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POVERTY'S OTHER EXIT*

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In their diagnosis of poverty, our national sages resemble the blind men in the Hindu fable who tried to understand an elephant by groping around it. "Poverty is lack of education!" cries one, catching hold of Poverty's tail. "Poverty is malnutrition!" cries a second, poking Poverty's skinny ribs. Whereupon a third, his hand clasping Poverty's hoof, pronounces: "Wrong, my friends! Even a blind man can see that Poverty is unemployment!"

Our analysis of poverty is clouded to begin with because we are applying a pre-industrial concept of poverty to a new and radically different phenomenon. The old poverty was a condition. It was properly said that people "are" poor; that they "have" little in the way of worldly goods or means of subsistence. In a pre-industrial society, poverty for the masses is not a way of life, but *the* way of life. The only one possible at that stage of technological development.

But the poverty found in the world's most advanced industrial nation is not the traditional kind. There is a vast difference between living wretchedly in a society without the technology to provide abundance, and living poorly in a society having at its command both untapped resources and the most sophisticated technology the world has ever seen.

In an economy as technologically powerful as ours, the most practical way to approach poverty is in terms of our economic potential. What level of affluence could the economy provide if we could only get it to work? Few industries in the United States could not expand their physical capacity to produce, on very short order. The limitations on our industrial out-put are neither physical nor technological.

General Motors, for example, recently announced a two-year

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expansion plan for increasing its domestic production of cars and trucks by twenty per cent.[1] The talents responsible for putting together this new capital would find their task all the more interesting, and almost as easily accomplished, had the goal for expansion been set at fifty per cent. Nor do we know how many times in succession General Motors could increase its output by fifty per cent or one hundred per cent. And what is true of General Motors is true of every other industry in our economy.

If such feats are possible and even challenging, what prevents them from being common? We have the capability, the motivation and the incentives to provide the necessities and comforts millions and millions of our fellow citizens require. There is no shortage of need. If needs did not exist, our administration would hardly find it expedient to "declare war" on poverty. Is not our enormous but latent potential, combined with virtually endemic want, the true measure of American poverty?

Viewed dynamically rather than statically, a family which does not possess all the necessities, comforts, and amenities which the economy is *physically* able to produce for it and for all similarly situated families, is poor. By this rule, it is not merely one-fifth or two-fifths of Americans who are impoverished but all of us except the top ten or so per cent.

WHAT PRICE AFFLUENCE?

Affluence, as we use the word, means physical possession of the conventional material amenities: house, a car or two, television, dishwasher, wall-to-wall carpeting, etc. But this is the physical, or statistical side. What about the private or consumer side? The consumer's ultimate goal is not merely to possess things, but to enjoy them. His enjoyment is psychological as well as physical, and the more he advances in sensitivity and culture, the more subjective his enjoyment becomes. If a man has acquired his family's affluence at the price of incurring a fearful load of debt, if he has had to hock his future purchasing power and freedom of action for the "needs" of the day, if he and his family live in fear of bill collectors, tax collectors, loan companies, garnisheers, and repossessors, his enjoyment of things is qualitatively limited.

Similarly, if consumption is based entirely on wages, and the family breadwinner must worry continually over possible loss of his job, if he must moonlight in order to make ends meet, if he must put his wife and children to work in order to pay his bills, the family is too fatigued and harassed to enjoy what neighbors, econo-

1. Wall St. J., Mar. 19, 1964, p. 8, col. 1.

mists and tax collectors, judging from outside, consider a high standard of living.

We might define poverty as lack of opportunity to *enjoy* affluence. Once the right to enjoy is admitted into our concept of affluence, it is obvious that one can be almost as truly impoverished by the high *personal cost* of acquiring wealth as by the inability to acquire it at all.

In addition to the thirty-seven and one-half million Americans whom President Johnson calls "poor,"[2] there are countless millions of other Americans whose meagre affluence rests uneasily upon those four pillars of our economy — debt, threat, appropriation (forced redistribution) and charity. Why is it necessary for an economic system to justify and promote through the week the very frailties and vices it hopes its citizens will confess on Sunday?

THE ORIGINAL ERROR

Economic theory, according to the prevailing view, is mysteriously immune to the error which plagues more mundane disciplines. In the opening of "The Affluent Society,"[3] Professor J. K. Galbraith pronounces that "The shortcomings of economics are not original error but uncorrected obsolescence."[4] Such a statement lulls our doubts and diverts us from prying into premises and first principles. By implication the current thinking holds that the economy is a fundamentally sound piece of machinery which, like any machine, requires periodic updating and repair, while our economic ills are simply mechanical jerks and rattles curable by a competent economics mechanic.

Admittedly, it is more difficult to detect and identify a false idea, *i.e.*, an idea embodying error, original or otherwise, in an economic system than in a test tube. The fact that error is elusive, however, does not justify the conclusion that therefore it either does not exist or its existence does not matter. False ideas give rise to false premises; false premises distort reality, creating imbalance, incoherence, disorder. Fortunately for the future of an industrial society, an economic system, as the phrase implies, can be a rational plan for the production and distribution of wealth. But before its principles can be discovered, we must abandon the muddle-headed position that one idea is as true as another.

In our own economy we are now witnessing the enormous disruptive power of a false idea: the idea that labor, or "manpower," to use the word of the hour, produces wealth while capital functions

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2. 110 CONG. REC. (1964) (Address by President Johnson to Joint Session of Congress, concerning "the war on poverty").
3. GALBRAITH, THE AFFLUENT SOCIETY (1960).
4. *Id.* at 4.

in the background as a magic multiplier of labor's productivity. Trying to design a rational economy around such an erroneous principle is something like trying to cross the Gobi desert with a map of the Sahara. Misled by a principle which does not conform to reality, and even distorts it, we naturally are frustrated in our efforts to understand that reality, which is the first step toward coping with it sensibly.

The truth we so steadfastly refuse to acknowledge—the general law, if you prefer—is that there are *two factors* of production: labor and capital. One is human, the other non-human, but both produce wealth in exactly the same sense physically and morally. That the most advanced industrial nation in the world, a nation calling itself "capitalist," needs to be reminded that capital produces wealth is one of those fabulous inconsistencies we delight in finding among the Bantu and Trobriand Islanders, but dislike having exposed in our own institutions.

THE LOGIC OF TECHNOLOGY

Because we cannot bring ourselves to admit that capital produces wealth, we are intellectually unprepared to deal with automation. What is happening in our economy—once you acknowledge the two factors—is very simple. The rationale of technology is to shift the burden of production from the human factor to the non-human factor, that is, from labor to capital.

Technology began when the first man picked up a club to brain his enemy or his prey. Being a cumulative process, it has been gathering momentum ever since. Even without pausing to argue the question of whether automation or cybernation, as Norbert Weiner liked to call it, represents a linear extension of the Industrial Revolution, or breaks entirely with it, the fundamental truth may no longer be ignored. Capital is producing an ever-growing proportion of our goods and services and the contribution of labor is constantly diminishing. This means that the "growing productivity of labor" is a myth. Labor's productivity has either remained constant or been on the decline since the dawn of the Industrial Revolution. Now automation is making increasing quantities of labor, even in its more sophisticated forms, unproductive to the point of being redundant.

A conceptual error may be relatively harmless in one age, disastrous in the next. The farmer cultivating his fields with a horse-drawn plow could think of the horse and plow was increasing "his" productivity without violating either his conscience or disordering his economic system. Insofar as he owned both factors of production—his own labor power, and the land, horse and plow that composed his capital, and consequently the product of both the human and non-human factors, the distinction had no practical consequence. The same error of thought in the mind of an industrial worker, or his union representatives, applied to tools and machines *which he does not own,* and has no chance, given our conventional techniques of finance, of ever owning, bodes more ill for a private property economy than any strategy its enemies could devise.

POVERTY'S COMMON CHARACTERISTIC

It is the growing army of workers which capital is retiring from the wealth-producing process that has suddenly focused the national attention on the "paradox" of poverty in the midst of what we myopically call plenty.

Let us look again at our thirty-seven and one-half million "officially poor," as well as the almost four million multiple job-holders reported by the Department of Labor, and the 135 or so million other Americans who are poor in terms of the economy's productive potential. What is the one characteristic they *all* have in common? It is *not* geographic location, illiteracy, minority group membership, or poor health. It is that they own only one factor of production, labor. Their labor power is their only entry into economic participation, their only source of purchasing power, their license to consume. It is mainly for this reason that being replaced by a machine is so catastrophic for the worker, whose only source of purchasing power is his job. It is equally catastrophic for the economy, which needs all the purchasing power it can get in order to maintain affluent mass production and mass consumption.

What is truly tragic about the men and women whose lives have hardened in these disappearing patterns of toil is not that society no longer requires their toil, but that it cannot imagine any other life for them. We are ideologically unable to lift our noses from the grindstone long enough to see that there is another way for people to be economically productive: through ownership of the other factor of production, capital.

Ownership of productive capital does *not* mean that token kind of stock ownership which the New York Stock Exchange and the Invest in America Committee cite as proof that ever more Americans are becoming the "real owners" of American business. When some American businessmen on a recent visit to the Kremlin referred to the spreading capital ownership in the United States in a discussion with Mr. Khrushchev, the then Russian premier laughed at them. Possibly he knew, if his visitors did not, that ninety per cent or more of these American stockholders do not receive enough dividends from their little holdings to pay their rent or even a significant part of it. To the people who are in real economic trouble—workers being replaced by automation, members of minority groups bent on "equal rights" to already occupied jobs that are disappearing at the rate of 35,000 to 70,000 per week, the millions of young people for whom full employment is a bedtime story Grandfather used to tell—*economically significant* capital ownership is as unattainable as immortality during life.

We pay a price for misunderstanding the role of labor in producing wealth, and casting capital in a supplementary or merely supporting role. We completely overlook the fact that widely diffused private ownership of capital could be a *universal* source of purchasing power for those who so far have contributed to production only through their labor if at all. Socially, we seem to value capital only as a creator of opportunities for toil. If we wish to find a real "paradox," this is it. As a people who admire technology, we spend most of our ingenuity and resources on increasing the productivity of capital instruments, while trusting consumption to the mystique of full employment.

THE QUESTION NOBODY ASKS

Business is expected to spend a record 43.2 billion dollars in 1964 on new plants and equipment—ten per cent or four billion dollars more than last year.[5] This news is greeted with hallelujahs throughout the land because "investment" creates "jobs" and the road to affluence is paved with jobs, or so we habitually think. *Nobody asks who will own the new capital and, through such ownership, legitimately own the affluence it will produce.*

General Motors alone, as mentioned earlier, will add 3.2 billion dollars of new capital formation to the economy in the next two years, with the ultimate object of increasing its output twenty per cent. This is an admirable increase in capacity for such a brief period. But the truly remarkable thing is this: nobody—not the President, not a senator, representative, businessman, lawyer, financial editor, banker, broker, or anybody else publicly wondered why such a gigantic chunk of new capital should be financed in such a way as to create *not a single new stockholder.*

This sinister phenomenon was not remarked upon because we take it for granted. Under our accepted methods of finance, newly produced capital always belongs to the people or corporations whose savings or credit have been used to finance its formation. To those who have the source of affluence, then, goes the source of even greater affluence, while the capital-less multi-millions, who own only their labor, are shut completely out of the capital acquisition process.

5. Wall St. J., Nov. 20, 1963, p. 1, col. 6.

Small wonder, then, that despite the massive redistribution of income thus made necessary, the percentage of the nation's productive wealth—its industry, transport, utilities, etc.,—held by the wealthiest two per cent of the adult population has remained virtually unchanged since 1933. Robert Lampman, in his epochal study of the pattern of wealth ownership in the United States for the years 1922-56, found that the upper eleven per cent of families owned eighty per cent of business and investment assets.[6]

Nor is it surprising that the top 1.6 per cent of wealth-holders own over eighty per cent of all corporate stock in American business.[7] General Motors, for example, had 1,136,568 shareholders at the end of 1963.[8] But more than seventy-five per cent of them owned 100 shares or less.

Labor and capital are equally factors of production. Instead of trying to create opportunities for toil, why not concentrate on creating more opportunities for people to acquire reasonable holdings of productive capital?

So long as we finance new capital formation in ways that preserve or intensify the concentration of its ownership, we must permit government and power blocs to redistribute the resulting income from the few who own capital to the many who do not. More than one-half the income produced by corporate capital—and corporations own the great bulk of our productive capital—is taken by government in corporate income taxes. Much of the remainder is redistributed through coercively bargained wages, unemployment compensation, social security, minimum wage laws, overtime penalty laws, etc. The end result is low productiveness of the non-capital-owning masses and its resulting poverty, social strife, and the erosion of private property in capital itself.

LET THEM OWN CAPITAL

Why not modify our corporation, and income tax laws, our estate and inheritance taxes, and our financing practices so as to make capital ownership possible for a maximum number of Americans? We could then see a strengthening of our laws of private property so that the owners of capital received, as a matter of right, the income their equity produced. We could terminate the laws and practices which conceal capital's enormous income-producing ability and prevent the efficient use of this income as purchasing power for consumers generally. The masses of men could begin to enjoy the dignity and freedom of supporting themselves and their families

6. LAMPMAN, THE SHARE OF TOP WEALTHHOLDERS IN NATIONAL WEALTH 195 (1962).
7. *Id.* at 209.
8. MOODY, INDUSTRIAL MANUAL 2815 (1964).

partially or wholly from their privately owned capital. Affluence for the many could have no more secure source.

Along with a Secretary of Labor, why not a Secretary of Capital Ownership? The duty of this cabinet office would be to inaugurate an active program for promoting capital formation and actively generating new equity ownership to the widest possible extent among all our citizens; to help people who do not own capital to acquire it, and to study and initiate the institutional changes which the implementation of such a policy would require. This cabinet office could also serve an educational and informational function, in teaching people how to use and manage their new capital estates.

Instead of a Full Employment Act, why not a Full Production Act in which Congress avows a policy of enabling every household to produce what it reasonably desires to consume—either through employment where real and useful employment is necessary, or through capital ownership or through both in combination. Such an act would promote the widest possible participation in the production of wealth as it is actually produced under the current state of technology. It would end the attempt by law or public policy to say that maximum output can be attained by means that were rational in the distant past, namely, through full employment.

PRIVATE PROPERTY WELFARE STATE

In the Economic Opportunity Act of 1964[9] Congress declares that "the United States can achieve its full economic and social potential as a nation only if every individual has the opportunity to contribute to the full extent of his capabilities and to participate in the workings of our society."[10] Yet there is no mention in this Act of capital ownership as one of society's "opportunities" much less one that ought to be shared. *The Act fails to recognize that there is any other exit from poverty except a job.*

The late President Kennedy, himself one of the more dramatic recent examples of what private ownership of productive capital can do toward full development of human capacities and resources, could state in his Manpower Report of 1963:[11] "The ideal of full employment, in the large sense that each individual shall become all that he is capable of becoming, and shall contribute fully to the well-being of the Nation even as he fully shares in that well-being, is at the heart of our democratic belief."

Yet even in this report of a President who was himself an owner of a large capital estate, there was no mention of the fact that the

9. 78 Stat. 508 (1964).
10. *Id.* at § 2.
11. MANPOWER REPORT OF THE PRESIDENT at xi (1963).

President's objective—"the full development and use of our human resources"—is attained through the leisure and the security provided through ownership of productive capital in amounts large enough to produce a comfortable income. Affluence is the product of capital, not of the kinds of labor that machines can do *and therefore ought to do.*

In trying to turn our federal government and indeed, our entire society, into a vast employment agency, we are not addressing the causes of poverty. Rare is the man who asks with Justice William Douglas: "When the machine displaces man and does most of the work, who will own the machines and receive the rich dividends?"

We are technologically dedicated to the goal of producing more and more goods and services with less and less employment. By declaring war on poverty through full employment alone we are simply mounting two irreconcilable forces and setting them against each other. There is only one way to reconcile these contradictory forces. That is through enabling every family to become productive in the same sense our economy is becoming more productive: by becoming an owner of the *other* factor of production.