

## Prologue

# Poverty: Redefining Rights & Obligations

**H**ISTORY WILL not shine kindly on campaigners who disregard poverty's 'silver bullet'. The silver bullet does exist. The question is, can the thinking and political will be mobilised to erase the institutional foundations of poverty? The children of the world's 'bottom billion' expect of us nothing less.

Poverty is treated as the problem itself, rather than a symptom. That is why public policies will not eradicate it. Instead, poverty will continue to serve as the transmission mechanism for the profound crises that have converged into an epic global drama. Terrorism as a social process, climate change as the violent retribution of nature, the trading tensions between unbalanced economies – such manifestations of discontent may be traced back to injustices that affront humanity.

Poverty and inequality are increasing in both the rich nations of the West, and those that we shall designate as *neo-colonised* countries (see box over). But poverty is no more than one symptom of a set of social rules that are pathological

in character. There is no technical reason why it should not be abolished. But those who exercise the most influence in the structures of power work diligently to avoid addressing *root causes*. Thanks to political pressure and humanitarian instincts, some of the worst excesses of poverty are alleviated for many people. But poverty is a *common denominator* of all societies and remains an institutionalised feature of the capitalist economy. It pervades the rich nations, camouflaged by the Welfare State.

The architects of the Welfare State were sincere in wishing to address deprivation in all its forms, but their approach – grounded in faulty doctrine – doomed the social experiment to ultimate failure.<sup>1</sup> In Britain, for example, government appropriates nearly half the national product with the ostensible purpose of equalising people's life chances. And yet, an estimated 27% of the population are classed as poor in the UK. Families that are not deemed to be impoverished because of transfers of other people's earnings can hardly be said to enjoy the dignified life of independent adults. Child poverty doubled in the 20 years to 1997.<sup>2</sup> With 3.8m British children living below the poverty line in 2007, the Conservative opposition launched a campaign to "Make British Poverty History".<sup>3</sup>

Poverty, both in the West and in the rest of the world, is an artificial construct. Its origins are rooted in a colonial history which will loom large in this study. By colonialism, we refer to that external intervention and control which had as its purpose the abuse of people's natural right of access to land and nature's resources. We will explain that consigning poverty to history will require the restitution of people's birthright in land.

### What's in a name?

LABELS used to designate non-Western countries are unsatisfactory. Concepts like Third World are now avoided. Similarly, 'developing' and 'less developed' concepts imply backwardness. Yet, these countries embarked on independence with their indigenous cultures degraded by the colonial experience: a legacy of property rights remains the primary obstacle to benign renewal.

The geographical designation – 'the South' – is also anomalous. It conflates into a single category countries that are culturally diverse (some of which are in the northern hemisphere); and whose levels of income and cultural complexity are markedly different.

An accurate description for the former colonies of European powers is 'neo-colonised countries' (NCCs). Although now politically independent, the cultural and economic evolution of these sovereign nations is stunted by their retention of certain colonial laws and practices that serve powerful external interests. An example is India's Land Acquisition Act (1894), inherited from the British and used to grab land from farmers to build infrastructure like dams which, ultimately, have the effect of increasing the downstream value of assets owned by rich urban land owners.\*

The reader will decide (as our analysis unfolds) whether the neo-colonised concept is analytically helpful in identifying remedies to deep-seated problems. Does China – which was not colonised – count as an NCC? Historian RH Tawney concurred with Dr. Sun Yat Sen's description of 19<sup>th</sup> century China as a colony, viewed from an economic point of view.\*\* Furthermore, in the 20<sup>th</sup> century, China was blighted by a European import – the Marxist ideology.

Low income nations do need to change, and some are experimenting with new social models. They are re-developing, which acknowledges that long-standing barriers continue to obstruct cultural evolution in all of the countries that are the subject of this monograph. Their peoples have been denied the freedom to enjoy the living standards they would have chosen to earn for themselves.

\* McDowell (1996) \*\* Tawney (1932) p. 129

Unravelling the injustices that sprang from colonialism will be achieved only by conjoining new approaches to land tenure and public finance. Given the modern methods for producing wealth, and the complexity of society in the 21<sup>st</sup> century, land reform cannot take the simple form of redistributing acres between the haves and the have-nots. Redistribution may be warranted, in some cases, but would not be sufficient to integrate economic efficiency with the principles of justice. The comprehensive restoration of people's right to land requires a reform of taxation – the crude pricing mechanism used to raise revenue for the public sector – in favour of charges for the use of land and nature's resources. We will explain in Part 3 that this delivers prosperity without the grievous deeds that created the environmental crisis and the separation of nations into rich and poor categories.

The administrative integration of land tenure with taxation, as the solution to poverty, is practical. The main challenge is the political will to consign poverty to history. But it would be a mistake to place all the blame on politicians. We also have to realise that there is a serious problem with the way eminent social scientists fail to come to terms with the existing knowledge base. We subject to close scrutiny the failings of one particularly influential scientist. Jeffrey Sachs bears the brunt of our interrogation because he has placed himself at the forefront of the global campaign against poverty, wearing the mantle of the United Nations to legitimise those policies which he favours. But it would not be fair to allow one man to carry all the responsibility. A short excursion into the history of economic ideas places our critique in its context.

Economics is a damaged social science because its

exponents fail to work with comprehensive models of the real world. This failing is to be found on both the Left and the Right. Unfortunately, even those with the courage to challenge the power structure must share some of the responsibility for the failure to understand what needs to be done to solve problems like mass poverty (see box over). An example is provided by the case of Joseph Stiglitz, a Nobel Prize winner and former chief economist at the World Bank. He is a distinguished champion of the underdog. But one is obliged to inquire why he has fallen foul of the selective amnesia that curbs understanding of where the emphasis should be placed in the reform agenda.

Take *Making Globalization Work*, the latest work by Stiglitz. He identifies why the globalised economy malfunctions in a way that generates poverty. He correctly defines 'rent' – the value of the country's natural and common resources – and prescribes the remedial policy for poverty. The concept of rent will loom large in this monograph, particularly as it is used by academics.

Bribery, cheating, and imbalanced negotiating all cut into what rightfully ought to go to the developing country. The countries get less than they should, the companies get more. A competitive market should mean that oil and mining companies simply get a normal return on their capital; excess returns should belong to the country owning the resources. Economists refer to the value of the resource in excess of the cost of extraction as natural resource 'rents'.<sup>4</sup>

We shall focus on the societal treatment of rent, because it is the lynchpin of any poverty elimination agenda. Understanding its nature and role in the market economy is a precondition for rebasing society on the principles of economic efficiency and of justice for everyone. Stiglitz

knows this, and wants others to understand it. And yet, in his book, if you turn to the index, you will find nine listings for *wages*, six listings for *profits*, but not a single entry for *rent*.

### Selective Amnesia in Social Science and Public Policy

NAOMI KLEIN is an eloquent champion of the poor. She uses her vitriolic pen to expose defects in the Chicago School brand of economics. In *The Shock Doctrine: The Rise of Disaster Capitalism* (2007) she attacks Professor Jeffrey Sachs as an acolyte of Milton Friedman, the economist vilified by the Left for the emphasis he placed on monetary policy and what Friedman promoted as free markets.

There is a problem with the Friedman model of economics. He failed to integrate into it the public policies that would optimise the efficiency and fairness of free markets and public services.

Friedman emphasised the need to shrink the size of government by cutting taxes. But the problem is not so much with *how much* revenue a government raises, as with *how* it raises revenue. Friedman did understand that this was the problem, so he *ought* to have emphasised the need to change tax policies.

As a scholar, he knew that taxes which damaged incentives to work, save and invest should be replaced with public charges on the rent of land in all its uses, and the rents which are paid for the use of the electromagnetic spectrum (which make mobile telephones possible) or for oil, diamonds and the rest of nature's freely given resources. He acknowledged, in an unguarded moment, that "In my opinion the least bad tax is the property tax on the unimproved value of land, the Henry George argument of many, many years ago".\*

But Friedman failed to instruct his students on the economics that would secure the outcome that was the best for everyone. So economists like Jeffrey Sachs voyaged forth into the world with an incomplete toolkit, the victim of selective amnesia.

But, likewise, ardent critics like Naomi Klein are silent on the model of economics that was compatible with good governance and justice.

\* Harrison (1983) p. 299

This omission is consistent with the failures of the post-classical school of economics as it is taught in universities.

Having emphasised that poverty will not be abolished by continuing with present policies, we have to affirm that it is possible to abolish it. But reforms will not occur without an informed debate on the causes of poverty, starting with this question: why do billions of people endure lives inferior to what they would choose for themselves? What represses their creative energy? Their cause is not best served by bypassing this question and going straight to slogans like *Make Poverty History*.

Our fundamental approach will be opposed by the vested interests, but we must persist. Our analytical framework reveals why the policies historically favoured by agencies such as the United Nations and the World Bank *cannot* succeed. The gatekeepers to our minds (the stewards of 'authorised discourse') do not want us to address the issue in radical terms, such as the proposition that poverty is the *necessary* consequence of the way we have written the rules that shape and regulate the market economy.

The scale of the problem that we address is awesome. The UN uses the World Bank's \$1-a-day benchmark. According to the statistics, more than one billion people exist on a daily income of less than \$1.<sup>5</sup> To address this blight on humanity, Kofi Annan, then General Secretary of the UN, threw down the gauntlet in 2000. One of the Millennium Development Goals was "halving the proportion of people living in extreme poverty, and so lifting more than 1bn people out of it, by 2015".<sup>6</sup> In setting its targets, the UN acknowledged that the gaps in income between the poorest and richest countries had widened in the last four decades of the 20<sup>th</sup> century.<sup>7</sup>

But according to research by World Bank economists and independent scholars, poverty has declined over the past 30 years. The table below offers four definitions of poverty. In each category, there have been significant improvements. Xavier Sala-i-Martin, a professor of economics at Columbia University, concludes, in relation to the UN Millennium Development Goal, that “when the goal was established in 2000, the world was already 60% of the way toward achieving it. The world might just be in better shape than many of our leaders believe”.<sup>8</sup> But, as we shall see, this improvement is illusory.

| Poverty Rates (%)       |      |      |      |      |      |      |      |
|-------------------------|------|------|------|------|------|------|------|
| Poverty line definition | 1970 | 1975 | 1980 | 1985 | 1990 | 1995 | 2000 |
| \$1/day                 | 15.4 | 14.0 | 11.9 | 8.8  | 7.3  | 6.2  | 5.7  |
| \$1.50/day              | 20.2 | 18.5 | 15.9 | 12.1 | 10.0 | 8.0  | 7.0  |
| \$2/day                 | 29.6 | 27.5 | 24.2 | 19.3 | 16.2 | 12.6 | 10.6 |
| \$3/day                 | 46.6 | 44.2 | 40.3 | 34.7 | 30.7 | 25.0 | 21.1 |

Source: Sala-i-Martin (2006) p. 121

No-one denies, however, that the scale of material deprivation remains so huge that it is beyond comprehension by those of us who enjoy what the philosopher Mortimer J Adler described as the *goods* necessary for a decent human existence.

- In the 20 years to the beginning of the new millennium, the percentage of the population of the neo-colonised world existing below \$1-a-day was almost halved – but that left 1.1bn people in abject poverty.
- Even if current trends continue, World Bank economists project a poverty rate for 2015 that falls short of



Millennium Development Goals, with 900m people living below \$1-a-day, and a great many more just above that line.<sup>9</sup>

Hundreds of millions live on the edge of existence, and Professor Sala-i-Martin predicts that “unless the incomes of...African citizens begin to grow, and grow rapidly, world income inequality will start to rise again in a few years’ time”.<sup>10</sup>

If the number living on under \$3-a-day has been declining, we shall see that this cannot be attributed to the UN or to Western aid donors. Nor has it been the result of strategies advocated by those who champion the combination of economic policies known as the Washington Consensus (see chapter 1).

Improvement in the numbers living in absolute poverty was the result, in the main, of heavily-populated nations turning away from state socialism. This is traced by the data in the table below, which summarises the numbers living on less than \$2.15 a day. China shifted away from the command economy in 1979, and immediately began to experience the benefits. Most of the decline in poverty which preceded the explosive growth in the new millennium is attributed to land and agriculture reforms in the countryside.<sup>11</sup> China was

| Numbers of People Living Below \$2.15 per day (millions) |      |      |      |      |      |      |      |      |
|--|------|------|------|------|------|------|------|------|
|  | 1980 | 1984 | 1987 | 1990 | 1993 | 1996 | 1999 | 2001 |
| <i>China</i>   | 875  | 813  | 730  | 824  | 802  | 649  | 627  | 593  |
| <i>E. Europe &amp; Central Asia</i>                      | 20   | 18   | 14   | 23   | 81   | 97   | 112  | 93   |
| <i>India</i>   | 630  | 661  | 697  | 731  | 769  | 805  | 804  | 826  |

Source: Chen and Ravallion (2004) table 3, p. 29

followed by India in the 1980s. Her economy was opened to the dynamics of the market, but the socialist mentality was retained (complete with 5-year Plans). The *rising* number of people in India living on less than \$2.15-a-day was due to the good news – the number living in abject poverty (less than \$1-a-day) decreased sharply in the 1990s.

It was a different story in Eastern Europe, however, where the USSR capitulated in 1991. This region fell into the open arms of the doctrine emanating from Washington and the International Monetary Fund (IMF). In the 1990s, during *perestroika*, the poverty trend had been downwards. Then, capitalism supplanted Marxism, and the number in poverty tragically escalated from 23m to 93m.

Whatever happened in China and India to improve the condition of the masses, to even a modest extent, the credit cannot be attributed to those in the West who promote schemes for eradicating poverty. The West's influence in those countries has been relatively weak. They exercise the deepest sway in Africa. And in sub-Saharan Africa, poverty rates also rose.

Human intelligence and material resources are available in abundance to afford decent living standards for everyone who wants to work, so no-one need suffer involuntary deprivation. Yet children die by the thousand every day for want of food. We want to know why. One thing is certain, however. We ought not to continue to rely for direction on economists (with certain exceptions) and the agencies that specialise in economic development, because theirs has been a 60-year record of unrealised aspirations. We maintain that *they withheld the knowledge, from the people who need it, that would facilitate the economics of abundance.*

Following World War II, economists began to model the way neo-colonial countries could develop. They were sincere in their endeavours, but their projects failed to lay the foundations for sustained growth. One of the doyens of this school, W Arthur Lewis, even claimed that “development must be inegalitarian”.<sup>12</sup> Indeed, “higher levels of inequality were themselves seen as having beneficial implications for growth prospects”.<sup>13</sup>

From then on, fashionable schools of thought came and went – four of them in all.<sup>14</sup> The UN valiantly intervened, but its initiatives were repeated disappointments. In 1977, the UN goal of universal access to water and sanitation had as its target date 1990 – *postponed* to 2015; the universal primary school enrolment target date was also *postponed* to 2015. In 2005, the G7 countries promised to double foreign aid to Africa – the outcome was condemned as a farce by Bob Geldof in 2007. And the many IMF/World Bank initiatives, specific to countries that sought help, resulted in Structural Adjustment Programmes the outcome of which are controversial, to say the least.

The most recent school of thought highlights the way growth is affected by the distribution of land. After much dead-end theorising and hand-wringing, development economics has finally overturned one of its basic premises. Inequality is not inevitable, and attention should be paid to the links between growth and to equity in both its senses – as an asset (land), and norms of fairness.<sup>15</sup> But the pillars of conventional wisdom continue to resist the role of land in development. The World Bank, for example, has decided that it erred in focusing its financial resources on urban growth; and ought to retreat back to the countryside to try and

help people living in poverty.<sup>16</sup> But under its new president, Robert Zoellick, it remains silent about the need for land reform, and remains wedded to conventional practices on taxation – the kind that actively obstruct the efficient use of land and labour in the countryside. The World Bank’s doctrinal apparatus is a barrier to the clarity of thinking that is needed if poverty is to be abolished. For example, in acknowledging that small farms are more productive than large enterprises, it clouds the issues in mystery, by declaring that “markets are *somehow* not allocating the right amount of land to those who currently farm the smaller plots”.<sup>17</sup> Note that word *somehow*. We shall demystify this alleged ‘market’ defect. We will explain that the biggest challenge is associated with the failures of governance.