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POVERTY TO WHAT EXTENT IS IT A DISTRIBUTION PROBLEM

A TALK TO THE ECONOMIC SOCIETY OF VICTORIA ON MONDAY 29 JULY 1996 BY PETER HARKNESS SWINBURNE UNIVERSITY
WEALTH & POVERTY

More than 2 million Australians are estimated to be living in poverty at present. Income distribution in Australia is nearly the most unequal of the twenty four OECD countries: we battle it out with the USA and New Zealand for bottom spot. The most wealthy 1% of Australians own about 20% of its wealth. The most wealthy 10% own 60% of our wealth, while the poorest half of us own only 8% of Australian wealth.

In terms of income, half of us enjoy 80% of Australia’s National Income while the other half of us make do with 20%.

About three quarters of the world’s resources are consumed by one quarter of the world’s population (living in first world countries). Yet even in first world countries, like Australia, there can be a lot of inequality as the figures above suggest. Obviously, then, the proportion of the world’s resources being consumed by the upper class in the first world is enormous. This deduction is supported by statistics such as: the richest 10 people in Britain have as much wealth as 23 poor countries with over 174 million people.

Three Views of Wealth and Poverty

Orthodox and conservative economists don’t regard wealth as a problem. It is a sign of success. Only poverty is a problem in their opinion. It is not surprising therefore that conservative governments in Australia and elsewhere have periodically undertaken inquiries into the “problem of poverty”, without even thinking to inquire into its concomitant, wealth.

These inquiries (such as the one by Professor Ronald Henderson in the mid 1970’s established by the Whitlam Government) are inclined to focus on determining who are the poor: what are their characteristics in terms of occupation, age, sex, race, family size, place of domicile, place of birth, immigrant or not, etcetera. They have also focused on the determination of a “poverty line”; meaning if your income is beneath this level or line you are officially poor. Both types of information (the characteristics of the poor, and the poverty line) have been very useful in improving our knowledge of poverty and in ordering social research.

But there is another question we need to ask which these inquiries have done little to answer. It is what causes poverty?

If anything these inquiries have almost suggested the cause lies in the characteristics of the poor (for example that you are poor because you are a single mother or an aboriginal or because your income is beneath the poverty line). But these are not causes: surely they are really symptoms.

Note that there are different definitions of poverty. Two are the absolute definition and the relative definition. The former specifies the absolute number of dollars needed to buy as cheaply as possible the minimum amount of food (in kilojoules) and warmth (clothing and housing) that is needed to keep the human body alive. By this definition very few Australians are in poverty, but a lot of Ethiopians are.
The other definition derives from the view that poverty can be a relative concept. So, while even the lowest income Australians might have enough kilojoules of food and warmth to stay alive they are unable to do the things that most of us take for granted (like going to see a film, let alone having a holiday by the sea). They are unable to participate in the lifestyle and activities of most Australians. So relative to the average income they are in poverty.

The Orthodox View

Orthodox or conservative economists don’t view wealth as being a problem. They typically have two main attitudes towards poverty. Firstly, they often tend to doubt and belittle its severity. Using the absolute definition of poverty is one way they do this. Secondly, they usually argue poverty is the fault of the poor. This is known as blaming the victim. For example, conservatives will often suggest it is the fault of the poor because they left school too early or have not had sufficient training and therefore are not attractive to employers. They should have stayed at school longer or gone on to TAFE or university.

Another conservative criticism of the poor is that they are stupid or inept in managing their finances. They waste money buying unimportant things or they make silly investments. They may waste money gambling, or spend too much on take away food or cigarettes or grog, or consumer goods generally.

Sometimes conservatives argue that many poor people have not succeeded because they are simply not sufficiently intelligent. This is a type of social Darwinist argument. That is, we are all born with different characteristics and those that are unintelligent or stupid simply have to fall by the way side. It’s no one’s fault. It’s just life.

Conservatives are often critical of the benefits offered by the welfare state such as single mothers’ pensions, disability pensions and unemployment benefits. They suggest such welfare deters people from working. It provides people with an easy option, a disincentive to work, an incentive to be lazy and bludgeon off society. By the same token, they believe taxes should be low to encourage people to work.

Given the largely vindictive nature of the conservative analyses, it is not surprising that they offer few solutions. First and foremost they believe it is up to the poor to solve the problem themselves. Since poverty is their fault, they should solve it: for example, go back to school, or work harder. Other than this, the only solution they offer is economic growth. The more the economy (GDP) grows, the more jobs there will be. Even the stupid will be able to get jobs and climb out of poverty. Therefore, the government should implement what ever policies are needed to encourage business and the economy to grow (such as low taxes, interest rates, and less government expenditure and regulations).
While conservatives dislike welfare, some concede that a low level of income support should be provided by the government, but only on a short term basis for able people, and on a long term basis for only those who are definitely and permanently unable to work such as spastic and mentally retarded people. Some conservatives believe even these should be provided for by private charities.

By contrast, the well known American conservative economist Professor Milton Friedman believes that the government should provide a negative income tax to ensure nobody was below the poverty line; but that line would be pretty low.

The Liberal View

The liberal view lies between the orthodox (or conservative) view and the radical view. It has nothing in common with the Liberal Party of Australia. In the case of wealth and poverty, liberals see poverty as a problem but not wealth. They believe in capitalism and consider that poverty can be solved without having to tamper with capitalism in any fundamental way.

The liberals are more concerned about poverty and show more compassion towards the poor. They believe that while capitalism is the best system over all, it is characterised by much inequality (of opportunity and outcome) and related social problems. They see capitalism as having rough edges which need smoothing.

Liberals are much less inclined to blame the poor for their poverty. In their view, poverty is more often caused by the poor having had an unequal start in life, or subsequently suffering disadvantage or bad luck. For example, many poor people were born into poor families. Since their parents are poor they are unable to provide them with the same opportunities (such as education) that rich parents provide to their children. Alternatively, some people may suffer disadvantage due to their cultural or racial differences. Or they might have been orphaned when they were young or sustained bad luck (eg serious injuries) when they were older. There are a myriad of these sort of possibilities. They are the rough edges. But the point is that none of them are the fault of the poor. So the liberals embrace a much wider range of causes than the conservatives.

This leads the liberals to a much more compassionate attitude towards the poor: they need to be helped. The solution advocated by the liberals is government intervention, of various sorts. The liberals believe society, through its government has a responsibility to assist the disadvantaged and the poor. Hence, pensions, unemployment benefits and other welfare schemes are seen as appropriate and necessary, and are strongly advocated by the liberals. Private charities are good but not sufficient. The state has a clear responsibility to help the poor and disadvantaged. This help should be not only income support but education, training and often housing and health too.
The Radical View

The radical (or political economy) view sees capitalism as being the cause of poverty. Wealth is as much of a problem as poverty. In deed one can not exist without the other. Poverty without wealth would be like trying to find a coin with heads but no tails.

They occur together because in the radical view it is wealth that creates poverty. That is the wealthy have simply taken too much and left insufficient for the poor. In Australia, the most wealthy 10% have taken 60% of the wealth. Half of our population own only 8% of the wealth. If it were an equal society, they would own half the wealth.

How this has come about and whether it is fair and morally legitimate is of course a vexed and controversial issue. But in the radical view it has not happened legitimately, and is not fair. Those who argue it is are usually the wealthy. It is in their personal interest to defend this immorality and inequity.

Radicals point out that wealth is rarely found on the ground or growing on trees. It is usually created by work or labour. That is, by workers and labourers. But the work performed by a few of these (the owner and managers) is rewarded excessively and lavishly. The owners receive all the surplus value of the labourers’ work, that is the value which exceeds the costs of labour. This is because in our society capital employs labour. Why not vice versa? As long as the owners of one factor of production, capital, receive all the surplus value even though it has been created by the other factor of production, labour, we are destined to experience significant inequality.

From early this century, two forces have helped to limit this inequality: trade unions and the welfare state. Both have forced capitalists to part with some of their surplus value, or profits, and share them round, with workers and needy citizens. It is not surprising that capitalists and their representatives (the Liberal Party, business organisations, economists, commercial media, etc) have stepped up the attack, over the last decade or so, upon trade unions and government expenditure, especially government expenditure of a welfare and social wage nature. If the Liberals and business pressure groups can indoctrinate us to believe that trade unions are greedy, powerful and rigid, while welfare encourages indolence and destroys incentive, then we will vote for union-busting, low taxing and low spending governments (like those of John Howard and Jeff Kennett) which allow capitalists to keep a larger portion of the surplus value. This was already happening under ALP governments but will now accelerate. The portion of GDP going to capital has risen about 6 percentage points since the early ‘80s.
Economics claims to be a neutral objective value free social science, when in fact, it is anything but. In reality, the ideology and values it espouses encourage inequality. The ideology is that of unbridled capitalism and the values are individualism, competition, profit maximisation, and private greed, (instead of community, cooperation, profit share and public welfare).

Economics has prostituted itself to the needs of business and greed. It is an apology for inequality. It used to pretend to have an objective explanation of income distribution, but ever since Paul Samuelson had to admit to Joan Robinson that the theory was flawed and a sham, economists have chosen to ignore the question of distribution. Joan Robinson argued in the “Cambridge Capital Controversies” that returns to the factors of production were based not on some objectively determined marginal revenue product of each factor, but rather on its power. After years of technical debate in learned journals, Samuelson conceded defeat to Joan Robinson and said that his continued belief in neo-classical economics was now simply “a matter of faith” (not fact).

Most economists, like Samuelson, have a vested interest in maintaining their neo-classical faith. Although it is flawed, they continue to learn, teach and advocate it. They base policy recommendations to government upon this flawed theory of income distribution, and they wonder why inequality and poverty get worse despite economic growth.

One day we might come to see that Alfred Marshall, Pareto, Walras, Jevons et al did an enormous disservice to society when they developed marginal analysis and the microeconomic model. We might then revisit the writings of economists prior to these, and discover how the economy really works. Marx probably made the biggest contribution to the theory of distribution. But many others were important too, such as Hegel, Ricardo, Proudhon and Veblen. But today many economists know nothing of these theories. Even John Kenneth Galbraith is somewhat marginalised by the profession though his theories have been more enduring than most.

If we want to understand poverty we must study wealth and income distribution. We must ditch the flawed neo-classical theory of distribution and learn what the real determinants are. I believe earlier economists like Karl Marx, Henry George and Joan Robinson can point us in the right direction. If we do this I believe we will find that the economic rationalist policies being implemented by many governments (such as Mr Reith’s I.R. legislation) are going to make poverty much worse. By weakening unions and the welfare state, economists’ policies will remove the only serious checks we have on the degree of inequality capitalism can create.

See the accompanying hand-outs for some related practical issues.

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