nature of wealth as described by Pope John XXIII. In “On the Jewish Question,” Marx writes:

*The right of property is, therefore, the right to enjoy one’s fortune and to dispose of it as one will; without regard for other men and independently of society. It is the right of self-interest. This individual liberty and its application form the basis of civil society. It leads every man to see in other men, not the **realization**, but rather the **limitation** of his own liberty. It declares, above all, the right ‘to enjoy and to dispose, **as one will**, one’s goods and revenues, the fruits of one’s work and industry.’<sup>13</sup>*

Relationships of privatized wealth are disconnected from the common good and the social nature of the human person. These are the results of economic undertakings that are not governed by “justice and charity as the principle laws of social life.”<sup>14</sup>

In *Gaudium et spes*, we find a few references to wealth which are rather descriptive of the world as we know it. “Never has the human race enjoyed such an abundance of wealth, resources, and economic power. Yet a huge proportion of the world’s citizens is still tormented by hunger and poverty, while countless numbers suffer from total illiteracy. Never before today has man been so keenly aware of freedom, yet at the same time, new forms of social and psychological slavery make their appearance.”<sup>15</sup>

In *Mater et Magistra*, the treatment of wealth is more philosophical and humanistic in its analysis of economic activity and human needs. *Gaudium et spes* is more reliant on a biblical context, especially the references to the person as a partner with God in the creation of a more just and peaceful world. The document reinforces the Church’s commitment to the common good as an appropriate end of human activity. There is an understanding that economic relationships will continue to change, however, there is a constant that ought to prevail in human relationships. The fundamental reality of the human condition is that we are social beings by nature and will only find human self-actualization through working for the common good of all.

“Hence, the norm of human activity is this: that in accord with the divine plan and will, it should harmonize with the genuine good of the human race, and allow men as individuals and as members of society to pursue their total vocation and fulfill it.”<sup>16</sup>

*Gaudium et spes* addresses the relationship that **ought** to obtain between individuals and institutions:

*... Human institutions, both private and public, must labor to minister to the dignity and purpose of man. At the same time, let them put up a stubborn fight against any kind of slavery, whether social or political, and safeguard the basic rights of man under every political system. Indeed human institutions themselves must be accommodated by degrees to the highest of all realities, spiritual ones, even though meanwhile, a long enough time will be required before they arrive at the desired goal.*

*... Let everyone consider it his sacred obligation to count social necessities among the primary duties of modern man, and to pay heed to them. For the more unified the world becomes, the more plainly do the offices of men extend beyond particular groups and spread by degrees to the whole world. But this challenge cannot be met unless individual men and their associations cultivate in themselves the moral and social virtues, and promote them in society. Thus, with the needed help of divine grace, men who are truly new and artisans of a new humanity can be forthcoming.<sup>17</sup>*

In terms of the effects of the changes in the nature of wealth on the common good, we can see how the combined influence of establishing social, cultural and economic legitimacy for theories of dominance, exclusivity, individualism are detrimental to the human community and the common good.

*Gaudium et spes* identifies the purpose of all human life as destined for human solidarity. The seductiveness of dominance, exclusivity and individualism subvert our true potential as humans. It is only through an ethic of community that “the obligations of justice and love are fulfilled only if each person, contributing to the common good, according to his own abilities and the needs of others also promotes and assists the public and private in situations dedicated to bettering the conditions of human life.”<sup>18</sup>

## Economic Reflections on Wealth Creation

CST, from its earliest foundations, has attended to questions of justice in the material distribution of goods and services. In doing so, it has sought to articulate a vision of personal and communal access that constitutes right standing before God and community. Paul VI addressed the issue at several points in *Gaudium et Spes*, among them:

*God destined the earth and all it contains for all people and nations so that all created things would be shared fairly by all humankind under the guidance of justice tempered by charity...we must never lose sight of this universal destination of earthly goods. (69)*

*To meet the requirements of justice and equity, every effort must be made, while respecting the rights of individuals and national characteristics, to put an end as soon as possible to the immense economic inequality which exists in the world, which increases daily*

*and which go hand and hand with individual and social discrimination.* (66)

More recently, John Paul II has proffered a similar vision in claiming that all private property is burdened by a “social mortgage” and subject to the service of the common good.

The statements in *Gaudium et Spes* make no distinction between intra-nation and international inequality, nor do they specify precisely how one is to gauge inequality. However, in examining the demands of justice, encyclicals and pastorals including *Gaudium et Spes*, have almost universally concentrated on aspects of income generation and distribution, with wages and working conditions serving as the main indicators of economic well being. Thus, beginning with *Rerum Novarum* and continuing through *Centessimus Annus*, encyclicals and pastoral letters have been oriented to issues such as living wages, the need for social insurance, the desirability of unions, and so forth. In this spirit, *Economic Justice for All* specifically denounced what appeared to the U.S. Bishops at the time as an unacceptably high level of income inequality.

The generation of income and its distribution are clearly important issues and certainly merit attention. However, a focus on wages and work has needlessly constrained the ability of CST to foster the full and authentic development of individuals and communities. In particular, as many researchers, especially in sociology, have emphasized, life chances and social stratification/mobility are more a function of wealth than income. The ability to take risks, afford education, start a business, and obtain decent and stable housing all depend on wealth and not just current income.

Although income and wealth are related, they are not identical. Wealth, as will be discussed, is a more general concept and similar incomes can lead to very different wealth levels. Moreover, the level of income currently received by members of certain groups in society (e.g., women and racial/ethnic minorities) can be much less indicative of the members’ long-term financial situation than is the level of income for members of other groups.

A contention of this paper is that CST can be usefully applied to scrutinize both the levels and types of wealth inequality, and the complex social processes from which they arise. By expanding its analysis to cover wealth, CST gains opportunities to speak prophetically and in new ways about a variety of issues of great practical importance, and to create a new and more powerful lens through which to view the demands of justice in the light of faith.

## Wealth Creation and Distribution

### Wealth versus income.

It is useful to begin by distinguishing income from wealth. Income constitutes a flow. That is, it represents an amount paid or received *per unit of time*. An individual, for example, receives a certain salary per month or interest payments per year. For each period the person works or invests, the income will continue to flow. Of course behind the income flow is a corresponding flow of new production for which the income is payment. That new production flow can be either consumed or saved. To the extent it is saved, it contributes to wealth.

Indeed, wealth is simply the accumulated flow of all past savings, that is, the sum total of past production that has not been consumed.<sup>19</sup> As such it is a *stock or an amount at a point in time*. One talks about the amount of wealth available, say, today as opposed to the amount of income continually flowing in per month. And that part of any new production that is saved can be stored as wealth in a variety of forms, both as financial assets, such as a savings account, and as real assets, such as housing.

Income and wealth thus are related but distinct. At first glance, it may appear that the distinction is purely academic. Since wealth is directly related to income, it would seem that understanding wealth and wealth disparities is simply the flip side of understanding income generation and its disparities. In fact, standard economic analyses tend to follow this line of reasoning. However, a more realistic description of the relationship between income and wealth explicitly recognizes that the conversion of income into wealth involves various social processes affected by social context, norms, and power differentials between counterpart groups. As such, the relationship between income and wealth is a dialectical one that will vary both across time and across various groups in society. Moreover, the amount of wealth held by an individual need not only reflect the saving of that individual. Rather, any particular person also can establish and add to wealth from the savings generated by others via gifts and bequests. While such transfers do not add to aggregate wealth, they do help explain individual differences in wealth holdings.

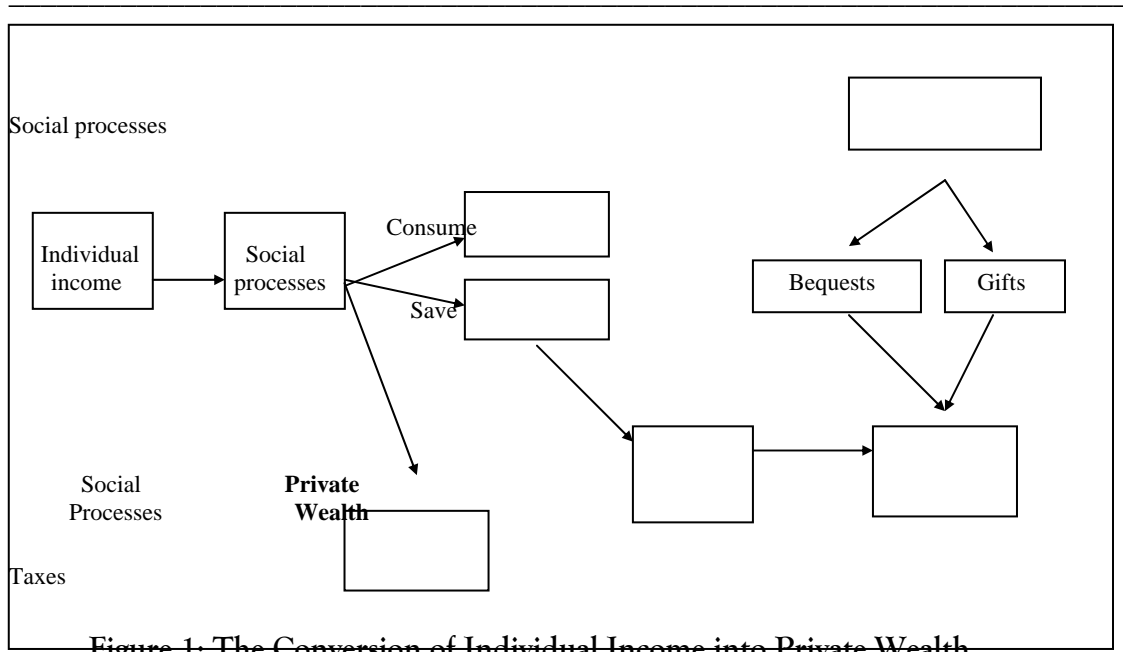


Figure 1: The Conversion of Individual Income into Private Wealth

Figure 1 illustrates schematically the relationship between an individual's income and wealth. The diagram necessarily simplifies, but is presented to emphasize two key points. One is that wealth creation and distribution is a broad process that includes income generation and distribution as components. Thus, a focus on wealth does not exclude CST's traditional scrutiny of income, but rather simply widens the lens to cover other phenomena. The other is the complexity and social distance in the link between income and wealth. Clearly, both individual behaviors and social processes and structures intervene. For example, the conversion of savings into wealth entails the mediation of financial institutions and markets, housing markets and government policy. Similarly, the amount and form of bequests reflect social expectations and policies. We will elaborate on the nature of the different relevant social processes shortly. At this point we simply point out that CST's emphasis on income ignores a host of issues relevant to the common good. By looking beyond income (but not ignoring it) and scrutinizing each part of the wealth creation and distribution process, CST can contribute significantly by offering guidance both on behaviors and structures.

**The ways in which wealth matters for the common good.**

Because wealth is accumulated savings, it constitutes a reserve that can be drawn upon for infrequent, large and necessary outlays and in times of crisis and need. Individuals' abilities to successfully negotiate both occurrences often prove foundational for their full and authentic development. Examples abound. Access to considerable funds for college and beyond is now a basic necessity for a decent job. Similarly, families must provide lump sum down payments for housing. A range of studies covering different areas have shown that obtaining decent housing in good neighborhoods with close proximity to jobs provides an array of benefits to adults and children. These include higher pay, better performance in grades K through 12, higher graduation rates, less illness, lower rates of teen pregnancy, less drug and alcohol use, and lower crime and incarceration rates.<sup>20</sup> Accumulated wealth allows one to provide collateral for loans to start a business or to acquire needed business capital such as tools and computers.<sup>21</sup>

Wealth is also critical because it provides insurance that supports risk taking and cushions the impact of adverse circumstances. Generally, actions that carry the potential for personal and community improvement entail uncertainty. The move to a new job or career, for instance, or the decision that a spouse remains at home to raise children requires the possible or probable loss of income. Accumulated wealth can promote these positive activities by lessening the concern about the ability to meet financial obligations. Since these kinds of risks can also carry higher rewards for the individual and community, lack of wealth for some means that they are systematically disadvantaged. Similarly, problems that otherwise might appear transitory, such as sickness, injury, job loss or divorce can have longer range consequences unless individuals have adequate wealth to handle associated income losses. Job losses that last six months or more, not an uncommon occurrence during the past three years in the U.S., can exhaust government unemployment insurance and leave individual vulnerable to the loss of their house, car and other necessary belongings.<sup>22</sup> Research by Jonathan Gruber, for example, has found that 80 percent of workers who become unemployed have savings that equal at most two months income.<sup>23</sup>

Wealth also plays a special role in the common good relative to income in that it can promote greater social solidarity and firmer support for citizenship. King and Waldron (1988) point out that almost all great theorists of citizenship in the tradition of Western

political thought, from Aristotle to Arendt, believed that full participation in public life involves the attainment of a certain social status, which is more typically thought to be a function of wealth than of income.<sup>24</sup> This is true because of the need for a minimum level of education and access to decision makers, and of the need to remain insulated from economic and political intimidation. Other political theorists stressed the dangers inherent in a widely unequal distribution of wealth. Rousseau, for example, argued that such inequality corrodes social solidarity and a sense of common purpose.<sup>25</sup> Thus, for example, those who own property and those who do not can hold very different opinions about basic community issues such as the need for taxes and their appropriate uses, and might even resent one another. Galbraith (2004) makes similar arguments in the current economic context, noting the adverse consequences of wealth shortfalls and maldistribution for economic growth.

Finally, wealth provides a window into the history of a person's or group's struggles that is masked by income levels. Two individuals might currently have equal incomes, but one may have only recently attained it while the other has had a higher level for a long period of time. The same is true for counterpart groups, such as men and women, and whites and non-whites. Additionally, individuals with similar current incomes can experience different frequencies and durations of unemployment. This appears to be the case for whites versus non-whites.<sup>26</sup> Since wealth captures the entire history of income and savings flows, it will reveal these differences whereas income levels *per se* will not.

#### **The current distribution of private wealth.**

Given the special significance of wealth for the common good, it becomes important to delve more deeply into the distribution of wealth and the underlying reasons for disparities. To do so, we present some data on private wealth holdings in the United States.

The data come from a study by Professor Edward Wolff of New York University.<sup>27</sup> His study makes two things very clear that are relevant for our discussion. First, trends in income and wealth can diverge noticeably, underscoring the need for particular attention on wealth. Second, the extent of wealth inequality in the United States is astonishing and much greater than income inequality.

Concerning trends, different summary measures of family wealth have grown considerably faster during the past twenty years than have comparable summary measures of family income. Mean and median family incomes, adjusted for inflation, have grown 13.7% and 28.9% respectively between 1983 and 2001. The corresponding growth rates for inflation adjusted net worth are 23.1 % and 64.6%. If one narrows the focus to financial net worth (essentially abstracting from housing wealth), the figures are 81.1% and 78.1%. So while both income and wealth rose during the period, the widely different growth rates suggest that unique circumstances are generating the growth and that understandings of changes in material well-being are contingent upon which measure one adopts (i.e., income or wealth).

There are a variety of ways to explore income and wealth inequality. One is to examine a summary measure of inequality such as the well-known Gini coefficient. The Gini coefficient takes values between 0 and 1, with values closer to 1 indicating greater inequality. According to Wolff's (2004) calculations (his Table 1), the Gini coefficient in 2001 was 0.826 for total net worth, 0.888 for financial net worth and

0.562 for income. That is, the Gini index indicates that wealth is considerably more concentrated than income.

A more intuitive way to depict inequality is to calculate the percent of total income or wealth held by different percentiles of the distribution. By Wolff's (2004) estimates (his Table 2), the top 10% of income earning households received 45.2% of all income. By contrast, the top 10% of wealth owners held 71.5% of all wealth. For the top 10% of all financial wealth holders, the fraction of financial wealth owned is 79.9%. Again, wealth is considerably more concentrated than income. If one looks at the wealth owned by the top 1% of wealth holders, the figures are 33.4% for total net worth and 39.7% for financial net worth, while the fraction for income is 20%. By contrast, the lowest 40% of wealth holders owns only 0.3% of all wealth and -0.7% of financial wealth (i.e., they are net debtors). These data are nothing short of breathtaking. Indeed, the current concentration of wealth has led the eminent economist Paul Krugman to liken the current situation to the period of the robber barons.

Another disturbing perspective concerns racial differences in wealth holding. Here again, the data are skewed so much as to make one ask whether there was a mistake in the calculations. Wolff (2004) calculates the ratios of Non-Hispanic African American wealth to that of Non-Hispanic White wealth. The median ratio for total net worth is 0.1; the median ratio for financial wealth is 0.03. That is, a typical African-American family has 3 cents in financial wealth for every dollar held by the typical White family. By contrast, the corresponding median ratio for incomes is 0.57 or 57 cents for every dollar. The relevant median ratios for Hispanic wealth to Non-Hispanic White wealth are even smaller (0.03 and 0.01).

As always, it is useful to state explicitly that neither *Gaudium et Spes* nor any other encyclical or pastoral letter has ever called for perfect equality in the material distribution of goods and services. Rather, the documents suggest various foundational principles that should guide our thinking about justice, and that should be applied to three dimensions of economic activities.<sup>28</sup> These include justice in exchange (commutative justice), justice in ownership (distributive justice), and justice in participation (contributive justice). As such, all aspects of economic life, including production and consumption activities, are subject to scrutiny in the light of faith.

In light of these criteria, some economic and social differences reasonably can be considered useful and just. However, the extreme inequality that currently exists in the United States calls into question both the usefulness and the fairness of the wealth distribution. Only a market fundamentalist would claim that existing overall and racial wealth inequality simply reflects historical differences in individual and group productive contributions to society. That point notwithstanding, it is useful to recall Paul VI's words in *Gaudium et Spes*:

*Excessive economic and social disparity between individuals and peoples of the one human race is a source of scandal and militates against social justice, equity, human dignity and international peace.*  
(29)

The challenge for CST is to understand the underlying causes and to prophetically speak about disparities that undermine the common good and other basic guiding principles.

### Reasons for large wealth disparities.

As mentioned earlier, a basic reason for wealth differences is different levels of income. The lower the level of income an individual has, the less the person can save other things equal. Thus, CST's longstanding focus on incomes does contribute to the analysis of wealth. Still, statistical analyses have shown that income differences can explain only part of the wealth differences that are observed in the population. Wolff (2004)'s analysis shows, for example, that "Though wealth and income are positively correlated among households, the correlation is far from perfect and there exists a large variation of wealth holdings within income classes" (p.2).

One way to see this is to examine wealth ratios for Whites and African-Americans by income class. This allows us to abstract to some extent from the role of different incomes in generating different wealth levels. If income differences were the whole story, then Whites and African-Americans with the same income level should have the same wealth (and a ratio of 1). The data, however, indicate otherwise. According to the Wolff (2004)'s computations, the ratios are between 0.2 and 0.4, depending on the income level used. Clearly, other and more complex factors apparently are at play.

Take, for instance, saving behavior. More wealth will be available to a person the greater fraction of income that is saved. In part, the fraction saved will reflect individual preferences, but in part it can also reflect social processes like government policies meant to encourage saving. A good example is the tax exempt status of contributions to employer 401(k) retirement funds, and the associated matching contributions of employers. The policy is clearly aimed at increasing retirement saving and allows workers to accumulate much more wealth than otherwise from a given amount of individual saving. Thus, \$1 saved by an individual worker represents \$2 saved after the matching employer contribution; on top of that, the \$1 saved avoids federal income taxes in the year of contribution and all future interest earned is tax deferred until retirement. An issue arises, however, because not all jobs provide such a program. Consequently, \$1 saved by one individual will produce far less wealth than \$1 saved by another person. And because the availability of 401(k) programs is likely to vary systematically by race and gender, since women and racial minorities tend to have less desirable jobs, these groups will systematically be disadvantaged.<sup>29</sup> CST has an opportunity to comment on the justice issues raised by the differential treatment of workers (and non workers). Other opportunities for scrutiny related to retirement savings concern the proposed privatization of social security and the increasing willingness of courts to allow firms to abrogate their pension responsibilities to workers so that the firms can remain profitable.<sup>30</sup>

Another key social process that affects wealth creation is the housing market. Housing remains one of the most widespread forms of wealth holding in the United States.<sup>31</sup> Yet, the process is biased in various ways toward particular individuals and groups and contributes to observed disparities. The deductibility of mortgage interest paid constitutes one source of bias. Because the tax code uses progressive tax rates, individuals with higher incomes obtain a greater tax benefit per dollar of mortgage interest paid. That is to say, \$1 devoted to housing by a high income person results in more wealth accumulation than \$1 devoted by a low income person. And if a person receives income too low to be taxed, he or she gets no tax benefit at all. As a result, about 53% of the value of the deduction in 2000 went to families with income greater

than \$100,000. Only 1.3% of the deductions went to families with incomes of \$30,000 or less.<sup>32</sup>

The accumulation of housing wealth is also biased toward certain groups because of racial discrimination in the housing market, whereby racial minorities are restricted from entering certain neighborhoods.<sup>33</sup> The discrimination not only directly reduces the ability to accumulate housing wealth, but also has a variety of significant indirect effects on life chances, such as a lack of access to jobs and diminished physical health.

Bequests, as noted earlier, are another factor lying between individuals' incomes and their ability to accumulate wealth. Indeed, studies have shown that bequests are an important source of U.S. wealth differentials.<sup>34</sup> How the proceeds from estates are to be divided and how public policy should intervene are questions to which CST can speak. One opportunity was the recent policy decision to eliminate the U.S. estate tax. Estimates revealed that the tax change produced no overall benefits to the U.S. economy, but rather only served to enrich families that were already extraordinarily rich.<sup>35</sup> Moreover, the policy change had the indirect impact of harming the poorest individuals in that it eliminated an important incentive to make charitable contributions from estates. The Congressional Budget office and others have estimated that the change reduced charitable giving by at least \$12 billion per year, an amount equal to the total amount of corporate charitable donations.<sup>36</sup> Unfortunately, the Church was silent during the debate and in its aftermath, apparently failing to heed Paul VI's penetrating words in *Gaudium et Spes*:

*At the very time when economic progress, provided it is directed and organized in a reasonable and human way, could do so much to reduce social inequality, it seems all too often only to aggravate them; in some places it even leads to a decline in the situation of the underprivileged and to contempt for the poor. (63)*

There are many other examples in which social processes and structures favor the wealth accumulation of some individuals and groups over others. Unfortunately, and contrary to Paul VI's admonishment, the already well-to-do are often the favored group. These have contributed to a degree of wealth inequality that, as described earlier, is remarkable. To the extent that these differences are unjust and to the extent that they reflect factors beyond income differences, CST can profitably redirect attention to wealth creation and distribution *per se*.

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<sup>1</sup> David J. O'Brien and Thomas A. Shannon, *Catholic Social Thought: The Documentary Heritage*, Maryknoll: Orbis Books, 2000, p. 168.

<sup>2</sup> O'Brien and Shannon, p. 55.

<sup>3</sup> O'Brien and Shannon, p. 89.

<sup>4</sup> O'Brien and Shannon, p. 89.

<sup>5</sup> Gerda Lerner, *The Creation of Patriarchy*, NY: Oxford University Press, 1986, p. 99.

<sup>6</sup> On January 1, 1990, Pope John Paul II delivered "The Ecological Crisis: A Common Responsibility" for the celebration of the World Day of Peace in which he addresses the plundering of nature and lack of respect for creation. On prior documents, such as *Rerum Novarum* (paragraphs 11, 12, 57), *Quadregesimo Anno* (paragraph 53) and *Gaudium et spes* (paragraph 12), the relationship between human and nature is referred to as a relationship of dominion.

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<sup>7</sup> With regard to the Catholic Church's position on slavery, especially in the United States, see John T. McGreevy's *Catholicism and American Freedom: A History* (NY: W.W. Norton, 2003) especially chapter 2. Marvin L. Krier Mich in *Catholic Social Teaching and Movements*, Mystic, CT: Twenty-Third Publications, 1998, points out in ch. 5 that the White Church of Europe and North America was not aware of its own racism.

<sup>8</sup> O'Brien and Shannon, p. 89.

<sup>9</sup> Charles E. Curran, *Catholic Social Teaching, 1891-Present: A Historical, Theological and Ethical Analysis*, Washington, DC: Georgetown University Press, 2002, pp. 133-134.

<sup>10</sup> John Dewey, *Human Nature and Conduct*, NY: Random House, 1950, pp. 116-117.

<sup>11</sup> John Dewey, p. 118.

<sup>12</sup> John Dewey, p. 118.

<sup>13</sup> Robert C. Tucker, *The Marx-Engels Reader*, New York: W.W. Norton, Inc., 1978, p. 42.

<sup>14</sup> O'Brien and Shannon, p. 89.

<sup>15</sup> O'Brien and Shannon, p. 168.

<sup>16</sup> O'Brien and Shannon, p. 186.

<sup>17</sup> O'Brien and Shannon, p. 183.

<sup>18</sup> O'Brien and Shannon, p. 183.

<sup>19</sup> Although the paper concerns private wealth, wealth has both a private and a public dimension. That is, individuals can accumulate savings privately or, by paying part of their income as taxes, accumulate savings in the public sector for communal use. In terms of the foregoing framework, the taxes paid to all levels of government constitute public sector income. Like individuals, the government can consume part of the taxes, for example by providing food to hungry children, and can save part through investments in public infrastructure, like roads, bridges and schools. The division of taxes among their potential uses, and hence the creation of public wealth, is a social (political) process. CST can usefully be applied to questions of the sufficiency and types of public wealth, although we do not do so here.

<sup>20</sup> See, for example, Richard Rothstein, *Class and Schools*, Columbia University and Economic Policy Institute, 2004.

<sup>21</sup> See, K. Edin, "More than Money: The Role of Assets in the Survival Strategies and Material Well-Being of the Poor," in Thomas Shapiro and Edward N. Wolff, eds., *Assets for the Poor*, (New York: Russell Sage Foundation), 2001.

<sup>22</sup> Estimates reveal for example that over 3 million unemployed workers currently have exhausted their federal unemployment insurance. See, I. Shapiro, "Number of Unemployed Workers Who Have Gone Without Federal Benefits Hits Record 3 Million," *Center For Budget and Policy Priorities* (October 13, 2004).

<sup>23</sup> J. Gruber, "The Consumption Smoothing Benefits of Unemployment Insurance," *The American Economic Review*, 87, March 1997.

<sup>24</sup> King, D. and J. Waldron (1988): "Citizenship, Social Citizenship and the Defence of Welfare Provision," *British Journal of Political Science*, 18, pp. 415-443. The discussion in the paragraph draws from their article.

<sup>25</sup> J.J. Rousseau, *Discourse on Political Economy*, trans. And ed. G.D.H. Cole (London:1966), p. 134, cited in King and Waldron, *ibid*, p. 426.

<sup>26</sup> See Rothstein, *op cit*.

<sup>27</sup> E. Wolff (2004), "Changes in Household Wealth in the 1980s and 1990s in the U.S.," The Levy Economics Institute of Bard College, *Working Paper No. 407*.

<sup>28</sup> The principles include human dignity, the primacy of the person, the social nature of the person, solidarity of the human family, the common good as inseparable from the good of persons, subsidiarity, participation as a basic right, the universal destination of material goods, and the preferential option for the poor. These are discussed in W. Byron, "Ten Building Blocks of Catholic Social Teaching," *America*, 179, 1998.

<sup>29</sup> A response to this observation is that women and racial minorities simply have not invested enough in their own "human capital" and so are individually responsible for their situation. While recognizing the basic idea that individual decisions at least partly explain individual outcomes, we take seriously the notion that certain groups in society face daunting systemic constraints, social expectations and a lack of power that calls into question the meaning of "voluntary" actions. Decisions about education, hours worked, and occupations among other things are not made in a social vacuum.

<sup>30</sup> Recent court decisions concerning US Airways machinists are an example. See *NY Times*, January 6, 2005.

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<sup>31</sup> According to Wolff (2004), Table 5, the overall home ownership rate in the U.S. in 2001 was 67.7%, higher than the ownership rate of any other form of wealth. If the category “other real estate” is included, the fraction is 84.5%.

<sup>32</sup> Jacob Hacker, *The Divided Welfare State*, (Cambridge: Cambridge University Press), 2002, p. 38.

<sup>33</sup> Discrimination in home purchasing has been widely documented both in academic and government studies. The classic study is D. Massey and N. Denton, *American Apartheid*, (1994: Harvard University Press). See also J. Yinger, “Housing Discrimination and Residential Segregation as Causes of Poverty,” in University of Wisconsin-Madison Institute for Research on Poverty Focus, 21, (fall 2000). There is also strong evidence of racial discrimination in the home loan process, although recent regulatory and technological changes appear to have mitigated it. See A. Munnell et al., “Mortgage Lending in Boston: Interpreting HMDA Data,” *American Economic Review*, 86, (March 1996), pp. 25-53 and A. Yezer, “Discrimination in Mortgage Lending,” in Daniel McMillen, ed., *Companion to Urban Economics*, (New York Blackwell), 2005.

<sup>34</sup> M.O. Wilhelm, “The Role of Intergenerational Transfers in Spreading Asset Ownership,” in Thomas Shapiro and Edward N. Wolff, eds., *Assets for the Poor*, (New York: Russell Sage Foundation), 2001.

<sup>35</sup> See Iris J. Lav and James Sly, “Estate Tax Repeal: A Windfall for the Wealthiest Americans,” Center for Budget and Policy Priorities, June 21, 2000. Out 2.3 million people who died in 1997, fewer than 43,000 had to pay estate tax. Joint Committee on Taxation, *Present Law and Background on Federal Tax Provisions Relating to Retirement Savings Incentives, Health and Long-term Care, and Estate and Gift Taxes*, (JCX-22-99), June 1999.

<sup>36</sup> Congressional Budget Office, “The Estate Tax and Charitable Giving,” (July 2004). See also, David Kamin, “New CBO Study Finds That Estate Tax Repeal Would Substantially Reduce Charitable Giving,” Center on Budget and Policy Priorities, July 31, 2004.