

This paper is one of a series of individual essays written within the conceptual constraints provided by "Forms for a Future." The collection of essays will become the individual episodes of the podcast.

## '... Forums for A Future...'

Podcast (#13) The Power of Balance, NOT the Balance of Power  
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### **Prelude**

Part I of the series contains a brief 2-minute promotional and a conceptual foundation for thinking about change as the convergence of economic, political, social and personal perspectives. Part II is a set of four podcasts providing a philosophy for the 21<sup>st</sup> century. Part III is a set of four podcasts describing three lessons from modern history on the interplay of Power, Wealth and Belief for informing the present. Part IV presents three prescriptive principles for having a future. Today, in Podcast # 13, I will discuss the second of these three principles: Achieving the power of balance, not the balance of power.

### **Key Concept**

There is an equilibrium point in the size of the income gap between the rich and the poor, as socio-economic classes, which is in their own economic best interest to be neither larger or smaller, illustrating the key concept of the Power of Balance.

### **Introduction**

How could this be? After all, the struggle between the upper and lower classes has always been to gain a greater proportion of the wealth in the struggle for a greater balance of economic power. How can there be greater economic power through balance?

As a starting point I would like to restrict the explanation to the distribution of wealth in the United States. Then, as a second step, I will extend the analysis to the world, and as a third and final step extend the concept from an economic to a political and social perspective.

To understand why it is in the economic self-interests of both the rich and the poor, as a socio-economic class, to have a disparity of wealth, there are seven questions that need to be answered. They are:

- What is the nature of the disparity of wealth and income?
- What is any easy way to visualize disparity of wealth?
- What is the disparity of income and wealth in the US?
- What are the politics of low and high disparities?
- Where is the equilibrium point?

- What are the income disparities between the rich and poor nations of the world?
- What is the generality of the principle of the power of balance?

### **#1. What is the Nature of Disparities of Wealth (and Income)?**

At one extreme, is a situation without any disparity of wealth. In that case, 20% of people would have 20% of the wealth, and 80% of people would have 80% of wealth. In other words, everyone would have exactly the same amount. At this extreme there is no inequality, or 0%. The other extreme is a situation where one person has all of the wealth. At this extreme, there is total inequality, or 100%.

Obviously, neither extreme case is possible in reality; there will always be some degree of inequality. The degree of inequality can be measured by a number that represents the proportion of inequality that actually exists between the two absolute extremes of 0% (no inequality) to 100% (total inequality). This proportion is a mathematical calculation called a “Gini” index.<sup>1</sup>

### **#2. What Is a Simple Way to Visualize Disparity of Wealth?**

One way to visualize the degree of inequality is to create a mental image of a playground teeter-totter. Imagine a skinny Bill Cosby at 100 pounds on one side, and his friend, fat Albert at 200 pounds on the other side. With the teeter-totter in the center position, fat Albert is firmly planted on the ground and Bill Cosby is stuck high in the air.

In this example, if we let fat Albert represent all of the poor people, and Bill Cosby all of the rich people, the poor people would be firmly planted on the ground because they outnumber the rich people. However, if we had all of the people get off the teeter-totter and instead put all of their money in a basket at their end of the teeter-totter, the situation would be reversed. Now, the rich end would be the heavy end due to the weight of their large amount of money. Now, the rich end would be firmly planted on the ground, and the poor end stuck high in the air. In this way the teeter-totter can serve as a metaphor for the current inequality in the distribution of wealth in the United States when represented either as the number of people who are rich or poor (with the heavy end being the poor people), or as the amount of money each group has (with the heavy end being the money of the rich people).

### **#3. What Is the Distribution of Wealth in the United States?**

Currently, in the United States, 4% of the people have 50% of the wealth.<sup>2</sup> If we put the richest 4% people on the right-handed side of the teeter-totter and the remaining 96% people on the left-handed side the teeter-totter would be way out of balance. The poor people would be firmly on the ground. However, in the US, if we replaced the people with their money the teeter-totter would swing into balance since the 4% of the people who are rich, and the 96% of the people who are poor, each have 50% of the wealth and also 50% of the income. For this actual amount of disparity of wealth and income in the United States, the Gini Index is currently 47%. It has been steady rising over the past three decades. This is now the third largest percentage of all of countries in the world. Only Brazil and Mexico have a larger inequality in the distribution of income.<sup>3</sup>

Whether this is viewed as an appropriate or inappropriate balance depends on whether it is evaluated from a Left- or Right-Wing political philosophy.

#### **#4. What are the Politics of Low and High Levels of Disparity?**

##### The Political Right

One of the consequences of right-wing politics, as illustrated by the policies of the Republican Party, and in particular the Bush administration, is to create a situation in which the richest 4% have ever increasing proportions of the wealth. For illustrative purposes, consider a situation where the richest 4% of the people increase their share from 50% to 70% of the wealth. Under this distribution of wealth, if the people were to be replaced on the teeter-totter by their money, the 4% of the people on the right-hand side would have 70% of the money, and the remaining 96% of the people on the left-hand side would have 30% of the money. In order for the teeter-totter to now be balanced in this situation, the fulcrum would have to be moved from the center where it was with a 50/50 split of wealth, to the far right side, 7/10s of the way toward the extreme right-hand side. Under these conditions, the Gini Index would increase to 67%.

##### The Political Left

This can be contrasted with an equivalent example of left-wing politics in which the 4% of the richest people have their share of the wealth reduced from 50% to 30%. Thus, the remaining 96% of the people would then have 70% of the wealth. If the number of people on the teeter-totter were, again, replaced by their wealth, the 4% of the people on the right-hand side would have 30% of the money, and the remaining 96% of the people on the left-hand side would have 70% of the money. In order for the teeter-totter to now be balanced in this situation, the fulcrum would have to be moved from the center where it was with a 50/50 split of wealth, to the far left side, 3/10s of the way from the extreme left-hand side. Under these conditions, the Gini Index would decrease to 26%.

##### The Limiting Cases

Neither of these two examples represents the extreme right- or left-wing political position. The limiting right-wing case is where one person has all the wealth (a Gini coefficient of 100%). The limiting case for the political left is captured by the phrase: "From each according to their abilities and to each according to their needs" (a Gini coefficient of 0%). Neither limiting case is viable. If one person had all the wealth there would not be any economy worth having, and if every person had equal wealth with every one else, there is no incentive to work hard to excel, rather than just be a freeloader. Having eliminated both extremes, the only question is where the fulcrum should be placed, and by what standard of judgment.

##### Middle Ground

Modern history has shown that both extremes are unworkable. Under extreme right-wing conditions, where free market capitalism is unrestrained, the exploitation of the poor by the rich

results in popular unrest and eventual revolution. Variations of Kings, Feudal Empires, and Banana Republics have come and gone. At the other extreme, left-wing philosophies for the more uniform distribution of wealth could only be imposed through highly regulated economies, and usually dictatorial régimes. Without the individual incentive of extra wealth for innovation, industriousness and hard work, progress stalled. The eventual triumph of a Democratic/Capitalist mixed economy documents the objective reality that some middle ground is probably ideal; at least that is the lesson from modern history. Thus, the working assumption in this essay is that some amount of disparity is desirable, and that the disparity must be overseen to some degree to keep a measure of balance. The question is not whether their needs to be a mixed economy, but rather the degree and nature of the regulation. The question is “how much?”

### Converging Self-Interests of the Rich and Poor

The debate over the distribution of wealth and the degree of income disparity is often cast in terms of political philosophy, as in the capitalist vs. communist example above. Sometimes it is cast in terms of religious values or moral philosophy about what is “right” in an absolute sense. But, there is a “neutral” alternative of seeking a purely quantitative answer. What position of the fulcrum produces the highest quality of life by providing the level of income disparity that results in the maximum benefits? How much sharing of the wealth by the rich is in their own best interest? And, how much disparity of income between a worker and the boss, and the boss and the owner, is in the poorer of the pair’s best interest? Where is the balance point to provide individuals with maximum incentives to try to move up, verses inequalities so great as to create a class divide too difficult to even dream of crossing? Political and moral philosophies put aside, where is the objective equilibrium point in purely economic terms?

### **#5. Where is the Equilibrium Point?**

The primary justification for inequality in the distribution of income is that the imbalance creates the innovation that produces additional wealth. Without the capacity to profit from individual enterprise, enterprise will not thrive. The justification for growth is that it increases wealth for everyone and both the rich and poor will be better off. If each new unit of wealth always raised the level of every person there would be a sense in which there was a sharing of the fruits of progress. However, if the effect of increasing wealth is that the rich get relatively richer, this will feed the sense of unfairness.

If the globalization defining the new Post-Modern Era is to be good for the world, the levels of wealth and income inequality cannot be allowed to continue to get larger and larger, as is currently the case. Greater, rather than lesser, equality of income requires a corresponding shift of the balance point of the teeter-totter to the left, thus decreasing the proportion of people who are poor by raising their proportion of the income. Maximum growth occurs in an “efficiency interval” between Gini Indexes of 25% to 40%. Values above and below these values produce less growth.<sup>4</sup>

However these two numerical values for defining the range of efficiency for growth are not equivalent in terms of their capacity to reduce poverty. In the less developed countries, higher Gini values are associated with limited progress in education and the accumulation of human

capital, reduced progress in fertility control, political instability and social problems. Whereas, in the developed countries with high Gini values, such as the US, the loss of effectiveness results from such things as the excessive accumulation of ascribed and inherited wealth permitting opportunities to exercise monopoly-like control, and to undertake effective politically lobbying.

In contrast, lower Gini values are associated with the exact opposite. In the less developed countries the supply of human capital is increased. Whereas in developed nations, such as the social democracies of the Scandinavian countries, they are able to maintain a higher level of per capita income than the US, while still achieving less income disparity through social programs of universal health care, child care, wider access to education and a strong safety net of universal social services.

Aiming for the lower end of the Gini range is important because a nation obtains the same level of growth at lower levels of inequality, which also allows for the reduction of poverty at a faster rate.”<sup>5</sup> Given that we are now living in a global economy, investments in health, education and the environment to reduce inequalities within the national boundaries of the United States is essential, but not sufficient.

A Gini index in the US of 47%, that is getting larger every year, is limiting the capacity of our country to achieve its dream (some would say destiny) of exporting to the world the potential virtues of democratic capitalism. If this is to be our destiny, then it is imperative, to repeat the quote from Cornel West’s book, Democracy Matters,<sup>6</sup> to:

“... shore up international law and multilateral institutions that preclude imperial arrangements and colonial invasions... (and that) facilitate the principled transfer of wealth... by massive investments (here at home) in health care, education...and the preservation of the environment (p.62).”

World poverty, no less than national poverty, provides fertile ground for the seeds of world social distress that divert the world’s resources into insurgency, and the resources of the US into maintaining a large army for counter-insurgency.

## **#6. What Are the Levels of World Income Disparities?**

The inequalities of income levels between the nations of the world are larger than the inequalities of income within any individual nation. When the Gross National Income (GNI) per capita of the 167 nations of the world is used as the reference point, rather than the income of individuals within a nation, the Gini Index is 53%.<sup>7</sup> This is well beyond the point of global economic efficiency. It is in the self-interests of the rich nations as well as the poor to reduce this discrepancy. There are direct parallels between the inefficiencies that result because of income inequalities between the people within a nation, and those that result because of inequalities between nations in our new global economy. When the gap between the rich and poor widens excessively:<sup>8</sup>

- Rent seeking and predatory activities tend to rise within a nation, as does the parallel of resource extraction and predatory activity between nations.

- High land concentration and a landless majority result in high shirking and supervision costs and the erosion of ecologically fragile lands within a nation as does the parallel of foreign ownership and production control in the activities between nations.
- There is a strong relationship between inequality and crime rates within a nation, as there is a parallel between the opposing philosophies of economic fairness between national and ethnic groups with a rise of terrorism.

There is no need to continue the list. The shift from a national to a global frame of reference simply amplifies the economic consequences of income and wealth inequalities from one of internal national domestic policy, to one of external national foreign policy. Both the rich and poor nations of the world have a vested self-interest to reduce the size of world income and wealth inequalities to a much smaller level, to allow for both responsible and attainable growth compatible with environmental constraints, and to maximize world poverty reduction.

### **#7. What Are the Broader Applications of the Power of Balance?**

The key concept of this podcast: "The Power of Balance, Not the Balance of Power" is but one of three principles being proposed for the realignment of power (the political), wealth (the economic) and beliefs (the social and cultural). These three forces are the interdependent components of a timeless historical process in which each constrain and defines the other two. As an illustration, the political principle of World Citizenship also exemplifies the Power of Balance, while the old concept of Citizenships of the World reflect the political dangers of competing to win the Balance of Power. At a social level, unlimited economic growth, propelled by the new global engine of increased consumerism, must be balanced against the capacity of the planet to support greater and greater levels of accumulation of wealth by the rich and powerful.

Thus, the three principles are interdependent components for having a future where we can all prosper. In the next podcast I will develop the third and final principal: "Knowledge As Public Domain, Not a Private Commodity."

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<sup>1</sup> A clear presentation of the Lorenz Curve and the Gini Coefficient may be found in wikipedia: [www.wikipedia.org/wiki/Gini\\_coefficient](http://www.wikipedia.org/wiki/Gini_coefficient), and [www.wikipedia.org/wiki/Lorenz\\_Curve](http://www.wikipedia.org/wiki/Lorenz_Curve).

<sup>2</sup> United for a Fair Economy. Wealth Inequality Charts: [www.faireconomy.org](http://www.faireconomy.org).

<sup>3</sup> World Institute for Development Economic Research. World Income Inequality Database: [www.wider.unu.edu/wiid/wiider.htm](http://www.wider.unu.edu/wiid/wiider.htm).

<sup>4</sup> Giovanni Andrea Cornia and Julius Court. Inequality, Growth and Poverty in the Era of Liberalization and Globalization, Policy Brief No. 4. The United Nation University, 2001: [www.wider.unu.edu](http://www.wider.unu.edu).

<sup>5</sup> See 4 above.

<sup>6</sup> Cornell West. *Democracy Matters: Wining the Fight Against Imperialism*. Penquin Books, 2004.

<sup>7</sup> Original calculations by the author from the World Development Indicators Database. World Bank, 2006: [www.worldbank.org](http://www.worldbank.org).

<sup>8</sup> See No. 4 above.