Pope Francis on Poverty and Economic Inequality: Good Intentions, Unfortunate Ideas

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Abstract
I analyze Pope Francis's economic discourse as expressed in documents and speeches he wrote during the first two years of his pontificate. The goal is to unveil the economic principles embedded in the pope's economic discourse and assess them against economic theory and the empirical evidence. I focus on the pope's analysis of poverty and economic inequality. My findings suggest that the economic principles embedded in the pope's economic discourse diverge from economic theory and are not supported by the relevant empirical evidence. Thus, the pope's recommendations to help the poor are misguided and are bound to cause unintended consequences.

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I. Introduction

The election of Jorge Bergoglio as the 266th Pope of the Roman Catholic Church in 2013 brought an important shift in emphasis in the church's message. Bergoglio's choice of papal name, Francis, was an early indication of the new priorities. Saint Francis of Assisi was a friar who made of poverty the essence of his lifestyle and preaching. Pope Francis made this objective clear the day after his election when he announced to the media that he wanted "a church which is poor and for the poor!" (Francis 2013a). He has pursued this quest with enthusiasm ever since.

Indeed, since his election, Pope Francis has formulated numerous specific and courageous analyses on the nature of poverty and its potential solutions. Unfortunately, for all the good intentions that these analyses convey, most are based on questionable economic principles and are not consistent with the empirical evidence. The pope's economic discourse aims at empowering the poor and marginalized using policies that have been repeatedly proven to cause severe unintended consequences and, in many cases, the opposite of the intended results. Perhaps more troubling, the economic principles underlying the pope's economic discourse embed dubious moral elements that the Catholic Church itself has not been able to resolve and that he seems to overlook.

I analyze Pope Francis's economic discourse as expressed in several documents and speeches produced from 2013 to 2015. The goal is to systematically unveil the underlying economic principles embedded in these speeches and writings and assess them against economic theory and the empirical evidence. I focus on the pope's analysis of poverty and economic inequality and find that the pope's emphasis on poverty is propelled by the belief that economic inequality is intrinsic to poverty's nature.

This exercise is important for several reasons. First, Pope Francis has become one of the most influential religious leaders of our time. Millions of people (especially the young) follow his preaching and ideas with great enthusiasm. It is important, therefore, to contrast such ideas against grounded theory and the relevant empirical evidence.[1] Second, regardless of religious or political views, most people will agree that the pope is an honest and humble crusader for the poor who only means well. This perception makes him a worldwide leader of high moral stature. As a result, discussions of his ideas center on the ideas themselves and minimize the consideration of vested or personal interests. This is an important element that is not always easy to find when the interlocutors are the poor themselves, workers, unions and/or political leaders. Third, while Pope Francis's economic discourse has spurred great attention from the media and generated a large number of op-eds and blog posts, the number of academic publications analyzing it is surprisingly low. This paper will contribute to filling that gap.

Methodologically, I start my approach to Pope Francis's economic discourse with his apostolic exhortation *Evangelii gaudium*, in which he makes clear his suspicion of capitalism as a system that

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[1] Pope Francis's popularity is undeniable. He reached a Twitter milestone in October 2017, tying President Donald Trump with more than 40 million followers (O'Loughlin 2017). He also broke the record held by David Beckham in reaching one million followers on Instagram. The pope reached that number in twelve hours, while Beckham did it in twenty-four (Garcia 2016). In the United States, a survey conducted by the Pew Research Center in January 2017 indicated that 70 percent of Americans said that their opinion of the pope was "very" or "mostly" favorable (Gecewicz 2017).

could bring about "greater justice and inclusiveness in the world" (Francis 2013b). I then review more than twenty different speeches and writings in which the pope addresses social or economic concerns. While my analysis is limited to the works cited, I believe that these references provide a fair understanding of Pope Francis's overall economic philosophy. As mentioned previously, my focus is on the pope's analysis of poverty and economic inequality. My findings suggest that the economic principles embedded in the pope's economic discourse diverge from economic theory and are not supported by the relevant empirical evidence.

II. Literature Review

While there are a large number of op-eds, media reports, and blog posts on Pope Francis's economic discourse, the academic discussion on the subject is surprisingly narrow. One important reference is the symposium on "Pope Francis and Economics" recently published by *The Independent Review* (Winter 2017). The symposium includes articles by seven authors on different aspects of the pope's economic discourse: Whaples (2017) juxtaposes, mostly at a theoretical level, the pope's economic principles with those commonly held by economists; Yuengert (2017) analyzes the pope's economic views within the evolutionary process of Catholic social teaching; Gregg (2017) explains the pope's views as influenced by his Latin American background and *La Teología del Pueblo* (The Theology of the People), Waterman (2017) and Booth (2017) each deal with the pope's views on the environment; and McQuillan and Park (2017) question the pope's embrace of forceful income or wealth redistribution and point out the virtues of individual and voluntary charity.

Of the aforementioned articles, Whaples (2017) and McQuillan and Park (2017) are of particular relevance for our own analysis. Whaples (2017) starts by documenting the pope's criticism of what the pope calls "excessive consumption," the accumulation of wealth and profit maximization. He then explains how these criticisms result from a different understanding of human behavior than economists have. For example, while economists assume that the *homo economicus* is subject to the principle of nonsatiation (more is always better), Whaples (2017) argues that the pope believes that "a consumer who never feels satisfied with his material life—who always wants more—is not on the path to God" and adds that "Christian teaching has always been that God made people to have an infinite desire for Him, not to have an insatiable desire for the things of this world." This important difference crucially extends to the understanding of demand and supply and the assessment of markets as resource-allocating mechanisms. Building on this analysis, I assess another important theoretical difference between the pope and economists: the role of property rights. While economists consider well-defined property rights a cornerstone of economic progress and development, the pope relativizes their importance as he prioritizes redistribution to reduce poverty.

Related to my analysis of the role of property rights, McQuillan and Park (2017) criticize the pope's focus on forceful redistribution and point out the virtues of capitalism in promoting voluntary redistribution (i.e., charity). While agreeing with these authors, I go one step further and question if economic inequality is inherently undesirable and some sort of redistribution (forced or voluntary) must be achieved.

Another important reference is the round table discussion "Pope Francis and American Economics" published by *Horizons*, the journal of the College Theology Society (June 2015). For this series, the journal invited four academics to discuss Ross Douthat's column in the *New York Times* from November 30, 2013, "The Pope and the Right" (Douthat 2013). Two professors of theology (David Cloutier and Matthew Shadle), one professor of economics (Charles Clark), and one professor of both subjects (Mary Hirschfeld) participated in the discussion.

Cloutier (2015) described Douthat's (2013) column as a piece offering a "more nuanced critique" of Pope Francis's *Evangelii gaudium* (Francis 2013b) than the mostly negative reaction it generated among conservatives. Indeed, although Douthat (2013) argues that Pope Francis's "plain language tilts leftward in ways no serious reader can deny," he claims that the "left-leaning papal rhetoric also allows for right-of-center conclusions." In short, Douthat argues that global capitalism is consistent with the pope's left-leaning economic discourse because of the following reasons: (1) when it comes to lifting people out of poverty, global capitalism has a better track record than any other system; (2) Catholic social teaching favors not only solidarity but also subsidiarity (preference for small local programs over national ones), which encourages voluntarism over bureaucracy; and (3) expansive welfare states can crowd out "what Christianity considers the most basic human goods—by lowering birthrates, discouraging private charity and restricting the Church's freedom to minister in subtle but increasingly consequential ways."

In general, three of the discussants—Cloutier (2015), Hirschfeld (2015), and Shadle (2015)—try, through different routes, to find a middle ground close to Douthat's (2013) position by arguing that the pope's economic discourse should be understood beyond the market-state binary and taken as moral guidance to the ultimate goal of reducing poverty rather than as a set of policies or instruments designed to do so. In that sense, these authors argue that the pope's economic discourse is neither left nor right and that markets and the state are not final purposes but instruments that must serve the individual.

On the contrary, the fourth discussant (Clark 2015) interprets the pope's harsh criticism of capitalism as warranted and argues that "laissez-faire economics has always been a normative system based on values Christians reject." Clark (2015) goes further in criticizing capitalism by arguing that "to allow businesses to privatize profits . . . is a violation of justice (and that such companies do not pay their fair share of taxes to support the government compounds this injustice)."

Another important reference is Juurikkala (2015), who, similar to Douthat (2013), Cloutier (2015), Hirschfeld (2015), and Shadle (2015), tries to find a middle ground between free-market economics and Pope Francis's economic discourse. Juurikkala's (2015) emphasis is a little more practical, as he argues that "what really matters is that the means are truly effective, and [Pope Francis] knows that the assessment of those means is beyond his competence." But Juurikkala (2015) also supports Pope Francis' economic discourse by arguing that "the vices of society are such that we need some restriction to economic freedom. If Christian libertarians manage to convince everybody to be charitable then there would be no room for restricting liberty."

Contrary to these authors, I contend below that grounded economic theory and the empirical evidence make it tremendously difficult to reach "right-of-center conclusions" out of the "left-leaning papal rhetoric." Thus, finding "unity between free-market economics and Pope Francis' message" (Juurikkala 2015) is a forced compromise. I also argue that the pope's economic discourse is not only directional, or meant to exclusively provide moral guidance without recommending specific instruments, but it is, in fact, instrumental, specific and unambiguously left leaning. Contrary to Clark (2015) and Juurikkala (2015), I argue that the left-leaning economic principles behind the pope's economic discourse promote solutions that have been repeatedly shown to cause severe unintended consequences.

III. Poverty and Economic Inequality in Pope Francis's Economic Discourse

Pope Francis's concern with poverty is present in almost every one of his speeches, interviews and writings. Here are some examples:

> We have to state, without mincing words, that there is an inseparable bond between our faith and the poor. May we never abandon them. (Francis 2013b)
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> The proclamation of the Gospel is destined primarily to the poor, to those who often lack the essentials for a decent life. The good news is first announced to them, that God loves them before all others and comes to visit them through the acts of charity that the disciples of Christ carry out in his name. (Francis 2013g)
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> I believe that, yes, the times talk to us of so much poverty in the world and this is a scandal. Poverty in the world is a scandal. In a world where there is so much wealth, so many resources to feed everyone, it is unfathomable that there are so many hungry children, that there are so many children without an education, so many poor persons. (Francis 2013f)

Pope Francis is not, of course, the first pope to consider poverty a central element of his preaching. After all, Catholic social teaching has been a constant tradition in the church's modern history (see, for example, Leo XIII's Rerum Novarum, 1891; John XXIII's Mater et Magistra, 1961; Paul VI's Populorum Progressio, 1967; and John Paul II's Centesimus Annus, 1991).[2] The difference is Pope Francis's insistent claim that poverty is rooted in economic inequality. Consider the following quotes:

> Seeing their poverty, hearing their cries and knowing their sufferings, we are scandalized because we know that there is enough food for everyone and that hunger is the result of a poor distribution of goods and income. (Francis 2013b)

[2] The Archdiocese of St. Paul & Minneapolis defines Catholic social teaching as the Catholic doctrine that calls for "us to work for the common good, help build a just society, uphold the dignity of human life and lift up our poor and vulnerable brothers and sisters" (Archdiocese of St. Paul & Minneapolis 2014).

> If globalization has notably increased the aggregate wealth of the whole and of numerous individual States, it has also exacerbated the gap among the various social groups, creating inequality and new poverty in the very countries considered the wealthiest. (Francis 2014)

This assessment of the nature of poverty leads Pope Francis to propose solutions that are almost always associated with redistribution:

> Working for a just distribution of the fruits of the earth and human labor is not mere philanthropy. It is a moral obligation. For Christians, the responsibility is even greater: it is a commandment. It is about giving to the poor and to peoples what is theirs by right. The universal destination of goods is not a figure of speech found in the Church's social teaching. It is a reality prior to private property. (Francis 2015a)

In fact, the pope's insistence on redistribution goes almost as far as suggesting that poverty must be fought with more poverty:

> Poverty today is a cry. We all have to think if we can become a little poorer, all of us have to do this. How can I become a little poorer in order to be more like Jesus, who was the poor teacher? (Francis 2013f)

Moreover, the pope's solution for reducing poverty through redistribution doesn't rely exclusively on individual charity or voluntary renunciation of individual income or wealth in favor of others. He firmly believes that this behavior must be "promoted" with "effective policies" (Francis 2013e) and not left to the "autonomy of markets" (Francis 2013c):

> We cannot fail to recognize that there is a serious rise in relative poverty, that is, instances of inequality between people and groups who live together in particular regions or in a determined historical-cultural context. In this sense, *effective policies are needed to promote the principle of fraternity, securing for people—who are equal in dignity and in fundamental rights—access to capital, services, educational resources, healthcare and technology*. (Francis 2013e, emphasis added)

Indeed, the pope's call for redistribution to reduce poverty clearly deviates from voluntary decentralized decisions (capitalism) and promotes the active participation of the government. The pope's left-leaning rhetoric on this subject is undeniable:

> We can no longer trust in the unseen forces and the invisible hand of the market. Growth in justice requires more than economic growth, while presupposing such growth: it requires decisions, programs, mechanisms and processes specifically geared to a better distribution of income, the creation of sources of employment and an integral promotion of the poor which goes beyond a simple welfare mentality. (Francis 2013b)
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> While the income of a minority is increasing exponentially, that of the majority is crumbling. This imbalance results from ideologies, which uphold the absolute autonomy of markets and financial speculation, and thus deny the right of control to States, which are themselves charged with providing for the common good. (Francis 2013c)

Although the definition of the "common good" provided by Pope Francis is ambiguous, it does contain a strong element of economic equality:

> Each of us here shares a calling to work for the common good. Fifty years ago, the Second Vatican Council defined the common good as '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' . . . May your efforts contribute to the growth of greater respect for the human person, endowed with basic and inalienable rights ordered to his or her integral development, and social peace, namely, the stability and security provided by a certain order *which cannot be achieved without particular concern for distributive justice (cf. Laudato Si', 157). In a word, let wealth be shared.* (Francis 2015c, emphasis added)

How do the pope's proposed solutions for reducing poverty through redistribution reconcile with economic theory, moral principles, and the empirical evidence?

IV. The Role of Property Rights in Economic Theory and in Pope Francis's Call for Redistribution

Economic theory has long warned of the dangers of forceful redistribution in terms of production and the creation of wealth. The trade-off between efficiency (or output maximization) and redistribution has been recognized by economists since Adam Smith, but it was perhaps best formulated by Okun (1975), who transformed the theory into a macroeconomic stylized fact. The idea, of course, is that excessive redistribution reduces incentives for production. One cannot separate these two processes. Production and wealth creation are accomplished by individuals who respond to incentives given by the utility derived from their private property. If the private fruits of production are excessively redistributed then the incentives for production are largely removed. The vast empirical and historical evidence unequivocally supports Okun's trade-off.

This is an important area in which the underlying economic principles espoused by the pope radically differ from the underlying foundations of economic theory. The pope's call for redistribution disregards the utilitarian importance of property rights in generating productive incentives or, at the very least, assigns such incentives relatively less importance than economic equality. On the contrary, economic theory assigns property rights a primary role in generating productive incentives and is quick to highlight the trade-off that redistributive policies impose on efficiency. In fact, in most of its fields of analysis, economic theory takes well-defined property rights as given and derives its results from this assumption. As Harold Demsetz put it back in 1967, "Economists usually take the bundle of property rights as a datum and ask for an explanation of the forces determining the price and the number of units of a good to which these rights attach" (Demsetz 1967). There are, however, exceptional fields such as new institutional economics in which economist study the evolution of property rights themselves and the negative consequences of not protecting them.[3] One of the important contributions of this literature is the large consensus generated among economists regarding the role of well-defined property rights (i.e., the rule of law) in economic growth, development, and the reduction of poverty.[4] The next section discusses some empirical evidence on this matter.

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[3] Some of the seminal articles within the new institutional economics literature include Coase (1937, 1960), Williamson (1975), and North (1990).

[4] See, for example, Hall and Lawson (2014) for a survey of this literature.

Pope Francis's seeming disregard for the importance of private property in generating productive incentives may be related to his background and experience in Latin America. As Gregg (2017) points out, Pope Francis was a cardinal during the late 1990s and early 2000s in Argentina, a period in which that country's economy entered a severe recession and financial crisis. Gregg (2017) argues that the pope and many others attributed the economic downturn to the economic liberalization reforms driven by President Carlos Menem since the late 1980s. These reforms included wide-scale privatization of many state industries, reduction of subsidies and tariffs, and the establishment of a fixed exchange rate.

A closer examination of that historical period reveals, however, that economic liberalization never really liberalized the economy's structural foundations. For example, the labor market was never reformed for flexibility as Congress and trade unions strongly opposed any initiatives in that direction; bureaucracy, corruption, and fiscal deficits remained high; and the judicial system continued to be highly inefficient. Additionally, the companies that were privatized during the Menem administration developed a bad image as they laid off a numerous workers and increased prices when they stopped benefitting from subsidies. These adjustments, together with accusations of cronyism at the time of transferring public enterprises to private hands, produced great discontent with the liberalization reforms. It is not surprising, in this context, that Pope Francis's views on private property differ from those of economists and that his conception of capitalism is mostly associated with cronyism.

V. Dubious Moral Elements of Pope Francis's Call for Redistribution

The pope's call for redistribution not only clashes with Okun's trade-off and the importance that economic theory assigns to property rights but, at its root, also includes dubious moral elements. The pope argues for redistribution because "it is about giving to the poor and to the peoples what is theirs *by right*" (Francis 2015a, emphasis added). Consider this quote (Francis 2013c): "I encourage the financial experts and the political leaders of your countries to consider the words of Saint John Chrysostom: 'Not to share one's goods with the poor is to rob them and to deprive them of life. It is not our goods that we possess, but theirs.'"

If one follows this principle, then there is little to discuss. If not sharing (a concept entirely based on volunteerism) is stealing, then

Okun's trade-off is probably no longer relevant. Redistribution becomes the only moral goal, and the individual appropriation of the fruits of one's peaceful use of one's labor becomes a sin. The Catholic Church itself has wrestled with this idea for centuries, unable to reach a conclusion. It is, indeed, a complex premise that requires more prudence than the one Pope Francis displays:

> Government leaders must do everything possible to ensure that all can have the minimum spiritual and material means needed to live in dignity and to create and support a family, which is the primary cell of any social development. In practical terms, this absolute minimum has three names: lodging, labor, and land. (Francis 2015b)
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> It is therefore necessary to remove centrality from the law of profit and gain, and to put the person and the common good back at the center. One very important factor for the dignity of the person is, precisely, work; *work must be guaranteed* if there is to be an authentic promotion of the person. (Francis 2013d, emphasis added)

The pope's belief that the poor are entitled to receive, through redistribution, "minimum material means," translates into very specific policy recommendations. Pope Francis proposes that every person must have access to lodging, labor (jobs), and land, which means, of course, that some other person must be denied the fruits of his or her labor in order to make that possible. While one may find it desirable that every person gains access to those material means, it is morally questionable to oblige another person to provide them. As argued earlier, it is also not efficient in terms of wealth creation.

Finally, the quote by Saint John Crysostom that the pope used to build his argument does not fully reflect Crysostom's view on redistribution. Although he did preach aggressively in favor of the poor, he also opposed forceful redistribution by the state and considered it not only ineffective but also morally harmful to society:

> Should we look to kings and princes to put right the inequalities between rich and poor? Should we require soldiers to come and seize the rich person's gold and distribute it among his destitute neighbors? Should we beg the emperor to impose a tax on the rich so great that it reduces them to the level of the poor and then to share the proceeds of that tax among everyone? Equality

> imposed by force would achieve nothing, and do much harm.
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> Those who combined both cruel hearts and sharp minds would soon find ways of making themselves rich again. Worse still, the rich whose gold was taken away would feel bitter and resentful; while the poor who received the gold from the hands of soldiers would feel no gratitude, because no generosity would have prompted the gift. Far from bringing moral benefit to society, it would actually do moral harm. Material justice cannot be accomplished by compulsion, a change of heart will not follow. The only way to achieve true justice is to change people's hearts first and then they will joyfully share their wealth. (Sermon XLIII, taken from Van de Weyer 1997)

VI. The Empirical Evidence on Poverty and Economic Inequality

Let's review now the empirical evidence on poverty and economic inequality. Is the latter responsible for the former? Is the pope correct in his assessment that "we cannot fail to recognize that there is a serious rise in relative poverty" (Francis 2013e) or that "while the income of a minority is increasing exponentially, that of the majority is crumbling" (Francis 2013c)?

Assessing economic inequality has always been empirically challenging. The first question is whether income or wealth inequality better captures the disparity of material well-being among people. For example, while there is general agreement that income inequality in the United States has been increasing since the mid-1980s, there is no such consensus when it comes to wealth inequality. Some authors suggest, in fact, that wealth inequality in the United States has remained constant or even decreased since the 1980s (see Watkins and Brook 2016).

If the focus is on income inequality, how should income be defined? Pre- or post-tax? Pre- or post-government transfers? Should we use income concentration (income shares) or income dispersion? And at a global scale, should we focus on income inequality between countries or within countries? Different researchers choose different methodologies, which leads to different assessments of the evolution of this variable.

Next, I consider two different methodologies commonly used to capture the extent of income inequality: income shares of high-income earners and the Gini coefficient. I show that the evidence is mixed and does not seem to warrant Pope Francis's assertion that there is a "serious rise in relative poverty."

A. Income Shares of High-Income Earners

The work of Piketty and Saez (2003) focused the income-inequality debate on the study of income shares of high-income earners. These authors proposed a dataset estimating the pretax share of income received by top earners in the United States from 1913 through 1998 (Piketty and Saez 2004); the dataset was later extended to 2012. Their dataset shows that the income share of the top 1 percent in the United States followed a pronounced U-shape pattern. According to this pattern, the income share of the top 1 percent first declined rapidly from the early twentieth century until approximately 1950, then remained flat for thirty years, and then began to rise rapidly again in the 1980s until reaching the high point observed before the Great Recession in 2007. The Piketty and Saez methodology has been utilized to produce similar datasets spanning most of the twentieth century for more than twenty countries (see, for example, Atkinson, Piketty, and Saez 2011; Solt 2016). In most cases, the data for income shares of the top 1 percent generate similar U-shape patterns, although not quite as pronounced as those of the United States.

Though these datasets and methodology have been highly influential, they have also raised several criticisms that question their reliability. As Mechling, Miller, and Konecny (2017) show, different authors have criticized the methodology used by Piketty and Saez (2004) on three grounds: it uses pretax/pretransfer data instead of post-tax/post-transfer data (see, for example, Reynolds 2006a, 2006b, 2007); it uses income tax data instead of survey data (see, for example, Burkhauser et al. 2012), and it fails to account for differences in reportable income due to changes in tax law (see, for example, Winship 2009). When the Piketty and Saez (2004) dataset is adjusted to account for these potential problems, the resulting increase in income inequality starting in the 1980s is much less pronounced than it first appeared (see, for example, Meyer and Sullivan 2013; Auten, Splinter, and Nelson 2016; Auten and Splinter 2017).

The criticism regarding the effect of tax-law changes is particularly important. When revising the Piketty and Saez (2004) dataset, one notices a sharp increase in the income share of the top 1 percent in the United States in the span of only two years: 1986–1988. Several authors have pointed out that this increase was the result of a change in tax law given by the introduction of the Tax Relief Act of 1986. This act gave incentives to top earners to shift their income from C corporations to S corporations to substantially reduce their taxes. An S corporation delivers income to its shareholders taxed at a lower marginal tax rate and also delivers more income than a C corporation. Thus, incomes and the income share of the top 1 percent sharply increased after the Tax Relief Act of 1986. This fact has led several authors, such as Reynolds (2006b, 2007) and Winship (2009), to argue that the income shifting of 1986–1988 exacerbates the appearance of income inequality in the Piketty and Saez (2004) dataset.

On the left tail of the U-shaped curve (before the 1960s), Geloso et al. (2018) point out a number of issues arising from the limitations of tax data that likely distort the magnitude and timing of the distributional pattern proposed by Piketty and Saez (2004). These authors conclude that while the Piketty and Saez dataset captures the general pattern of income inequality in the twentieth century in the United States, "there are factors that lead to a non-negligible overstatement of income concentrations of the left-tail of the U-curve as well as inaccuracies of detail in its depicted timeline."

In short, while the Piketty and Saez (2004) influential U-shape narrative seems to generally capture the pattern of income inequality in the United States during the twentieth century as given by the income share of the top 1 percent, that pattern is probably less pronounced than originally thought. As Geloso et al. (2018) suggest, once the adjustments are made, "the century-long distributional pattern for the U.S. resembles more of a century-long tea-saucer pattern as distinct from the pronounced inequality U-curve."

B. The Gini Coefficient

The Gini coefficient is perhaps the most commonly used methodology to capture the extent of income inequality. This indicator measures the statistical dispersion of the income distribution on a zero (perfect equality) to 1 (perfect inequality) scale.

Although the construction of the Gini coefficient gives rise to methodological differences similar to the ones pointed out for the case of income shares (some researchers use tax data, others use consumption data, etc.), one of the empirical regularities on which economists seem to have reached a consensus is the trend displayed by the Gini coefficient between countries. Indeed, several authors have shown that this measure has been decreasing since the 1950s, mainly due to the rapid growth of emerging economies such as China, Brazil, and India (see, for example, Liberati 2013; Sala-i-Martín 2006; Melchoir 2001). In fact, the decline in between-countries income inequality seems to have been particularly pronounced since 2000. Liberati (2013) estimates that between-countries income inequality dropped from 0.603 to 0.531 from 2000 to 2009.[5] Liberati (2013) also shows that this decline is robust even if one excludes China and India from the data.

The trend of the Gini coefficient within countries (income inequality among individuals living in a particular country) is different. Consistent with the findings reported in the previous section, Liberati (2013) shows that total within-country income inequality using the Gini coefficient was stable until the mid-1990s but has been increasing ever since.[6] Importantly, however, Liberati (2013) points out that this increasing trend is "totally" driven by Asia and particularly by China. Indeed, Liberati (2013) estimates that the approximately 11 percent increase in the Chinese Gini coefficient from 2004 to 2009 contributes to increasing total within-country income inequality by 0.15 points. The rapid economic transformation in China explains this result. Typically, when countries experience large growth spurts, some groups of the population take off more rapidly than others. This pattern has been seen not only in China but also in Brazil and India. Notice, however, that these countries have also experienced a significant reduction in poverty.[7] On the contrary, one can find cases such as Venezuela where the Gini coefficient has not increased but where severe economic and political crises have led to increasing poverty and political and judicial inequalities.[8] These observations suggest that, contrary to the pope's assessment, poverty

[5] This is the population-weighted Gini coefficient of PPP-converted GDP per capita.
[6] Li, Squire, and Zou (1998) also observed the stability of within countries income inequality until the mid-Nineties.
[7] The reduction in poverty levels in China has been truly impressive. The poverty headcount ratio (PHCR) at $1.90 a day went from 40.5 in 1999 to only 1.4 in 2014. The same variable for India went from 38.2 in 2004 to 21.2 in 2011. In the case of Brazil, the PHCR went from 13.4 in 1999 to 3.4 in 2015. Data from the World Bank's Poverty and Equity Data Portal, online.
[8] The PHCR at $1.90 a day in Venezuela went from 0.8 in 1987 to 11.4 in 1998 and 20 in 2003 before coming down to 9.2 in 2006. Data from the World Bank's Poverty and Equity Data Portal, online.

is not the necessary result of income inequality and the latter can be, in fact, the consequence of a process of economic growth and development that reduces poverty. I provide more evidence for this idea below.

Putting the Gini coefficient between and within countries together, Liberati (2013) estimates that total income inequality has been decreasing since 1970. That is, the decline of between-country income inequality is larger than the increase of within-country income inequality. This result is consistent with those of Sala-i-Martín (2006) and Pinkovskiy and Sala-i-Martín (2009), who also found that total income inequality has been decreasing. Similarly, Milanovic (2016) found that the global Gini value decreased form 0.72 in 1988 to 0.67 in 2011.

Again, the evidence on income inequality, this time using the Gini coefficient, does not suggest a serious increase in this variable in recent years. On the contrary, most evidence suggests that total income inequality has been decreasing. There is also no evidence that increasing levels of poverty are the result of increasing levels of income inequality.

C. Income Mobility

A concept crucially related to income inequality is income mobility. Although, as we have seen, the top 1 percent's income share seems to have increased since the 1980s, it is important to remember that this variable uses cross-sectional data. That is, the people making up the top 1 percent today and ten, twenty, or thirty years ago are not necessarily the same people. Economies experiencing economic growth tend to also experience income mobility.

An important reference on this variable is the paper by Auten, Gee, and Turner (2013). These authors create taxpayer-based panels for the United States by linking individuals found on tax return cross-section files to tax return population files and administrative records for later years. Key findings include: "Half of those age 35–40 in the bottom quintile of their cohort in 1987 moved to higher quintiles 20 years later" (more than 60 percent of them moved up relative to the entire population); "70 percent of dependents from low-income households in 1987 were themselves in higher quintiles 20 years later;" and "younger generations gradually replaced those that dominated the top percentile in 1987."

Moreover, analyzing the short-term persistence in the top 1 percent, Auten, Gee, and Turner (2013) find that 37 to 47 percent of the top 1 percent dropped out after one year and only 23 to 31 percent remained there for six consecutive years. Thus, even if the income share of the top 1 percent has been increasing since the 1980s in the United States, the people in that percentile have changed over time.

In conclusion, the empirical evidence on income inequality does not suggest that this variable has been increasing as seriously as Pope Francis believes. In fact, it seems that total income inequality, as measured by the Gini coefficient, has actually been decreasing. Moreover, even if the income share of the top 1 percent in the United States has been increasing (albeit to a lesser extent than originally suggested by Piketty and Saez 2004), income mobility has shuffled the people in that percentile over time.

But even if the pope remains skeptical about this evidence, why should he be concerned with economic inequality if poverty—his principal motivation—has been decreasing? Indeed, according to most measures, poverty levels in the world have been rapidly decreasing in recent decades. Pinkovskiy and Sala-i-Martín (2009), for example, estimate that the world poverty rate ($1 a day or less in 1987 dollars) fell by 80 percent from 26.8 percent in 1970 to 5.4 percent in 2006. Similarly, Milanovic (2016) shows that the percentage of the world's population living with $2 a day or less fell from 38 percent in 1988 to 16 percent in 2011. If more and more people are being lifted out of poverty, why does the pope continue to consider economic inequality a problem?

VII. Why Is Economic Inequality a Problem?

The concern with economic inequality is rooted in the belief that total wealth (or total income) is a fixed-size pie. Therefore, if somebody gets a bigger piece of the pie, somebody else must necessarily get a smaller one. In other words, increases in wealth or income for one person must come from reductions in wealth or income for another person. In this context, economic inequality is, of course, worrisome.

But economic theory and the empirical evidence have long established that total wealth (or total income) is not a fixed-size pie but a flexible one that increases with economic growth. Innovations such as Amazon or Facebook, for example, not only increase the share of the pie for those companies' owners but also increase the overall size of the pie, making everybody better off in absolute terms.

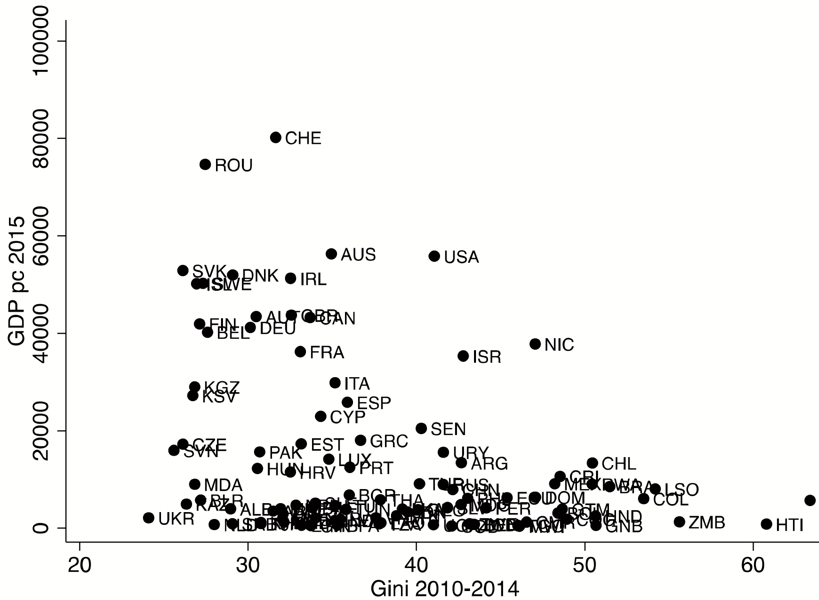
Are there utilitarian reasons why we should be concerned with economic inequality? Could economic inequality, for example, hurt the prospects of economic growth or development? Numerous studies have researched this question and found no conclusive answer. Some authors have found that economic inequality negatively affects economic growth (see, for example, Ostry, Berg and Tsangarides 2014) but others have disputed this result (see, for example, Winship 2013). The same is true for the relationship between economic inequality and income levels, social capital, and health indicators.

As an illustration, figure 1 presents a cross-sectional scatter plot of the Gini coefficient against GDP per capita for 101 countries using data from 2010 to 2015.[9] The scatter plot does not suggest a strong correlation between these two variables. While countries presenting large Gini coefficient values, such as South Africa, Haiti, or Zambia, also present low GDP per capita levels, the opposite is not always true: low Gini coefficient values are not necessarily accompanied by high GDP per capita levels. For example, Kazakhstan and Slovakia have similarly low Gini coefficient values (26.33 and 26.12, respectively) but Slovakia's GDP per capita is more than ten times higher than that of Kazakhstan (Slovakia's GDP per capita is approximately $53,000, while Kazakhstan's GDP per capita is only $5,000). Consider also Belarus and South Africa, which have very different Gini coefficient values (27.18 and 63.38) but which present similar GDP per capita levels ($5,740 and $5,691).[10]

[9] In figure 1, the Gini coefficient for each country is the most recently available data point for this variable within the 2010–2014 period derived from the World Bank's Poverty and Equity Data Portal, online. On the vertical axis, GDP per capita is the 2015 value for this variable from the World Bank's World Development Indicators, online.

[10] A simple robust regression using the data in figure 1 with GDP per capita as the dependent variable and the Gini coefficient as the independent variable confirms this result. While the coefficient of the Gini coefficient is negative, it is not significantly different from zero at the 10 percent level. Results available upon request.

Figure 1. Gini coefficient vs. GDP per capita



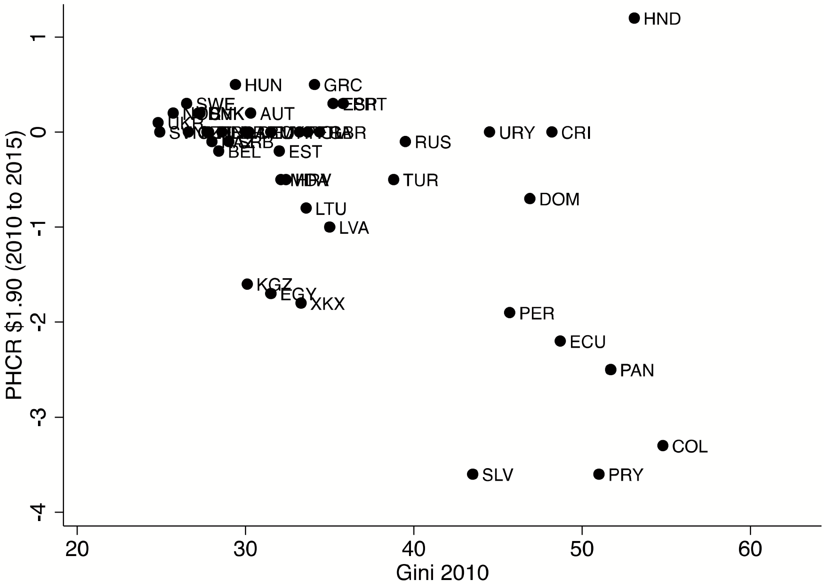
It can be argued, of course, that increasing levels of GDP per capita are not necessarily associated with decreasing levels of poverty (if, for example, economic growth gets concentrated in the top income percentiles). In that case, even if the Gini coefficient is not strongly correlated with GDP per capita, as figure 1 shows, it could still be correlated with increasing poverty. Income inequality would then be, of course, a problem.

As figure 2 shows, however, the opposite case seems more likely. That is, initial levels of the Gini coefficient seem to be negatively correlated with increasing levels of poverty. In figure 2, the horizontal axis displays the value of the Gini coefficient in 2010 while the vertical axis displays the change in the poverty headcount ratio (PHCR) at $1.90 a day from 2010 to 2015.[11] Consistent with the poverty data presented in the previous section, the figure shows that most countries have experienced a reduction in poverty ratios during the first half of the present decade. The figure also shows a negative

[11] The PHCR at $1.90 a day is the percentage of the population living on less than $1.90 a day at 2011 international prices. A similar scatter plot can be generated using the PHCR at $3.20 a day. The 2010–2015 range was chosen to maximize the number of observations, but similar scatter plots can be generated by using the 2000–2005 or 2005–2010 ranges. The sample includes forty-six countries, as data on poverty ratios are far less comprehensive than data on the Gini coefficient. The data were derived from the World Bank's Poverty and Equity Data Portal, online.

correlation between changes in the poverty level from 2010 to 2015 and the initial level of the Gini coefficient in 2010.

Figure 2. Gini coefficient vs. change in poverty head count ratio



This last result indicates that poverty is not rooted in economic inequality as the pope suggests. In fact, it could be that economic inequality is the byproduct of an economy that encourages economic growth and, consequently, lifts more people out of poverty. Geloso and Horwitz (2017) call this type of inequality "socially beneficial (or at least neutral)" to distinguish it from "socially harmful" inequalities. According to these authors, socially beneficial inequalities "result from the satisfaction of individual economic preferences or demographic changes and have no perverse impact on economic growth . . . they are the desirable unintended consequences of economic progress that also improve the well-being of the least well-off." On the contrary, socially harmful inequalities "result from limiting individual choice in ways that expand inequality by limiting overall growth and harming the least well-off." The prime examples of socially harmful inequalities are government policies that either limit upward mobility of the least well-off, such as agricultural tariffs, zoning laws, and the war on drugs, or unfairly pull up the most well-off, such as bank bailouts, subsidies, and regulated industry access. In this context, it is ironic that the pope would criticize the "absolute autonomy of markets . . . .that denies the right of control to States"

(Francis 2013c). On one hand, the autonomy of markets offers individuals the freedom to satisfy individual preferences, which gives rise to socially beneficial inequalities. On the other hand, giving control to states could result in inefficient government policies limiting that freedom and giving rise to socially harmful inequalities.[12]

A different counterargument could be that GDP per capita or poverty levels are only one measure of material well-being and are not the only element that matters from a holistic development perspective. An interesting exercise consists, therefore, in assessing the relationship between income inequality and happiness or life evaluation as measured by the Happiness Score published by the World Happiness Report (Helliwell, Layard, and Sachs 2017).

Figure 3 presents a cross-sectional scatter plot of the Gini coefficient against the Happiness Score for 105 countries using data from 2010 to 2015.[13] The scatter plot does not suggest a correlation between income inequality and happiness. A simple robust regression using the data in figure 3 with the Happiness Score as the dependent variable, the Gini coefficient as the independent variable, and GDP per capita as a control variable confirms what the figure suggests (see table 1). The coefficient of the Gini coefficient is not significantly different from zero, while the coefficient of GDP per capita is positive and highly significant.

Table 1: Robust regression results (dependent variable: Happiness Score)

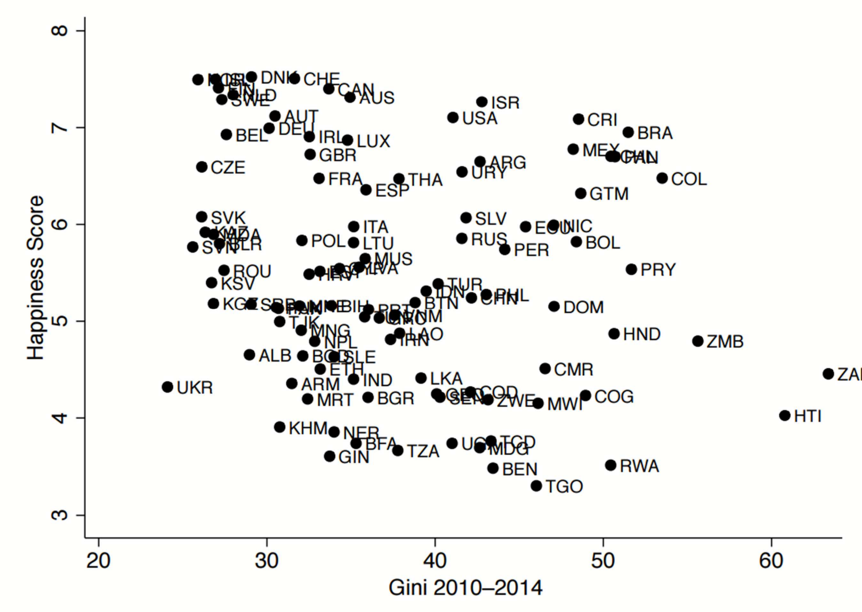
	Coefficient	Std. error	*t*	$P > \mid t \mid$
Gini coefficient	0.001	0.011	0.16	0.875
GDP per capita	4.47e–5	5.3e–6	8.44	0.000
Constant	4.736	0.481	9.84	0.000

Note: 99 observations.

12 Another type of socially harmful inequality is, of course, legal inequality. This type of inequality is present (and has increased) in different countries in recent decades. Perhaps one of the most evident examples is Venezuela, in which political and legal rights have seen a dramatic deterioration since the early 2000s.

13 In figure 3, the happiness score measures happiness or life evaluation in a zero to ten scale. The score is the result of combining six different factors: GDP per capita, social support, healthy life expectancy, freedom to make life choices, generosity, and perceptions of corruption. The data are derived from surveys implemented in 157 countries from 2013 to 2015.

Figure 3. Gini coefficient vs. Happiness Score



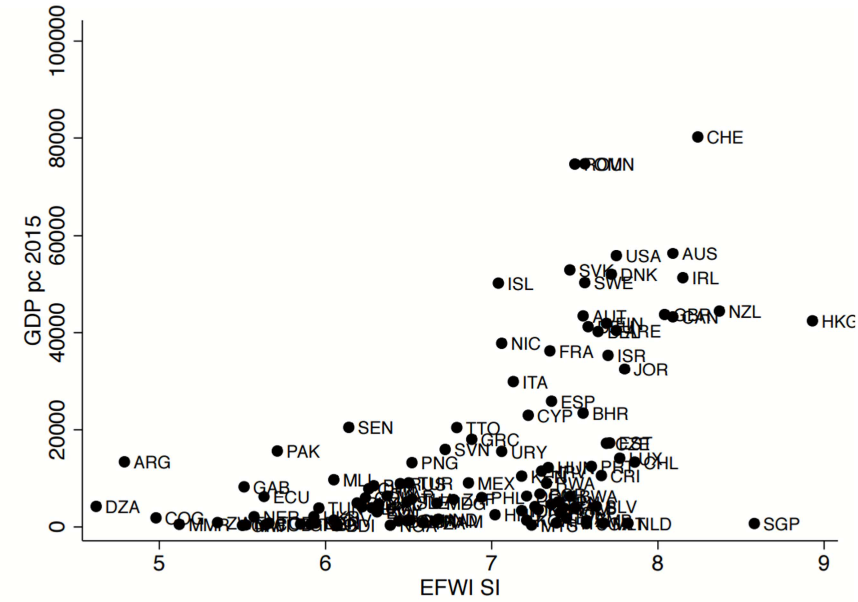
If income inequality does not seem to determine GDP per capita or happiness, what societal characteristic does? This is the million dollar question. Economists have long studied the role of multiple economic, cultural, and political variables in fostering an environment conducive to high income levels. There is no silver bullet, and variables that work in one country or context may not work in others. At the institutional level, however, a now vast literature convincingly argues that institutions of economic freedom (those that support personal choice, voluntary exchange, freedom to enter markets and compete, and security of the person and private property) are important positive determinants of GDP per capita and other development indicators.[14] But institutions of economic freedom rest on the opposite principle to that of redistribution. By definition, the protection of private property and personal choice are not consistent with forceful redistribution designed to fight income inequality.

Figure 4 presents a cross-sectional scatter plot of the Economic Freedom of the World Chain-Linked Summary Index (EFWI SI) (Gwartney, Lawson, and Hall 2016) against GDP per capita for 111

[14] For a survey of this literature, see Hall and Lawson (2014). After reviewing 402 articles, they conclude that "the balance of evidence is overwhelming that economic freedom corresponds with a wide variety of positive outcomes with almost no negative tradeoffs."

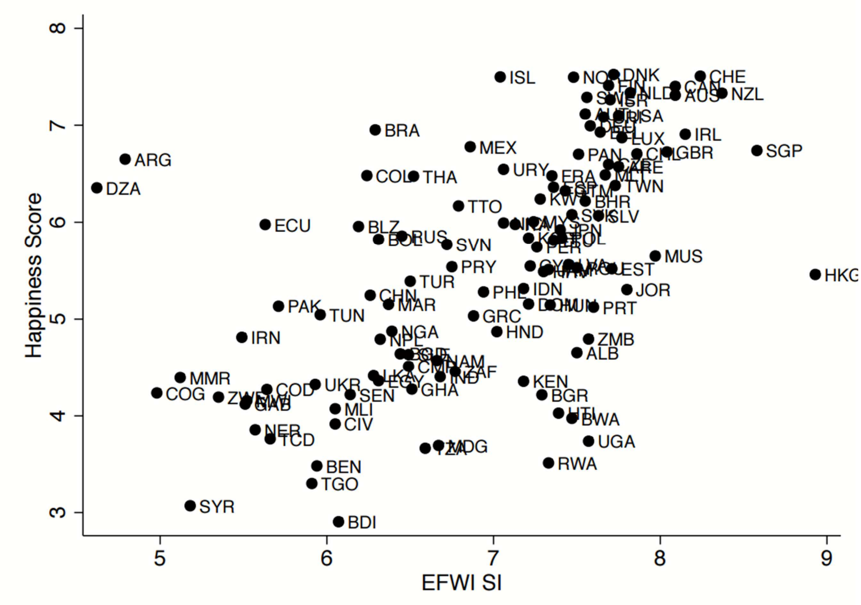
countries using data from 2014 to 2015.[15] The scatter plot suggests a strong positive correlation between these two variables. Similarly, figure 5 presents the cross-sectional scatter plot of the EFWI SI against the Happiness Score. Again, the two variables display a strong positive correlation.

Figure 4. Economic freedom vs. GDP per capita



15 The EFWI SI measures the extent to which local institutions support economic freedom on a 0 to 10 scale. The score is the result of combining five different factors: size of government, legal structure and security of property rights, access to sound money, freedom to trade internationally and regulation of credit, labor, and business.

Figure 5. Economic freedom vs. Happiness Score



A key element that makes economic freedom high and positively correlated with GDP per capita and happiness is its inherent offer of individual opportunity. Personal choice, voluntary exchange, freedom to enter markets, and respect for property rights produce, altogether, the opportunity to achieve material well-being as the result of individual efforts and initiative. This opportunity motivates workers and entrepreneurs much more than the promise of redistribution.

Figure 6 presents a cross-sectional scatter plot of the Index of Opportunity from the 2016 Social Progress Index (Porter, Stern, and Green 2016) against GDP per capita for 137 countries and data for 2015. Figure 7, in turn, presents a similar scatter plot between the Index of Opportunity and the Happiness Score for 145 countries and data from 2013 to 2015.[16] The strong and positive correlation is obvious in both graphs.[17]

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[16] In figures 6 and 7, the Index of Opportunity measures on a 0 to 100 scale the extent to which countries support personal rights, personal freedom and choice, tolerance and inclusion, and access to advanced education.

[17] A simple robust regression using the data in figure 6 with GDP per capita as the dependent variable and the Index of Opportunity as the independent variable confirms what the figure suggests. The coefficient of the Index of Opportunity is positive and strongly significant. Results available upon request.

Figure 6. Opportunity vs. GDP per capita

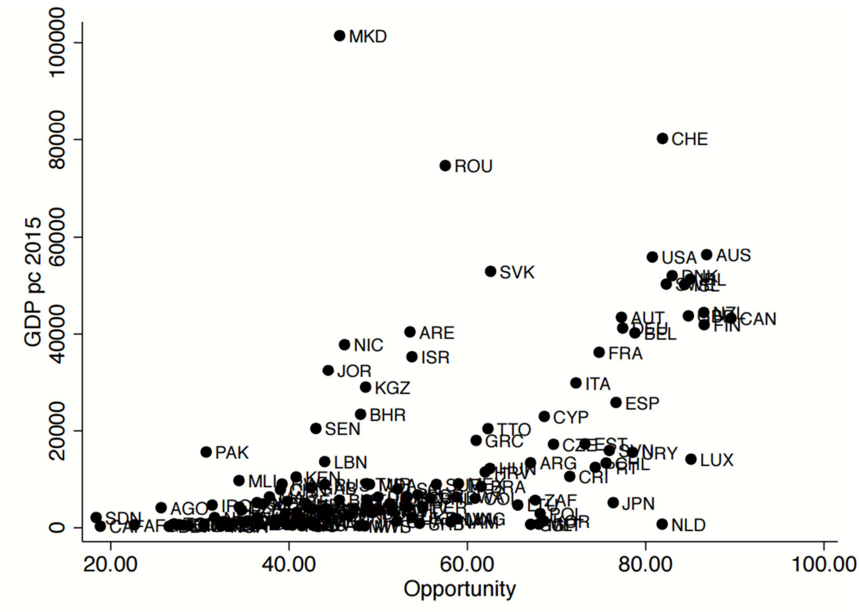

Figure 7. Opportunity vs. Happiness Score

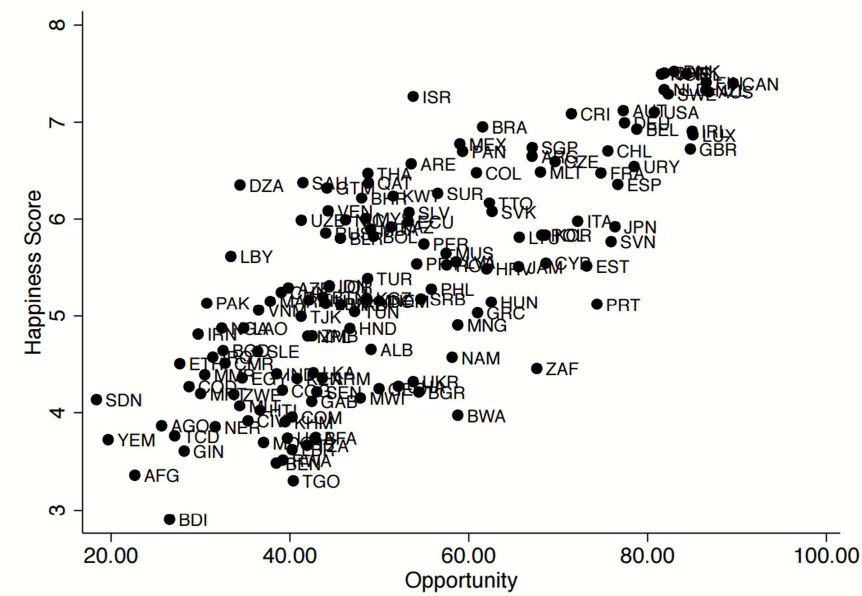

Table 2 presents the result of a robust regression using the data in figure 7 with the Happiness Score as the dependent variable, the Index of Opportunity as the independent variable, and GDP per capita as a control variable. The coefficient of the Index of Opportunity is positive and highly significant after controlling for GDP per capita.

Table 2. Robust regression results (Dependent variable: Happiness Score)

	Coefficient	Std. error	*t*	*P* > | *t* |
Opportunity	0.046	0.004	10.12	0.000
GDP per capita	9.27e–6	4.23e–6	2.19	0.03
Constant	2.827	0.223	12.65	0.000

Note: 133 observations.

It is indeed difficult to understand Pope Francis's insistent call for redistribution to fight economic inequality in light of this evidence. Opportunity rather than redistribution seems to be what individuals value and what motivates them the most. This is as true today as it was in the past. Consider, for example, the text of a poster used in 1850 to call for Irish immigrants to the United States (Ward 2013):

> In the United States, labour is there the first condition of life, and industry is the lot of all men . . . In the remote parts of America, an industrious youth may follow any occupation without being looked down upon or sustain loss of character, and he may rationally expect to raise himself in the world by his labour. In America, a man's success must altogether rest with himself—it will depend on his industry, sobriety, diligence and virtue; and if he do not succeed, in nine cases out of ten, the cause of the failure is to be found in the deficiencies of his own character.

Indeed, one could argue that the reason economic inequality has not been a priority in the US political agenda—until, perhaps, more recently—is precisely because Americans recognize that wealth is not created by *society* but by *individuals* and so, economic inequality is the inevitable byproduct of an opportunity-rich society.

VIII. Conclusion

I have analyzed Pope Francis's economic discourse as expressed in several documents and speeches produced from 2013 to 2015, and I have focused on the pope's analysis of poverty and economic inequality. My findings suggest that the economic principles embedded in the pope's economic discourse diverge from economic theory and are not supported by the relevant empirical evidence.

I first show that the pope's conception of poverty is strongly related to economic inequality. In several of the documents and speeches that I analyze, the pope seems to believe that economic inequality is responsible for poverty. This assessment leads him to propose solutions that are almost always associated with forceful redistribution. In this sense, the pope's economic discourse is not only directional or meant to exclusively provide moral guidance, but is instrumental, specific, and unambiguously left leaning.

I then show that the pope's insistence on redistribution clashes with the underlying foundations of economic theory. Economists assign property rights (i.e., the rule of law) a primary role in generating productive incentives and highlight the trade-off that redistribution imposes on efficiency. The pope's call for redistribution disregards the utilitarian importance of property rights or, at the very least, assigns it relatively less importance than economic equality.

Next, I show that the empirical evidence on economic inequality does not warrant the pope's assessment that "there is a serious rise in relative poverty." Although income inequality, as measured by the income share of the top 1 percent, seems to have been increasing since the 1980s, several authors have shown that this increase is much less pronounced than the one suggested by the U-curve narrative originally proposed by Piketty and Saez (2004).

Additionally, it is important to remember that statistics on the income share of the top 1 percent use cross-sectional data. That is, the top 1 percent today and ten, twenty, or thirty years ago are not necessarily the same people. Moreover, several studies show total income inequality in the world has been decreasing since the 1970s.

I also show that the pope's deep concern with economic inequality is puzzling given the rapid decrease in worldwide poverty levels since the 1970s. Moreover, there are no clear utilitarian reasons to be concerned with economic inequality. My analysis shows that income inequality is not correlated with either GDP per capita or happiness and seems to be negatively correlated with increasing poverty levels.

Finally, I show that economic freedom—which rests on the opposite principle to that of redistribution—is high and positively correlated with GDP per capita and the Happiness Score. One of the most important characteristics of economic freedom is the offer of opportunity, and I show that the Index of Opportunity (Porter, Stern, and Green 2016) is, indeed, strong and positively correlated with both GDP per capita and the Happiness Score.

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