

STEVEN B. CORD, *President*

EDWARD H. SCHOYER, *Trustee*

JACOB HIMMELSTEIN, *Trustee*

MARIAN HAHN, *Trustee*

Center for the Study of Economics

580 North Sixth Street

Indiana, PA 15701

(412) 465-7119

POVERTY: THE ULTIMATE CHALLENGE TO THE SCIENCE OF POLITICAL ECONOMY

By

Edward J. Dodson

September 1983

3094

Observable above all others, the one characteristic common to all political economies (what I find to be the "common denominator") is the tragic condition of worsening poverty. The experience of poverty varies by measure of degree from society to society, but not in kind. Millions of our species ongoingly face the reality of starvation, survival from one day to the next their major concern. One observes that structural flaws within a given political economy prevent the poverty-stricken from exchanging their labor for even a minimal return in goods or money. The masses of unemployed may survive for a time on the strength of the family group or by the philanthropy of charitable organizations. The most fortunate few are those born into a society where the political process has evolved sophisticated government-sponsored programs as protection against the extremes of deprivation. And yet, even those societies in which extensive humanitarian social programs exist are now facing a degree of poverty and unemployment beyond the scope of mitigation by government. Worse off are the historically impoverished peoples of the "less developed" societies, whose poverty when measured by degree shatters the possibility for human dignity.

The problem of worsening poverty is also evidenced by reports throughout the world (industrialized societies included) of the growing numbers of wanderers. Homeless and far outside the mainstream of society, millions of destitute people migrate from one place to another pursuing a measure of relief from their poverty. For most, the migration brings but greater misery.

The immense scale of the problem is frightening, indeed. The social and political pressures within many societies has reached the level of "critical mass" and is characterized by a reactionary animosity between those who have and those who have not. Violence is too often an immediate result.

Must the Earth's societies experience devastating class warfare (as occurred in 18th century France and 20th century Russia)? The price is very steep, regression from democratic principles in return for a chilling sense of stability. Or, is the problem of mass poverty simply beyond resolution?

Before coming to an answer to these questions, a more detailed understanding of the problem is essential. For this we begin with methodology. How has man come to grasp that which is known? Through science, obviously: man utilizing the powers observation, reason and logic to untangle the mysteries of the Universe. More specifically, political economy became a distinct branch in the family of sciences, a branch generally referred to today as "economics".

From the Greek philosophers, particularly Plato and Aristotle, came a philosophical embryo. Further philosophical refinement to the ancient European thinking came from men such as Locke and Rousseau, turning the study from philosophy into political science. Political economy, which

integrates the speculative aspects of both philosophy and political science with the analysis of observable phenomena, traces its scientific origins to Adam Smith, the Scot who in the mid-eighteenth century gave humanity The Wealth of Nations. Smith (who owed a great deal to the French Physiocrats, Francois Quesnay and A.R. Jacques Turgot) was the premier economist of his time. The methodology of these "classical" economists dominated the science of political economy until the introduction of mathematical modeling in the final quarter of the 19th century. Alfred Marshall, Joseph Schumpeter and John Maynard Keynes are three names dominant in economic investigation during the early 20th century. Universities have graduated countless others who are now employing powerful computers and sophisticated economic models to predict changes in the world economy and thereby help business and government to develop effective strategies.

What we see is that political economy has a relatively long history of importance as a science, and that the political economists utilize the most modern technology in their research. Despite these factors, the world political economy remains victimized and plagued by immense problems. The observer is tempted to conclude on the basis of results that the political economists have failed to grasp the governing laws of their science. What one finds throughout the world is that all modern states, regardless of their adopted ideology, are beset by similar structural

problems, the intensity of which are greater or lesser in comparison but essentially common to all. The strengths possessed by each society are sapped by inherent weaknesses, while the collective impact is to pull humanity closer and closer to the brink of collapse. Perhaps, as suggested above, the political economists have failed. Before writing them off, let us examine what has been learned and then draw our own conclusions.

I began this essay with the observation that the incidence of poverty is an escalating problem throughout the world. Thus, the reality of human existence for too many people centers on mere survival. Those of us less immediately threatened by want of food or other basic life-supporting commodities perceive other circumstances as major threats to our survival, such as environmental pollution or global warfare. In fact, among the most respected and educated of our species there are many who feel we cannot solve the problem of poverty until we eliminate the threat of nuclear war.

The global balance of terror pioneered by the United States and the Soviet Union holds hostage all the citizens of the earth. Each side consistently probes the limits of the other's tolerance . . . The hostile military establishments are locked in some ghastly

mutual embrace, each needs the other but the balance of terror is a delicate balance with very little margin for miscalculation. And the world impoverishes itself by spending half a trillion dollars a year in preparation for war and by employing half the scientists and high technologists on the planet in military endeavors.

And thus did the astronomer Carl Sagan describe our reality. In his journey through the Cosmos, he also called for "fundamental changes in society, changes which recognize the earth as a single organism". For, as he concludes, "an organism at war with itself is doomed".

There is no argument to be made with Carl Sagan's observations and conclusion. Peace, through the systematic reduction of weaponry and open negotiation, must be pursued as an ongoing strategy for survival. Yet the fact remains that to millions of human beings the most immediate threat to survival is not nuclear war or war at all. What threatens them most is the poverty that comes when the individual is denied access to even the bare necessities, the "goods" identified by philosopher Mortimer Adler that support the human spirit.

For the political economist the problem is two-fold: Is there a form of political economy that produces sustained economic growth. Further, can a society adapt structurally to ensure an equitable distribution of the wealth produced (equitable, that is, in the sense that no one will

have so much that others must do without that which is essential -- a condition to which Mortimer Adler equates economic justice and with which I concur). Unfortunately, few political economists have been up to this challenge. Even rarer have been the statesmen sufficiently perceptive and selfless to pursue truth in political economy. The manner in which societies have developed and the powerful forces of self-interest consistently threaten those who challenge the status quo or the conventional wisdom. As a consequence, what has occurred in nation after nation has been the implementation of ill-conceived, short-sighted and conflicting "policy prescriptions" tied loosely to the doctrinaire economic theory currently in vogue. One need only mention the unilateral calls for "protection" from unfair competition by businesses and labor groups -- and the supportive arguments presented by some political economists -- which, once adopted, will dramatically reduce the amount of international trade and further weaken domestic economies.

As powerful a force for economic growth as it is, the policy of "free trade" (Adam Smith's vision of laissez-faire) does not address the serious problem of maldistribution of wealth. Structural changes are required that will simultaneously promote economic growth and result in an equitable distribution of the Earth's resources. The goal to be pursued is nothing less than an end to mass poverty through full employment.

Conventional economic wisdom relates poverty to the allocation of scarce resources. A particular location on the Earth is always limited as to the quantity and quality of natural resources, theoretically imposing finite limits on the number of people who can be satisfactorily supported by those resources. At a very basic level of analysis, the human condition is enhanced or distressed by the ratio of population to quantity of resources. The fact that throughout the world there exists societies with very dense populations in relation to both land mass and resource availability, whose people enjoy comparatively high living standards (Japan, Belgium and the Netherlands, for example), suggests the above analysis to be flawed. What one observes in the real world is a direct relationship between poverty and repression in the political economy. Repression, of course, takes many forms, some overt and others subtle.

The extent of repression is often difficult to ascertain within individual societies, although political and economic repression are effectively tied together. A reasonable assumption, however, is that the opportunity for permanent structural change is greatest where the relative degree of political and economic repression is least. For this reason, the remainder of this essay will concentrate on the potential for change within the democratic-capitalism model as opposed to the state-controlled (Marxist) command model. Besides the obvious participatory differences in the political process, the economically most important structural difference between these two systemic extremes is the role of private ownership of "property". The significance of property

ownership to the production and distribution of wealth under the democratic-capitalism model will become evident as the remaining content of this essay unfolds. The principles to be discussed are also at work within the command model but, again, the potential for adjustment is greatly reduced by a repressive political system.

A key ingredient in an examination of property is the term's defined meaning. What is or is not property? Another issue with important implications is the method of protection. Guarantees by the social organization of rights to property demand adoption of police powers for the state. Such guarantees may or may not be based on moral justifications for claim to ownership and have historically been tied to the interpretation of justice imposed by the governors on the governed.

Needless to say, access to a certain level of property is necessary to experience relative wellbeing (at minimum, sufficient quantities of nourishing food, well-made clothing and adequate shelter). A society whose interpretation of justice protects access to at least these minimum levels of property effects positively the distribution of wealth. A study of history and current observation reveals the obvious: those having sufficient property survive and prosper; those who are propertyless do not survive. At least not on their own. Survival for the propertyless becomes a function of both private philanthropy and government programs to redistribute property.

The evolution of democratic-capitalism has carried and protected a wide range of property forms. Ownership to land, water bodies and natural resources, the products produced by man from the land as well as resources, and intangibles such as stock certificates, bank deposits, copyrights and patents. The effectiveness of protection depends both on the willingness of individuals to acknowledge and comply with the written laws and the ultimate strength of the state's police powers. We are all aware that throughout history war and revolution played havoc with claims to property, a problem particularly associated with the land. We should not forget that titles granted by French, Dutch, English and Spanish monarchs during the "Age of Exploration" took legitimacy from sovereign military strength. By this process did the European societies come to control most of the globe. Thus, the European (and particularly the English) vision of property rights became the world standard. The harmony or conflict of that system on the governing laws of political economy would, therefore, play a major role in the production and distribution of wealth.

By the time of the great exploratory voyages European societies had experienced a gradual replacement of the feudal system's concept of communal property in land by a system of political economy dominated by a central authority whose power depended upon support from a small, land-controlling aristocracy. As population increased across Europe, the concentration of land ownership produced mass poverty and widespread

political upheaval. The domination of Ireland's land by absentee English landlords produced economic deprivation so severe that to this day the population of Ireland has yet to recover. The memory of the "enclosures" enforced on the Irish tenant farmers during the 19th century lingers on under the guise of a religious conflict in Northern Ireland, with roots going all the way back to the 15th century. The landed aristocracy in 18th century France and late 19th century Russia suffered the consequences of creating generation after generation of mass poverty. England escaped a similar fate by sending its (and many of Ireland's) poor and dissident to the unpopulated and unsettled frontiers of a vast colonial empire.

North America offered these uprooted masses an opportunity long since disappeared in Europe, that of exploiting a largely empty land blessed with abundant natural resources. And the land absorbed and supported those who came well into the mid-19th century. This continent then began to experience its own problem of increasing poverty and periodic mass unemployment. Why this occurred has escaped the large majority of historians and has been of minor interest to the economists (with a few notable exceptions). What we see is that by the time of the large-scale European and Oriental migrations in the late 19th century there was very little remaining of the American frontier. The continent had been largely settled and the European system of property rights, retained by the American political leaders despite the successful break from European control, had been in operation for over a century.

The process of settlement in North America was accomplished in a rather short period of time. Yet there existed a much wider distribution of land ownership in the United States and in Canada than in Europe. Despite the existence of large numbers of landowners, the conditions for eventual economic problems were incorporated into the very structure of the new societies. What was freely accessible to the early pioneers and settlers was denied to the newly born or newly arrived. The adoption in North America of the European system of private property in land put into place the mechanism that inevitably leads to a concentration of wealth (i.e., property ownership), the very cause for class conflict and social instability in the European states. Today, there are no new frontiers where the propertyless can migrate (and the universe beyond our planet is yet to become a realistic life-supporting environment for large numbers of our species). How, then, can this process of social disintegration be altered to achieve the dual goals of economic growth and economic justice? Must the world follow the Marxist prescription of class warfare with its destructive impact on political freedoms. Or, is there another way, one which will bring positive change through evolution rather than revolution?

As I have stated, a permanent solution to poverty, unemployment and the maldistribution of wealth (particularly the concentrated ownership of land and natural resources) must accomplish equity without destroying the incentives to produce. Marxist proposals for state ownership and control of land as well as most physical capital attempts equity but fails because

of the negative impact on man's natural desire to be productive when society arbitrarily collects what one individually produces. At the same time, a system based on positive incentives for production must recognize the essential differences between those products created by human activity and those provided by nature. This distinction becomes significant to a political economy grounded in equity since the ownership and control over land and natural resources is accompanied by both tremendous power and social responsibility. What, in terms of material wealth, can be produced without access to nature? Nothing, obviously. All members of a society (who ostensibly possess equal protection under the political system) must therefore have either equal access to the society's source of wealth (i.e., its natural resources), or at least benefit equally from the use of those resources. This point is crucial for the establishment of equity and economic justice within the framework of democratic principles. I offer further clarification and support for this argument.

As a finite sphere, the Earth consists of a largely fixed quantity of elements. Those elements have been shaped over billions of years into three categories of substances: solids, liquids and gases. All three are more or less essential for the support of life on Earth. The process of evolution brought our species to the Earth as a land mammal; and, although we have also become masters of the gaseous atmosphere and liquid seas, our natural habitat is the land. Our planet's solid land masses have changed

in form and in hospitability over the aeons but have certainly remained relatively constant almost from the beginnings of human civilization. From time to time there have been minor increases or decreases in the quantity of land suitable for the support of human life. Islands have arisen as the remains of ancient volcanoes, and who among us has not listened intensely to the tales of the lost continent of Atlantis. Changes in rainfall or temperature have turned tropical rainforests to desert and lush plains to tundra. Beyond surface changes, many of our natural resources -- particularly valuable minerals and fossil fuels -- have required millions and millions of years for nature to produce their individual, identifying characteristics. And yet, the rules evolved within society after society uphold the groundless claims of ownership made by individuals and groups of individuals to the detriment of society as a whole. This is a violation of a humanitarian moral code having far-reaching effects on the political economy.

The statisticians who practice political economy today, our "economists", recognize the finite aspects of the quantity of land and natural resources. Because the amount of land and natural resources is fixed by nature, their availability for use as "factors of production" is considered inelastic. That is, the supply is relatively insensitive to the level of demand. Human effort may change the form or utility of a given site, but man cannot create or produce more land. Therefore, societies that permit private control and ownership of land and natural resources submit themselves to the harsh consequences of monopoly over the only source of all material goods.

These special characteristics of land (which I will use from this point on as a synonym for "nature") as an economic factor were analyzed at some length by another 18th century political economist, David Ricardo. From Ricardo has come an elaboration of the concept of "rent", defined as that portion of all wealth going to the owner of land derived simply from the aspect of ownership (note that by this definition land ownership excludes itself from the process of actual production). Land, observed Ricardo, comes to have economic value -- a PRICE -- when the expansion of human population creates competition for living space and for the natural resources necessary to support life. As long as land is freely available and in plentiful supply, there is no means for the landowner to obtain from his fellow citizens a fee (or rent) for the use of land. On the other hand, private land ownership eventually denies to many the access originally available to all. As population increases the threat to survival intensifies for those who must turn over a large portion of what their labor produces to a landowner whose only contribution is a form of government sanctioned extortion.

This essay has thus far pointed to the overriding injustice perpetuated by continuation of the aristocratically-imposed system of land ownership, a system that endorses the private appropriation of the category of wealth called "rent". I have endeavored to challenge the foundations upon which political economy has rested. My position, if left to surface examination, may appear to advocate a socialization of

land in opposition to the Jeffersonian ideal of the yeoman farmer. Nothing is further from my intent than such a prescription. While a just political economy must by design guarantee an equitable distribution of wealth and in the process prevent the monopolization of land, there are also certain economic and psychological benefits associated with land ownership that if properly harnessed will also promote justice. As we know, land ownership often brings to the individual or family a strong sense of belonging and well-being. Security and status are attached as well to the suburban plot as to the rural farm. Circumstances of quality, rainfall, fertility or location require the concentrated control over large tracts of land to permit profitable use. The problem in political economy, therefore, is how to preserve the economic and psychological benefits inherent in private ownership of land while simultaneously ensuring the socially-created and natural values associated with the land are equitably distributed throughout the entire population.

Implied in this problem, but not specifically stated previously, is the argument that the wealth actually produced by the individual is the rightful form of private property. Labor and capital combine with land as the three "factors of production", the wealth produced by labor and capital defined, respectively, by political economy as "wages" and "capital". These two forms of wealth are derived from man's physical and mental efforts as they are applied to nature; to grow food, build

shelter, change raw materials into tools and machines, or produce any of the incalculable items sold or exchanged in the world's markets. Society, on the other hand, maintains a legitimate claim to that portion of wealth attributable to the whole of political economy as opposed to individual production. By collecting from landowners Ricardo's rent, society is able to finance those improvements and programs necessary for the betterment of life while leaving labor and capital unimpeded. Rent thereby becomes a fee paid to society by the landowner as compensation for the monopoly use and control over a given quantity of land, access to which by others in society is denied. Equity and economic justice in the political economy result. The title holder to land must put the land to productive economic use in order to produce wages and interest from which to pay his rental fee to society. And what, in economic terms, can be expected from such a system?

The mechanics of rent collection must recognize and incorporate one further economic principle: a commodity fixed in supply inevitably experiences a rising market value as demand increases. The measurement and collection of rent must therefore keep pace with the rise (or, where appropriate, the fall) in land values. Doing so will discourage speculative holding of land in anticipation of capturing incremental increases in value and assure entrepreneurs access to a competitive land market. Reduced land factor costs will, in turn, improve the society's ability to compete internationally, bring down the prices of consumer goods and result in higher real wages through greater purchasing power.

As the increase in real wages produces greater consumer spending, capital investment by business will further stimulate the economy. Planning and a commitment to the future are obviously enhanced by stable economic growth, and the demands upon government for new infrastructure and services can be financed by a tax base attached to predictably increasing land values. While this picture for prosperity may today sound farfetched, gradual implementation of the above recommended structural change sets into motion an entirely new set of relationships between society and the owners of the three economic factors. While those who desire to hold title to land are guaranteed protection of ownership by society, they must make good economic use of their land or turn it over to someone who will. From the socially-created "rent", government is able to provide the environment that supports an expanding economy. Moreover, as employment opportunities are created the many disastrous side-effects associated with poverty will begin to disappear. How long such a system of political economy will require to bring an end to poverty and unemployment is beyond my predictive abilities. I am confident, however, that contained within the above principles of political economy is the basis for realization of a truly humanitarian expression of democratic-capitalism.
