MARKET OPERATION AND DISTRIBUTIVE JUSTICE: AN EVALUATION OF THE ACCRA CONFESSION

Johan J. Graafland, Tilburg University, Faculty of Economics/Faculty of Philosophy, Tilburg, The Netherlands[1]

1. Introduction

In August 2004 the General Council of the World Alliance of Reformed Churches (WARC) committed itself to a declaration of faith about the world economy in Accra (Ghana). The declaration is a response to the growing worldwide economic injustice and environmental destruction.[2] The declaration refers to the huge differences between rich and poor. To illustrate: the annual income of the richest 1% is equal to that of the poorest 57%; 24,000 people die each day from poverty and malnutrition; the debt of poor countries continues to increase.

According to the WARC the main cause of these problems is the current economic globalization by the USA, together with international finance and trade institutions (IMF, World Bank, WTO), who use political, economic and military alliances to protect and advance the interests of capital owners. According to the declaration, the economic system is based on the following beliefs:[3]

- Unrestrained competition, consumerism and the unlimited growth and accumulation of the wealth is the best for the whole world
- The ownership of private property has no social obligation
- Capital speculation liberalization and deregulation of the market, privatization of public utilities and national resources, unrestricted access for foreign investments and imports, lower taxes and the unrestricted movement of capital will achieve wealth for all
- Social obligations, protection of the poor and the weak, trade unions, and relationships between people are subordinate to the processes of economic growth and capital accumulation.

The character of the declaration is most visible where the WARC connects this analysis to Biblical teaching. The declaration is very pronounced in its wording. It claims that the worldwide economic system causes accumulation of the wealth of the rich at the expense of the poor and considers this as unfaithfulness to God. The declaration refers to Luke 16:13, where Jesus teaches that we cannot serve both God and Mammon.

---

[1] A paper presented at the 2007 Study Group Meeting of the Association of Christian Economists at Sidney Sussex College, Cambridge.

[2] For the text of the declaration, see http://warc.jalb.de/warcajsp/side.jsp?news_id=1157&navi=45.

[3] The Accra declaration names the current economic system a neoliberal economic system. Since the meaning of this political concept is not unambiguous, I will not use this term but, instead, refer to a free market system in which the government's only task is to secure private property rights.

The strong condemnation of the free market system is particularly stated in the third part of the declaration that alternately makes a statement of faith, followed by a rejection of an aspect of the free market economy. To illustrate, the declarations states in articles 18 and 19:

> 'We believe that God is sovereign over all creation. 'The earth is the Lord's and the fullness thereof' (Ps. 24:1). Therefore, we reject the current economic order imposed by global neoliberal capitalism and any other economic system, including absolute planned economies, which defy God's covenant by excluding the poor, the vulnerable and the whole of creation from the fullness of life'.

And in articles 20 and 21:

> 'We believe that God has made a covenant with all of creation (Gen. 9: 8-12). God has brought into being an earth community based on the vision of justice and peace… Jesus shows that this is an inclusive covenant in which the poor and marginalized are preferential partners.. Therefore we reject the culture of rampant consumerism and the competitive greed and selfishness of the neoliberal global market system, or any other system, which claims there is no alternative.'

The WARC states that the integrity of Christian faith can be questioned if the churches refuse to act against the current economic system of globalization. In this it seems to endorse Duchrow's claim that the global economy is a confessional issue for the churches (Duchrow, 1987). The declaration therefore ends with a commitment that the churches will devote their time and energy to change, renew and restore the economy. This is considered to be a matter of a choice for life: 'so that we and our descendants might live (Deut. 30:19)'.

The declaration of Accra appeals to a commonly shared feeling of uneasiness about the current worldwide economic order and the lack of a just income distribution. Still, many local churches feel that the declaration lacks a nuanced view on the causes of worldwide poverty and the role of globalization. As a result, it risks missing its purpose of convincing and activating church members. In this paper, we review the declaration's main point that the free market economic system is unjust. More specifically, we investigate two claims on which the declaration rests: a theological statement that extreme poverty is unjust in the eyes of God; and an empirical statement that the free market system benefits the rich at the expense of the poor and causes extreme poverty. For that purpose, we first present various different criteria of distributive justice. Next, we investigate which of these modern concepts of distributive justice are supported by biblical texts. Although the Bible is not a handbook of ethics (Gorringe, 1994), we will see that many texts support one of the various modern criteria of distributive justice. Next, we turn to empirical evidence that free markets increase worldwide inequality within countries and between countries. The last section summarizes the main conclusions.

2. Distributive justice: an overview of standards

In all cases where different people put forth conflicting claims of property rights, which cannot be satisfied simultaneously, questions of distributive justice arise. The formal principle of distributive justice requires that equals should be treated equally and unequals should be treated unequally in proportion to the degree to which they are unequal. This is an evident principle, but the difficulty starts with the question: when are people equal and when are they unequal? Which criteria should be applied to compare different persons? There are several alternative answers to this question, ranging from socialist principles that stress equality in income to the libertarian principle that gives priority to individual freedom (Graafland, 2007a; see Table 1).

Table 1: Ten alternative standards of distributive justice

Principle	Description
Absolute egalitarianism	Everybody an equal share
Difference principle	Inequalities allowed up to the point where the least advantaged get most in comparison to other distributions
Needs and ability principles	People get in accordance to needs, people should contribute in accordance to ability
Capability	People who need more to develop capabilities, get more
Utilitarianism	Equalize marginal utility of all individuals
Equal opportunity	Positions are open to all under conditions of fair equality of opportunity
Reward to effort	Distribution according to the efforts of individuals
Reward to productivity	Distribution according to the productivity of individuals
Reward to market price	Distribution according to the market mechanism
Freedom	Distribution by free transactions

The first norm is absolute egalitarianism. Absolute egalitarianism holds that all people are equal in all aspects. There are no relevant differences that justify unequal treatment. This implies an equal share in the benefits and burdens. An example of an economic application is a strict communist system in which each person obtains an equal income. Such a system requires that all incomes are taxed at a rate of 100 per cent and completely redistributed by a central authority.

An absolute communist system of income distribution may, however, be very harmful for the economy. If everyone receives the same income, the lazy person will earn as much as the industrious person. Hence, there will be no economic incentive to work. A less extreme variant of egalitarianism, the difference principle of Rawls (1999), acknowledges that allowing some inequalities will benefit all people, including the least advantaged. The difference principle requires that the primary social goods of the least advantaged group be maximized. Primary social goods are goods that any rational person wants and include income and wealth (besides rights, liberties, opportunities and self respect). The difference principle may still require substantial redistribution, although less than 100%, because some inequality will render everyone better off, including the least advantaged.

The Rawlsian difference principle is, however, insensitive to special needs, such as of the disabled, the old, or the ill. These groups may be unable to produce anything worthwhile and at the same time need more income than healthy persons to obtain a similar level of well being. This notion is captured by the third principle which states that the benefits should be distributed according to people's needs and the burdens should be distributed according to people's ability (Velasquez, 1998).

A standard that is closely related to the needs principle is the capability approach of Sen (1984). His theory concentrates on the realization of certain powers or capabilities. The cripple's entitlement to more income arises in this view from the deprivation of his ability to move about unless he happens to have more income or more specialized goods (for example, vehicles for the disabled).[4] There are, according to Sen (1984), some specific differences between a needs approach and his own capability approach. First, in the needs approach the needs are defined in terms of commodities. Particular goods and services are required to achieve certain results, even though it is acknowledged that different persons need different commodities to satisfy their needs However, the relation between commodities and capabilities may be a many-one correspondence, with the same capabilities being achievable by more than one particular bundle of commodities. Second, the commodity requirement for specific capabilities may be dependent on the social context. A third difference is that 'needs' is a more passive concept than capability. A final difference is that the needs approach tends to focus on basic needs, i.e. on a minimum quantity of particular goods. This may lead to a softening of the opposition to inequality when the average level of welfare increases. Equality of capabilities is not prejudiced by the special concern with basic needs and can be used for judging justice at any level of development.

In utilitarianism, all that matters is the maximization of the total amount of happiness or desire-fulfilment. Utilitarianism does not exclude a high degree of equality, because the utilitarian criterion of maximizing total utility prescribes that income should be redistributed until the marginal utility of all persons is equalized. As

---

[4] Sen (1984: 320) thinks that there are good reasons to assume that Rawls also – contrary to what Rawls states – is really after something like capabilities instead of primary social goods, because Rawls motivates the focus on primary goods by discussing what these goods enable people to do.

Singer (1972) argues, this implies a moral duty to give money if it is in one's power to prevent damages without thereby sacrificing anything of comparable value.

The sixth principle, the principle of equal opportunities, is also proposed by John Rawls (1999). This principle does not focus on outcomes but on opportunities. Although this principle is more liberal in nature than the preceding principles, it is still closely related to them, because the principle of equal opportunity requires that the influence of social contingencies and natural fortune should be mitigated. This may require, for example, affirmative action to rectify the effects of past discrimination.

The next three principles reflect capitalistic norms of fairness, which distribute benefits according to the value of the contribution that individuals make. This kind of principle is also called distribution according to moral desert. This principle states that each person should obtain that which he deserves. When a person has performed labour on some property, he or she has engaged in an activity that either displays some sort of human excellence (such as working hard) or confers a needed benefit on surrounding others (like making an object they want to buy) (Christman, 1998). Thus, if a worker adds value to the lives of others in some permissible way and without being required to do so, that person deserves a fitting benefit. There are several ways of measuring this value. A first approach is to relate benefits to the individual work effort of a person. However, this approach encounters several problems such as measurement of work effort and a lack of compensatory justice if people work hard but not in a productive way. For this reason, it might be better to relate the value to the productivity of the person. This criterion of justice is consistent with Locke's property concept, that each person has a right to ownership over his own body, his own labour and the products of his labour. However, just as with work effort, it is often difficult to determine the exact productivity of workers, especially if their work is complementary to the work of others. The third approach, the market mechanism, determines one's contribution on the basis of the market price of the worker. In a perfect market each factor of production will be paid its marginal product. The total income reaped by an owner of production factors is the product of the price of the goods and labour he holds and the amount of his endowment of that factor.

The final and most liberal principle of justice is the entitlement theory of Nozick (1974).[5] Nozick does not accept any end-result principle. Justice only consists in an unhindered operation of the just procedures of justice in acquisition, transfer and rectification. Justice in acquisition concerns the appropriation of unowned things, which is subject to the proviso that there be enough and as good left in common for others. Justice in transfers requires that parties involved in a transfer voluntarily agree to the transfer. Justice in rectification requires that injustice resulting from a violation of the other two principles should be rectified. Nozick's theory slightly differs from the capitalistic principle of income in accordance to contribution. For example, Nozick also accepts voluntary transactions that do not allocate income according to

---

[5] The capitalistic and libertarian standards of justice are also known as commutative justice. Communitative justice holds for freewill exchange of value for value in trade among individuals. Nevertheless, they can also be classified as standards of distributive justice, because these standards also have implications for the distribution of income outside the market. Distributive justice is a generalization of communitative justice.

merit, for example by inheritance or gifts, provided that these transactions are voluntary.

3. Which principles does the Bible support?

According to the WARC declaration, the root causes of massive threats to life are above all the product of an unjust economic system. The globalized free market system is opposing the covenant that God has made with all of creation. In article 20 of the declaration, the WARC states that the covenant is an inclusive covenant in which the poor and marginalized are preferential partners. It calls us to put justice for the "least of these" (Mt 25.40) at the centre of community life. Jesus did not only identify himself with the poor (Sider, 1977), but proclaimed that he will do justice to the oppressed, give bread to the hungry; free the prisoner and restore the sight to the blind (Luke 4.18). In article 24 the WARC declares that God is a God of justice. God calls for just relationships with all creation. More specifically, God is in a special way the God of the destitute, the poor, the exploited, the wronged and the abused (Ps 146:7-9).

These statements indicate that the concept of justice that the WARC declaration assumes is egalitarian. The poor and marginalized are the focus of justice. They are preferential partners in the covenant of God. In Christian ethics, defining justice in terms of the so-called privilege of the poor (De Santa Ana, 1977) is, however, not uncontested. There is a discussion which standard of justice is endorsed by the Bible. In Christian ethics, two opposing views can be distinguished. On the one hand, libertarian Christians like Beisner and Novak defend the capitalistic or libertarian views on justice. According to Novak (1982: 345), God is not committed to equality of results. The Bible stresses ultimate competition, there are winners and losers. According to Beisner (1994), the Biblical concept of justice can be summarized as rendering impartially to everyone his or her due in proper proportion. This would lend support to the last four standards of distributive justice described in section 2. Other Christian ethicists defend the priority of the poor. The Bible favours a special treatment of the poor in justice and law and acknowledges their special needs. The poor are given priority, not because God loves them more, but only because their wretchedness requires greater attention if the equal regard called forth by the equal merit of all persons is to be achieved (Mott, 1994). In this section we will discuss both views and investigate whether the Bible supports the last view, which is also expressed by the Accra declaration.

3.1 Capitalistic justice

Let’s start with the libertarian principle of procedural justice. The Bible indeed mentions many texts that express the right to private property, condemns stealing (Ex. 20:15, Lev. 19:11, Prov. 23:10, Ef. 4:28), require compliance to contracts (Jer. 22:13) and demand rectification if the principle of justice in transfers is violated (Ex. 22:4-7, Lev. 5:14-16, 6:1-5, 22:14, Num. 5:5-8, Prov. 6: 30-31). Beisner (1994) argues that if justice defined along libertarian and capitalistic lines would really have been taken seriously in biblical times, the poor would not have been abused and in many cases they would not have become poor. In this view unjust oppression of the poor is in the

Bible always linked to violation of their (negative) rights to freedom. The complaints of the Old Testament prophets should be read against the background of a hierarchical structure that developed during the reign of Solomon. During this time, the pressure of the royal court on the population increased (Van Leeuwen, 1956; Soggin, 1993). For example, 1 Kings 5:13 reports that 30 thousand men were forced to labour for Solomon's building. In addition, 80 thousand men were forced to work in quarries and another 70 thousand were porters. The forced labour and the high taxes for the royal organization especially hit small peasants (Davies, 1989). This situation continued during the period of kings following Solomon. Excavations have shown that during this time the royal court inhabited large palaces, whereas the common people had to live in slums (De Vaux, 1989).

There are also many texts that support the capitalistic principle of moral desert. Trade should be honest. One should use true and honest weights and measures and not cheat the other trading partner (Deut. 25:13-16, Ezek. 45:10, Mic. 6:10, Amos 8:5, Prov. 20:10). So one should be rewarded in accordance to what one really brings to the market. Many texts in the Old Testament and New Testament support the idea that effort or productivity should be rewarded. Jesus applies this principle in the parable of the three servants (Matt. 25: 29) and the parable of the Gold Coins (Luke 19:26). Also in the Kingdom of God, everybody shall be rewarded in accordance to his or her deeds (Matt. 6:3, 19:29, Luke 6:38, 18:29-30). The apostle Paul defends a similar standard (1 Cor. 3: 8, 12-15, 1 Tim. 5:18, 2 Thess. 3:10).

3.2 Socialist justice

So, basically, the Bible supports at length the capitalistic principles of justice. But is that all? According to Calvin Beisner it is. Although Beisner acknowledges that God commands the rich to show mercy to the poor and that mercilessness is a sin (Deut. 15: 7-11), relief to the poor is a matter of charitas, not of justice. The poor do not have an unqualified positive right to assistance by others, just because they are poor. There is no perfect duty for the rich to guarantee a subsistence level of welfare for the poor that can or should, if necessary, be enforced by the state.

This argument seems invalid for two reasons. First, violation of negative rights of freedom was not the only cause of poverty. An example is Naomi. Others did not harm her negative rights to freedom. Nevertheless, she was impoverished as a result of the early death of her husband and sons. Also periods of drought could impoverish small farmers. According to Frick (1989), the general climatic patterns in Palestine have not changed significantly since around 6000 BC. Palestine suffers from occurrences of a series of sub-normal years. Three consecutive dry years are often part of the experience of farmers. Coincidentally, this explains the possibility of disastrous drought in the time of Elijah (I Kgs. 18:1). Whereas a farmer could weather a single dry year, a series of such years caused severe want.

A second argument against the libertarian view on Biblical justice is that the Bible commands several institutions that protect the poor, independently from the causes of their poverty (Mott, 1994). For example, the poor received food during the sabbatical year (Ex. 23:10) and from what was passed over in the first harvest (Deut. 24:19-22). The hungry were to be allowed immediate consumption of food in the grain fields (Deut. 23:24) and farmers should not cut the corn at the edges of the fields, but leave them for the poor (Lev. 19:9-10). Other examples are the law of the tenth (Lev. 27:30, Num. 18:21, Deut. 12:6, Amos 4:4), the law to share with the poor food at the harvest festival (Deut. 16:11) and the prohibition on demanding interest from the poor (Ex. 22:25, Lev. 25: 36, Deut. 23:19, Prov. 28:8). Thus, aid to the suffering is not merely a matter of personal duty to be merciful.

These rules fit with the needs principle of distributive justice. There is no qualification in any of these texts stating the poor people thus provided for are victims of procedural injustice. They merely are needy. The need principle is also behind prohibitions to delay the payment of a worker's wage (Deut. 24:14-15, Lev. 19:13) or the hoarding of grain during times of hunger (Prov. 11:26). There are many other texts that confirm the relevance of the need principle. An example is how God provided Israel with manna in the desert: 'Every morning each gathered as much as he needed' (Ex. 16: 15-18). Also Paul refers to this text in 2 Cor 8: 15.[6] However, it should also be noted that most provisions to sustain the poor required their own effort. The rule of leaving corn in the fields uncut for the poor helped them, but they could only get food by doing relatively unproductive work.

What about the other standards of distributive justice? Does the Bible support these principles as well? First, some texts can be used to defend the capability theory of Sen. The poor should not only receive aid to keep them alive, but also provided with the means to develop their capacities and maintain their freedom. Only then would they be able to live a life of dignity. An example is Deut. 15:13-14, which commands slaveholders to free the slaves in the sabbatical year and to provide them with sheep, corn and wine. This would enable the released slave to build up a new and independent life. With the deliverance from slavery the exploitation of the weak by the powerful is rejected. Like many social laws, this is motivated by Israel's own deliverance from the slavery in Egypt (Meeks, 1989). Another example is the prohibition to demand a working tool as security for a loan, such as a millstone, because this would take away the family's means of preparing food to stay alive (Deut. 24:6). A third example is the law of the Jubilee year (Lev. 25: 8-22). In this year, all property that had been sold should be restored to the original owner or his descendants. The text justifies this prescription by the principle that God is the owner of the land (Klenicki, 1997). The land was a gift of God imparted to all the people of Israel. No member of the community was to be denied the privilege of enjoying the benefits of the land and its produce (Graafland, 2001). One can interpret this institution as an application of the capability principle of Sen, since land was a necessary mean for people to develop their capabilities and exercise real freedom. It did not only provide people with the capital that allows one to earn an income, but also offered the possibility to participate fully in the community. The loss of land did not only involve economic hardship, but also a loss of representation in the local assembly (Davis, 1989).

---

[6] Many other texts in the New Testament support the needs principle, such as Matt. 25: 35 and Acts 4: 34 (There was no one in the group who was in need). For a more extensive discussion of standards of distributive justice in the New Testament, see section 8.4 in Graafland (2007b).

The law of the Jubilee year can also be interpreted as an application of the principle of equal opportunities. Land was the main capital in Israel. The Jubilee year implies that once in 50 years the next generation should have the opportunity to start anew. They received the capital that they needed to be economically successful. But, of course, the assigned land was just a start. They had the responsibility to use the capital in the right way to build up a prosperous life.

There are no Biblical texts that support utilitarianism or the difference principle. The Bible is largely unfamiliar with the modern concepts of (marginal) utility and efficiency. It does not propose some kind of maximization of total happiness or of the social primary goods of the least advantaged group. Nor does the Bible defend absolute egalitarianism, because it does not force everybody to have exactly the same. Nevertheless, it should be acknowledged that the egalitarian ideal is not completely unfamiliar. For example, after the occupation of Canaan, the Israelite tribes were each allotted their territorial areas. It is clear from Josh. 13-19 that the land was allocated on a broadly equitable basis, so that each clan and each individual household had a right to a share in the inheritance of God's people (Wright, 1983). Also the eschatological ideal, as expressed, for example, in Micah 4:4 ('Everyone will live in peace among his own vineyards and fig trees') pictures a situation where everybody will be happy and will equally enjoy life. That does not allow very unequal positions.

4. Market operation and socialist justice

In this section we review some empirical research on the relationship between markets and socialist justice. Is it true that, as the Accra declaration claims, that the current economic system causes accumulation of the wealth of the rich at the expense of the poor? More specifically, is there empirical information that provides insight into whether the internationalization of the market system contributes or harms distributive justice?

4.1 Indicators

In this article, we focus on a subset of socialist principles of distributive justice, namely the needs principle and egalitarianism. The number of people living below certain poverty lines and the human development index are used as approximations of the fulfilment of basic human needs. The degree of egalitarianism is approximated by indices of income (in)equality within countries, such as the Gini index, and between countries. For the other socialist standards of distributive justice empirical indicators are much harder to obtain.

Also the measurement of the degree of market operation is problematic. There is no literature that relates indicators of the degree of competitiveness (such as the relative profit measure; the price-cost margin; the labour income ratio and the Herfindahl index[7]) to poverty, human development or to income inequality. Often the index of economic freedom (or sub-indices which are used for the construction for

[7] For a definition of these indicators, see CPB (2007).

the index of economic freedom, such as the size of a country's trade relative to potential, see Table 2) is used as an indicator for free market operation.

Table 2: Aspects of economic freedom according to the Fraser institute[a]

International trade	Taxes on international trade (-) Size of a country's trade relative to potential (+)	**Monetary policy and inflation**	Volatility of inflation (-) Monetary growth rate (-)
International capital flows	Restrictions on capital flows (-)	**Price controls and regulation and market entry**	Price controls (-) Controls on borrowing and lending rates (-) Freedom to compete in markets (+)
Black market	Differences between an official exchange rate and black market rate (-)		
Government intervention	Public consumption as a % of GDP (-) Subsidies and transfer payment as a % of GDP (-) The role and presence of state-operated enterprises (-)	**Banking**	Citizens' rights to hold bank account abroad (+) Citizens' rights to hold foreign currency accounts domestically (+)
Taxes	Top marginal tax rates (and income threshold at which it applies) (-) Conscription (-)	**Property rights**	Equality of citizens under law and access to judiciary (+)

[a] The nature of the impact (positive or negative) of the variable on the index of economic freedom is mentioned in brackets.

This index captures what Thomas Friedman has termed the Golden Straitjacket[8]: tight money, small government, low taxes, flexible labour legislation, deregulation, privatization and openness all around and thus provides a conceptualization of the economic system that the WARC criticizes. Since a number of studies find a positive causal influence of economic freedom on GDP per capita (Easton and Walker, 1997; Dawson, 1998; Haan and Sturm, 2000; Sturm and Haan, 2001; Scully, 2002), we also investigate the relationship between GDP per capita and the fulfilment of needs or income equality.

4.2 Market operation and basic needs

A first indication of the impact of international markets on the fulfilment of needs is absolute poverty. The globalization of the world economy during the last decade has been accompanied by a relative decline in poverty. From 1990 till 2004 the absolute number of people living below the poverty line of 1.08$ per day declined from 1.25 billion to 980 million (UN, 2007). Poverty particularly substantially declined in East Asia. An example is China. After the transformation to a market system in 1978, the number of people living in poverty (below $1 per day) declined from 634 million in 1981 to 212 million in 2001 (World Bank, 2006). In Africa the absolute number of poor people remained high, but as a percentage of population the statistics also show a modest decline, particularly after 1999.

[8] Cited in Rodrik (2002).

Table 3: Poverty (less than $1.08 per day, as a % of population)

Region	1990	1999	2004
East Asia	33.0	17.8	9.9
South east Asia	20.8	8.9	6.8
Latin America and Caribbean	10.3	9.6	8.7
Western Asia	1.6	2.5	3.8
Southern Asia	41.1	33.4	29.5
Sub-Saharan Africa	46.8	45.9	41.1

Source: UN (2007).

The analysis of the impact of markets on poverty is hindered by the fact that pure market liberalization seldom takes place. China grew because it allowed more private initiative, but flouted many other rules of the free market (Rodrik, 2002). In order to calculate the effects of trade liberalization on poverty, computable general equilibrium (CGE) models are often used (Ackerman, 2005). CGE models, such as the Global Trade Analysis Project (GTAP) model and the LINKAGE model of the World Bank, project that full trade liberalization would generate a one-time, not continuing, rise of 0.44% (0.8%) of GDP in developing countries. Using 'poverty elasticities' calculated by the World Bank[9], full trade liberalization would lift an estimated 66 million people out of poverty (using the $2 per day poverty line). For the world as a whole, this would represent a 3.4% reduction in poverty. Under the lower $1 per day poverty line, full liberalization would reduce poverty by 32 million people. This outcome indicates that trade liberalization may contribute to a reduction in poverty, but only to a very limited degree. It should be noted, however, that these estimates are surrounded with a high degree of uncertainty.

Empirical studies broadly support the view that trade liberalization will be poverty alleviating in the long run and on average (Winters et al, 2004). Winters et al distinguish several channels. First, trade liberalization will stimulate economic growth and economic growth tends to decrease absolute poverty. Trade liberalization also fosters productivity growth. Although the effect on poverty reduction is uncertain, productivity growth is seen as a necessary part of any viable poverty reduction strategy for the long term. The empirical evidence for other channels through which trade liberalization may reduce poverty – through more economic stability, through price reduction of consumer goods, through the creation and destruction of markets, through the creation of employment or increase in wages, through more government revenue – is, however, not unambiguous and highly dependent on local institutions and complementing policies of the government. There is quite a lot of evidence that poorer households may be less able than richer ones to protect themselves against adverse effects from more trade liberalization or to take advantage of new opportunities created by openness. Therefore, there is an important role for additional policies to provide social protection and to enhance the ability of poorer household to benefit from new opportunities.

[9] The poverty elasticity estimates the percent change in the number of people in poverty for each 1% growth in average income for each region in the world.

Another indicator of the fulfilment of basic needs is the Human Development Index (HDI). This index combines three dimensions of human welfare: life expectancy (as an indicator of a long and healthy life); the adult literacy rate combined with primary, secondary, and tertiary gross enrolment ratios (as an indicator of knowledge); and real GDP per capita (as an indicator of the standard of living). Biermans (2005) shows that the first two aspects (health and knowledge) are positively related to the third aspect of the HDI (standard of living). This is particularly true for poor countries. Diener and Diener (1995) provide similar findings for the so-called basic needs fulfilment index (including % of population having safe drinking water, rate of infant mortality, mean life expectancy, % of population with sanitary facilities and mean daily calorie supply per person). They showed that this index is significantly positively related to GDP per capita at low levels of income, but then levels off at higher levels of income.

This positive relationship does not prove, however, a causal influence of economic welfare on human development, because the causal link can run in both directions. Ranis and Stewart (2005) present empirical support for both directions of causality by using lag structures that reduce the simultaneity bias. They also argue that the influence of economic welfare on human development crucially depends on the degree of income equality. The propensity of households to spend their income on products that contribute most to the fulfilment of basic needs – food, potable water, education and health – increases if the incomes of the poor rise. One estimate suggests, for example, that if the distribution of income in Brazil was as equal as that in Malaysia, school enrolments among poor children would be 40% higher.

4.3 Market operation and income equality within countries

Income equality is not only important for the fulfilment of basic needs through economic growth, but is also an important condition for economic growth as such. There is now a growing consensus that countries with an initial egalitarian distribution of assets and income tend to grow faster than countries with initial high inequality (Van de Hoeven, 2007). This means that reducing inequality strikes a double blow against poverty. On the one hand, a growth path characterized by greater equality at the margin directly benefits the poor in the short run. On the other hand, an initial high level of equality contributes to economic growth as well. The question that we discuss in this section and the next section is how a free market system affects equality.

Equality can be based on income, wealth, consumption or any other reasonable proxy for well being (such as job opportunities and social security). Most of the empirical research focuses on equality of annual income, because data for other types of equality are less available. In this section we first consider the income equality within countries.

According to the so-called Kuznets curve, income inequality will initially rise with GDP per capita but then fall, as countries get richer. The history of the poor and rich countries seems to confirm this relationship (Glaeser, 2005). Cornia (2004) argues that the last two decades have witnessed a rise in within-country inequality in developing countries.[10] Also the World Bank (2006) refers to various researches that show that trade liberalization has a positive influence on wage inequality. This is confirmed by a recent overview article of Goldberg and Pavcnik (2007). They show that the exposure of developing countries to international markets as measured by the degree of trade protection, the share of imports and/or exports in GDP, the magnitude of foreign direct investment and exchange rate fluctuations has increased inequality in the short and medium run, although the precise effect depends on country and time specific factors. They research seven representative developing countries that have substantially reduced import tariff levels and non-tariff barriers to trade during the eighties and nineties. All these countries have experienced an increase in wage dispersion between high and low skilled labour, coinciding with the trade reforms.[11] Goldberg and Pavcnik offer several explanations. First, the recent rise of China and other low-income developing countries (India, Indonesia, Pakistan, etc.) may have shifted the comparative advantage in middle-income countries from low-skill to intermediate or high skill intensity and therefore increased the demand and wage for skilled labour at the expense of unskilled labour. Some of the middle-income countries started to outsource their production to the upcoming low-income developing countries and this also raised the skill premium in the developing countries. Second, the globalization has fostered international capital inflows into the developing countries. Since the utilization of capital normally requires the use of a higher share of skilled labour, the demand for skilled workers increased as well. A similar mechanism is skill-biased technological change. This technological change may have taken the form of increased imports of machines, office equipment and other capital goods that are complementary to skilled labour. Liberalization may also have raised the demand for skilled labour, because it advantages companies that are operating more efficiently or closer to the technological frontier. Trade shifts resources from nonexporters to exporters and there is ample empirical evidence that exporters tend to be more productive than nonexporters. Trade openness may also have induced an additional upgrading of these firms, which are partly passed on to skilled workers in the form of higher wages. Finally, some research indicates that trade liberalization has increased the prices of consumption goods (such as food and beverages) that have a relative large share in the consumption bundle of the poor, and decreased the prices of goods that are consumed in greater proportion by the rich. The latter effect seems, however, to be relatively small compared to the effects on the wage dispersion between unskilled and skilled labour.

For the longer run, the effects are uncertain. Some studies indicated that market operation decreases income inequality in the longer run. Scully (2002) estimates that the index of economic freedom has a small but significant negative impact on the Gini index. Also Berggren (1999) finds that sustained and gradual increases in economic freedom influence equality measures positively. According to Berggren (1999), trade liberalization and financial mobility are driving these results,

---

[10] Cornia (ed) (2004), Inequality, growth and poverty in an era of liberalization and globalization, Oxford: Oxford University Press, cited by Van de Hoeven (2007).

[11] The experience of developing countries that globalized during the eighties and nineties (Mexico, Colombia, Argentina, Brazil, Chile, India and Hong Kong) contrasts with the experience of several Southeast Asian countries (South Korea, Taiwan, Singapore) that underwent trade reforms in the sixties and seventies and exhibited a decline in inequality as they opened their economies to foreign markets.

perhaps because poor people are employed in industries that expand and flourish with freer trade.

Market operation does not guarantee, however, that the income distribution will become more equal (once a certain point of welfare has been reached). This is illustrated by the US. Initially, the economic process in the US was very much in line with the Kuznets curve. The share of national wealth earned by the top 1% rose from 15% in 1775 to 30% in 1855 and 45 % in 1935. After 1935 inequality declined, but this process stopped at the end of the sixties. A similar pattern has been observed for the Gini-index. After a substantial decline between the thirties and the second half of the sixties, it substantially increased since 1975, partly as a result of economic factors (skill based technological change, increased trade and globalization[12], the decline of unions) and partly as a result of political factors (less progressive taxation, lower minimum wages and unemployment benefits). Table 4 confirms that European countries with a large government share show more income equality than the US. Obviously, the institutions in the US are less egalitarian and probably do not meet the difference principle of Rawls.

Table 4: Income distribution, government share and economic freedom

	% government. expenditure in GDP[a]	Gini index [b]	Index of economic freedom[c]
Denmark	56.3	24.7	7.7
Sweden	57.3	24.9	7.3
Finland	50.7	26.9	7.6
Norway	46.4	25.8	7.3
Scandinavia	52.7	25.6	7.5
Belgium	49.3	25.0	7.4
Germany	46.8	28.3	7.5
Netherlands	48.6	32.6	7.7
France	53.4	32.7	6.9
Mid. Europe	49.5	29.7	7.4
Ireland	34.2	35.9	7.9
U.K.	43.9	36.0	8.1
U.S.	36.5	40.8	8.2

[a] 2005. Source: GGDC database, http://www.ggdc.net/dseries/totecon.html
[b] Source: United Nations Development Program (2004)
[c] Economic freedom in the world. Source:
http://en.wikipedia.org/wiki/Index_of_Economic_Freedom#

[12] Kynge (2006) illustrates how outsourcing of industrial activities from the US to China particularly hit the middle class of workers with the example of Rockford, Illinois, one of the industrial areas in decay. The example shows how globalisation can induce polarization on the labour market. Also statistics of the US Census Bureau show that the number of employees of middle-income classes has declined compared to employees with an income lower than $25.000 or higher than $75.000.

The negative relationship between market operation and the Gini index for the rich countries is also confirmed if we compare the index of economic freedom of the Fraser Institute with the Gini coefficient for the countries reported in Table 4. This index of economic freedom is negatively related to government intervention (measured by public consumption spending as a share of GDP, subsidies and transfer payments as a share of GDP and the presence of state-operated enterprises) and the level of top marginal tax rates. This explains why, among others, this index is higher for the US than for European countries. Estimation results of Scully (2002) for a larger sample of 80 advanced countries confirm that income inequality depends negatively on the share of government expenditures in GDP (both government consumption and transfers and subsidies).

Whether market operation contributes to income equality also heavily depends on the type of institutions governing the capital, output and labour markets (World Bank, 2006). In many developing countries, access to the financial market is highly unequal. A small number of wealthy families exert extensive control over the financial sector. Fast liberalization and privatization allow powerful insiders to gain control over state banks (Stiglitz, 2002). The poor often have to pay much higher interest rates. Prahalad (2006) mentions the example of Dhavarie (nearby Bombay) in India, where the interest rate for the poor equals 600 to 1000%, compared to 12-18% for the rich in Bombay. Also labour market institutions can lead to significant equity gains. Examples are the right to be represented by unions, minimum wage legislation and labour security regulations. Important product market institutions are antitrust legislation, good infrastructure and low transportation costs, and supply of information (for example by Internet connections in rural areas).

4.4 Market operation and equality between countries

According to Milanovic (2005), 70% of worldwide income inequality arises from income variation between countries and 30% from income inequality within countries. In order to determine the impact of international markets on equality, one should therefore not only look at income inequality measures for individual countries, but also consider the convergence between countries.

Table 5 indicates that the expansion of international markets has not contributed to more income equality between rich and poor countries. From 1820 to 2001 the ratio of per capita income between the richest and the poorest country has risen from 3:1 to 15:1. Also during more recent periods, income inequality is growing. This contradicts the expectations of economists such as Lucas (2000) who argue that the spread of technology will diminish income inequality between countries in the long run. The major exceptions are Japan (during 1953- 1973) and more recently India and China.

Table 5: Trends in worldwide income relations[a]

	Growth rate real income per capita[b]			Ratio of real income per capita compared to Western countries				
	Total 1820-2001	Annual 1973-1980	Annual 1980-2001	1820	1950	1973	1980	2001
Western countries	19.0	1.9	1.9					
East Europe	8.8	2.1	0.2	0.57	0.34	0.37	0.38	0.26
USSR	6.7	0.8	-1.6	0.57	0.45	0.45	0.42	0.20
Latin America	8.4	2.7	0.3	0.58	0.40	0.34	0.35	0.25
Asia	6.9	2.8	2.3	0.48	0.15	0.15	0.16	0.18
China	6.0	3.5	5.9	0.50	0.07	0.06	0.07	0.16
India	3.7	1.4	3.6	0.44	0.10	0.06	0.06	0.09
Japan	30.9	2.3	2.1	0.56	0.30	0.85	0.88	0.91
Africa	3.5	1.2	-0.1	0.35	0.14	0.11	0.10	0.07

[a] Source: UN (2006), World Economic and Social Survey, Table I.1
[b] Gross National Product per capita in 1990 international Geary Khamis dollars

According to the UN (2006), the hypothesis that international markets will bring convergence of income levels across countries is only confirmed on a regional level. For example, in Europe the relatively poor countries like Greece, Spain, Portugal and Ireland could adapt to the economic welfare of other European countries, due to their geographical location and stronger trade relations with richer European countries, the transfer of technology and the financial support by the EU. Regional convergence also occurred in East and South Asian countries, whereas African and Latin American countries showed convergence in economic stagnation. In fact, 84% of worldwide income inequality is accounted for by income differences between regions and only 16% by income differences within regions (UN, 2006).

This indicates that market forces alone will not be sufficient to bring about worldwide income equality. Calderón et al (2005) show that financial and trade opening generally lead to higher economic growth, but this positive impact appears to be small for poor countries. Only as the country develops, does it become substantial. Another study by Dowrick and Golley (2004) shows that the positive impact of trade liberalization is also declining (see Table 6). During 1960-79 trade openness promoted the convergence between poor and rich countries. But after 1980, the role of trade openness reversed. Specialization in the export of primary products by poor countries has been more harmful than beneficial to these countries.

According to the UN (2005) a country should have a certain amount of physical and human capital in order to compete on the worldwide market. Without basic infrastructure (roads, railways, harbours, energy facilities, telecommunication, safe drinking water, etc.), a good public governance and administration, education and a minimum of health services, local companies will not be able to compete on the world market.

Table 6: The contribution of trade openness to economic growth[a]

	1960-79	Poor countries	Rich countries	1980-99	Poor countries	Rich countries
Trade share (% GDP)		41	60		63	71
Estimated total contribution of trade to growth in real GDP per capita, % points per year		1.1	0.6		-0.5	1.0

[a] Source: Dowrick and Golley (2004), table 3.

5. Conclusions

This paper investigates the claim of the Accra statement that the free market system causes accumulation of the wealth of the rich at the expense of the poor and that support of this system should be classified as unfaithfulness to God. This claim combines an empirical statement and a theological statement. The empirical statement is that the free market system with unrestricted competition, respect for private property, openness to world trade and international capital flows and privatization of state enterprises, benefits the rich at the expense of the poor and causes extreme poverty. The theological statement is that extreme poverty of the poor is unjust in the eyes of God.

In order to test the theological statement, we investigated the meaning of justice in the Bible. We find that the Bible supports several standards of distributive justice. On the one hand, we find that capitalistic standards of justice, such as respect of negative rights of freedom (property rights) and the principle of rendering to each his or her due (distribution according to moral desert), are amply supported by biblical texts. However, unlike the Christian libertarian view, justice is not limited to these capitalistic standards. There are several texts that also prescribe the positive duty to fulfil the basic needs of the poor, independent from the cause of their poverty, by various institutions. These texts provide support for socialist principles of distributive justice, such as the needs principle and the capability principle of Sen. This supports the view of the Accra declaration that extreme poverty is unjust according to Christian faith.

In order to test the empirical statement, we review some recent literature about the impact of free markets on poverty, human development and income distribution. The empirical evidence that free markets increase poverty is mixed. On the one hand, the empirical evidence so far broadly supports the view that trade liberalization will alleviate poverty in the long run. There are some obvious examples, such as China and India, that have witnessed a substantial decline in poverty after the economy was opened up to free market mechanisms. We also find empirical support that human development (measured by life expectancy and education) is strongly positively related to economic welfare for developing countries. Since empirical research has shown that free markets (approximated by the index of economic freedom) contributes to economic growth, we may conclude that markets are a necessary condition for human development and the fulfilment of basic needs. On the other hand, international markets are not a sufficient condition for justice. An important condition for a positive link between economic growth and human development is that the revenues of economic growth are equally distributed. This depends on the various types of institutions governing the capital, labour and product markets. Also the econometric evidence that economic freedom reduces income inequality is mixed. Econometric evidence shows unambiguously, however, that income inequality decreases with the intervention of the government. To illustrate, whereas in the Scandinavian countries the government share is relatively high, the Gini index is relatively low compared to, for example, the United States.

Since 70% of worldwide income inequality is accounted for by income inequality between countries and 30% by income inequality within countries, it is even more important to consider the impact of markets on income equality between countries. Except for Japan, India and China, there is no indication that the globalization of the economy has reduced income inequality between countries. Insofar as convergence takes place, it is mainly on a regional scale, welfare being spread among all the countries in rich regions and the lack of welfare being spread in poor regions. For the latter type of regions, trade openness has hardly contributed or even slightly harmed economic welfare. Thus, although we find no evidence that free international markets have been a major cause of poverty in the developing countries, we agree with the Accra declaration in the sense that the unrestricted free market system provides insufficient guarantees that the injustice of extreme poverty will be solved.

References

Ackerman, F., (2005), The shrinking gains from trade. A critical assessment of Doha round projections, Global Development and Environment Institute, Tufts University, Working paper No. 05-01.

Beisner, E.C. (1994), Justice and poverty: two views contrasted', in: H. Schlossberg, V. Samuel and R. J. Sider (eds.), *Christianity and economics in the post-cold war era. The Oxford declaration and beyond*, Grand Rapids: William B. Eerdmans Publishing Company, 57-80.

Berggren, N. (1999), Economic freedom and equality: Friends or foes?, *Public Choice,* 100, 203-23.

Biermans, M. (2005), The political economy of dignity. Monitoring the advancement of socio-economic human rights in a globalized economy, Discussion Paper 43, SEO Economisch Onderzoek, Amsterdam.

Calderón, C., N. Loayza and K. Schmidt-Hebbel (2005), Does openness imply greater exposure?, World Bank Policy Research, Working Paper no. 3733, Washington DC: World Bank.

Christman, J. (1998) Property rights, in *Encyclopedia of Applied Ethics*, 3, San Diego: Academic Press, 683-92.

CPB (2007), Measuring competition in the Netherlands, Research Memorandum 163, The Hague.

Davies, E.W. (1989), Lands; its rights and privileges, in: R.E. Clements (ed.), *The world of ancient Israel: sociological, anthropological and political perspectives*, Cambridge: Cambridge University Press, 349-70.

Dawson, J.W. (1998), Institutions, investment, and growth: New cross-country and panel data evidence, *Economic Inquiry*, XXXVI, 603-19.

Diener, E. and C. Diener (1995), The wealth of nations revisited: Income and the quality of life, *Social Indicators Research*, 36, 565-591.

Dowrick, S. and J. Colley (2004), Trade openness and growth: Who benefits?, *Oxford Review of Economic Policy*, 20(1), 38-56.

Duchrow, U. (1987), *Global economy, a confessional Issue for the churches?*, Geneve: WCC.

Easton, Steven T., and Michael A. Walker (1997), Income, growth, and economic freedom, *American Economic Review,* 87, 2 (May), 328–32.

Frick, F.S. (1989), Ecology, agriculture and patterns of settlement, in: R.E. Clements (ed.), *The world of ancient Israel: sociological, anthropological and political perspectives*, Cambridge: Cambridge University Press, 67-94.

Glaeser, E.L. (2005), Inequality, Harvard Institute of Economic Research, Discussion Paper 2078.

Goldberg, P. K. and N. Pavcnik (2007), Distributional effects of globalization in developing countries, *Journal of Economic Literature*, XLV (March), 39-82.

Gorringe, T.J. (1994), *Capital and the Kingdom: Theological ethics and economic order*, London: Orbis Books and SPCK.

Graafland, J.J. (2001), Social and economic aspects in the Old Testament, in H. Klok, T. van Schaik and S. Smulders (eds.) *Economologues. Liber amicorum voor Theo van de Klundert*, Tilburg: University of Tilburg, 147-158.

Graafland, J.J. (2007a), *Economics, ethics and the market: Introduction and applications*, London: Routledge.

Graafland, J.J. (2007b), *Het oog van de naald. Over de markt, geluk en solidariteit*, Kampen: Ten Have.

Haan, J. de and J.E. Sturm (2000), On the relationship between economic freedom and economic growth, *European Journal of Political Economy,* 16, 215–41.

Hoeven, R. van de (2007), Income distribution, in: J. Peil and I. Van Staveren (eds.), *Handbook of Economic Ethics*, forthcoming.

Klenicki, L. (1997), Jewish understandings of sabbatical year and jubilee, in: H. Ucko (red.), The Jubilee challenge. Utopia or possibility? Jewish and Christian insights, Geneva: World Council of Churches, 41-52.

Kynge, J. (2006), *China shakes the world: The rise of a hungry nation*, Amsterdam/ Tielt: Nieuw Amsterdam / Lannoo.

Leeuwen, C. van (1956), *Sociaal besef in Israël*, Baarn: Bosch and Keuning.

Lucas, R.E. Jr. (2000), Some macroeconomics for the 21ste century, *Journal of Economic Perspectives*, 14(1), 159-68.

Meeks, M.D. (1989), *God and the economist: the doctrine of God and political economy*, Minneapolis: Fortress Press.

Milanovic, B. (2005), *Worlds apart: Measuring interregional and global inequality*, Princeton, New Jersey: Princeton University Press.

Mott, S.C. (1994), The partiality of biblical justice: A response to Calvin Beisner, in: H. Schlossberg, V. Samuel and R. J. Sider (eds.), *Christianity and economics in the post-cold war era. The Oxford declaration and beyond*, Grand Rapids: William B. Eerdmans Publishing Company, 81-99.

Novak, M. (1982), *The spirit of democratic capitalism*, New York N.Y.: Simon and Schuster.

Nozick, R. (1974), *Anarchy, state and utopia*, New York: Basic Books.

Prahalad, C.K. (2006), *The fortune at the bottom of the pyramid. Eradicating poverty through profits*, Upper Saddle River: Wharton School Publishing.

Ranis, G. and F. Stewart (2005), Dynamic links between the economy and human development, DESA Working Paper 8, United Nations, http://www.un.org/esa/desa/papers.

Rawls, J. (1999a), *A theory of justice (revised edition)*, Boston: Harvard University Press.

Rodrik, D. (2002), Feasible globalizations, NBER working paper 9129.

Santa Ana, J. de (1977), *Good news to the poor: The challenge of the poor in the history of the church*, Geneva: World Council of Churches.

Scully, G.W. (2002), Economic freedom, government policy and the trade-off between equity and economic growth, *Public Choice,* 113, 77-96.

Sen, A. K. (1984), *Resources, values and development*, Oxford: Blackwell.

Sider, R. (1977), *Rich Christians in an age of hunger*, Inter-Varsity Press.

Singer, P. (1972), Famine, affluence and morality, *Philosophy and Public Affairs*, 3, 229-43.

Soggin, J.A. (1993), *An introduction to the history of Israel and Judah*, SCM Press LTD.

Stiglitz, J. (2002), *Globalization and its discontents*, New York: Norton & Company.

Sturm, J.E. and J. de Haan (2001), How robust is the relationship between economic freedom and economic growth?, *Applied Economics*, 33, 839-844.

UN (2005), Investing in development. A practical plan to achieve the millennium development goals, overview, www.unmilleniumproject.org.

UN (2006), *World economic and social survey*, http://www.un.org/esa/policy/wess/index.html.

UN (2007), The millennium development goals report 2007, New York.

Vaux, R. de (1989), *Hoe het oude Israel leefde*, deel I, vijfde druk, Den Haag: Boekencentrum.

Velasquez, M.G. (1998), *Business ethics. Concepts and cases*, Fourth edition, Upper Saddle River N.J.: Prentice Hall.

Winters, L.A., N. McCulloch and A. McKay (2004), Trade policy and poverty: The evidence so far, *Journal of Economic Literature*, XLII (March), 72-115.

World Bank (2006), *World Development Report 2006*, Washington DC: World Bank.

Wright, C.J.H. (1983), *Living as the people of God, the relevance of Old Testament ethics*, Leicester: Inter-Varsity Press.