

The Causes of Poverty: David Haigh. 2015

The recent debate on poverty in New Zealand presents a number of arguments, manifestations, causes and solutions. Many see the root causes in the neo-liberal policies since the mid 1980s, policies that resulted in the further enrichment of the wealthy and a consequential growing gap between rich and poor. Oxfam (NZ Herald. 16.6.2014) showed that the top 10% in New Zealand hold 58% of the country's wealth and the top 1% has 25% of the wealth. This latter figure represents greater wealth than the bottom 70% of the population. Government countered that the situation had not worsened over the past decade. This is cold comfort because at the same time it has not improved.

The arguments put forward about the causes of poverty seem to cover three distinct areas: systems, policies and individual choices, including failings and vices. Wikipedia lists 53 causes of poverty such as war, divorce, unemployment and over-population. However, it fails to consider economic policies such as those of the neo-liberal agenda. The systems argument has been fully canvassed by French economist, Thomas Piketty in his book: *Capital in the Twenty-First Century*. He shows that those with wealth (usually inherited wealth) will always become richer than those on wages, and that this process has been continuing for 300 years. Invested capital returns around 3-5% a year whereas economies rarely grow faster than 1.5% a year. This results in a squeeze on wages and the eroding of labour power. This flaw in the system, Piketty argues, needs to be corrected through increased taxes on those with wealth.

In spite of Piketty's uncontested analysis, people still keep coming up with a wide range of spurious reasons for poverty. Minister of Finance, Bill English (Radio NZ. 8.10.2014) stated that the planning process administered by local authorities was the cause of poverty by putting affordable housing out of reach. He failed to mention the abysmally poor house building record of his government over the past six years in office.

A common argument has been that families are poor because they have too many children. This position fails to address the fact that many small families are also poor, even though they are abstemious and work hard. In a similar vein, an English Tory Councillor stated that food banks are only used by 'those with drug, alcohol and mental health problems'. (Independent. 4.1.2015). Naturally enough he was roundly chastised and had to withdraw his statement.

In addressing the issue of poverty, it is useful to read or re-read the novel: *The Ragged Trousered Philanthropist* by Robert Tressell, first published in 1914. It is the story of a group of tradesmen renovating a house in Brighton, England. They start debating the causes of poverty and come up with a number of reasons: over-population, drink, laziness, 'new-fangled machinery', working women, too much education that put foolish ideas into people's heads, and early marriages whereby a man cannot afford to keep his family.

One by one, Owen, one of the tradesmen, took each argument apart and showed their fallacies. For example, if over-population was the problem then how does one account for Irish poverty at a time when Ireland lost 50% of its population due to famine and migration. He asked the others '... what is the cause of lifelong poverty of the majority of those who are not drunkards and who DO work?' (Tressell. P.29)

Owen then goes on to play a game (The Money Trick) with his fellow workers. Owen, pretending, for the sake of the game, to be a capitalist, owned resources of raw materials, money and machinery. He would invest these resources and set up factories to employ workers who needed jobs.

To each worker (the other tradesmen) he said he would pay one pound a week in wages and in exchange they each had to produce goods to the value of three pounds and this became the property of Owen.

Their wages were spent buying necessities from Owen and so at the end of each week they had nothing while Owen enriched himself from the workers' labour. After a period, Owen decided to close down the factories due to over-production, making the workers unemployed. The workers objected, and Owen, being a 'kind-hearted capitalist', gave them one pound in charity, which they immediately spent buying necessities from Owen.

The message, like the one by Piketty, is that the system is faulty and changes should be made to improve the life of the poor. For example, American super-rich investor, Warren Buffett pays taxes at a lower rate than his secretary (17.7% on \$46 million compared to 30% on \$60,000).

Changes in New Zealand might include the re-introduction of the child benefit payable to mothers, a massive commitment to affordable house building by the state, prevention of tax avoidance and tax havens by the rich in countries like Luxemburg and Switzerland, a fairer tax system on income and wealth whereby the rich are required to pay their share, and a genuine recognition that children are our future and are the responsibility of all.

References:

Piketty, J. (2014). *Capital in the Twenty First Century*, Harvard: Harvard University Press.

Tressell, R. (2012). *The Ragged Trousered Philanthropist*. Ware, UK: Wordsworth Editions, Ltd.