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*Poverty is far more prevalent in the U.S. today than appears at first glance. Even people with stable jobs are effectively poor if they cannot afford to pay for health insurance and other necessities (such as owning a car). Poverty can be measured in either absolute or relative terms. Relative poverty has grown to extreme proportions in recent years because of the exceptionally high growth among the super-rich. A useful way to understand the wealth gap is in terms of the concept of privilege, rules granting one person exclusive rights. Although privileges are necessary for the growth of civilization, one person's privilege is the loss of freedom to someone else. Thus, those with privileges should compensate society for the losses they impose. In that way, privileges would be shared by all, and poverty could be minimized. This approach has similarities to both capitalism and socialism, but it is different from both.*



Someone who says that poverty is not a problem in the United States is not very well acquainted with it. They probably have not met poor people and seen the kind of tensions that exist in life because of economic hardship. There is a tremendous amount of poverty in the US.

To understand poverty in the US, we should include middle-class poverty. You may have a middle-class income starting at around \$40,000, but in order to participate in middle-class life, you have to commit 10 to 15 percent of your income to owning and operating a car. If you do not have health insurance, or if you have some that covers you poorly, you may appear to be middle class and appear to have some level of prosperity. In reality, if you consider the odds year by year, that so-called middle class family is actually living in poverty. They just have not hit bottom yet.

### **Privilege and Unearned Wealth**

The word "privilege" comes from Latin, meaning private law. The Romans were very clear about private law. They passed laws that explicitly pertained to either single individuals or groups of people, such that they had a legal

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status or a legal standing that was different and distinct from others. When James Madison talked about privilege in the early days of the US, he was talking about it in the Roman context: the government allows one person or a group of people to do something and other people are not allowed to do that.

Arguably privileges—exclusive rights—are the very basis of civilization. To use of a piece of land intensively by adding labor to it, you cannot have one person sow the crop and a second one take the harvest. Privilege is what allows the first person to exclude the second one and to make productive use of resources.

In addition to ownership of land, other privileges include ownership of mineral rights, broadcast licenses (and rights to other parts of the electromagnetic spectrum), pollution permits, landing rights at airports (the time slots when a plane can take off or land), rights of way, and many other rights that have an economic value attached to them.

One way to think about privileges is that they are the opposite of freedom. If I give someone privilege, then somebody else lost freedom. If you are going to have a society where people have equal rights, a person who holds a privilege should compensate other people. If I am going to dirty the air so that you cannot breathe it and enjoy it, then I owe you something for that. If I am going to extract oil out of the ground, I owe both people here today and future generations for taking possibilities away from them. Privileges require a *quid pro quo* to have justice.

A challenge for us is to learn how to manage privileges in a way that does not create undesirable side effects, particularly related to the distribution of wealth. Privileges allow a much more intense use of natural resources, but they also distort the distribution of wealth.

The great conundrum is how to allow privileges where they help society become wealthier, but not let a small fraction of the population hijack that wealth. The answer suggests itself: we need a *quid pro quo*; we need a charge for those privileges—privileges that are rooted in government and in legal action. Congress and state legislatures create these privileges. They could also create a requirement that the person who holds a privilege make a payment back to society for that privilege. At the same time, we could get rid of other taxes that truly are injurious.

### **Neither Socialism nor Capitalism**

Capitalism is usually referred to as the free-market system. But you cannot say that you have a free market, a free system, when a relatively small

number of people hold privileges that allow them to choke labor and the productive elements in society by extracting money, just by holding a privilege. That is not freedom.

Socialism recognizes that there are systematic problems in society because the economic rules are systematically grinding a fraction of the population into poverty. But socialism fails when it wants government to control capital or try to control the details of how an economy works.

The ideas I propose do not fit readily into the categories of socialism and capitalism, both of which have a lot of contradictions underlying them. The theory of taxing privileges is really in a class by itself. I would call it a true free-market system.



