

How the Poor Vote Themselves into Poverty: Most People Accept the Crumbs

By Fred E. Foldvary / 30 May, 2010

The poor we always have with us, because they vote themselves into poverty. It starts out with an aristocracy that owns the land and collects rent from the poor. The aristocracy can either be smart or stupid. If they are stupid, they keep repressing the rebellions of the poor until finally the army switches sides and the royalty gets overthrown by the revolution. That's what happened with the French and Russian revolutions, and with the Shah of Iran.

However, no revolution has ever ended up helping the poor. A new aristocracy takes over, but this time they are smarter, as for example, they don't call it "aristocracy." In the USSR, for example, the new aristocracy was the Communist Party "nomenklatura," but they called themselves the party of the workers.

If the aristocracy is smart, they avoid revolution by enlisting the middle class as allies. They sell some of their land to the bourgeoisie. They tax the income of the middle class, but then rebate their tax money with public goods that increase their rent and land value. This financial roundtrip causes a reduction of wealth, the deadweight loss or excess burden of taxation, but the bourgeoisie is happy, as they have enough money left for café latte.

To keep the poor from rebelling, the smart aristocrats hand out welfare. Welfare consists of economic rent handed back to the poor as services. The poor pay rent to the aristocracy for the use of dwelling space, and then the ruling class hands some of it back as schooling, medical services, housing assistance, and food coupons. "Look at how much we are helping you," say the aristocrats. "To keep getting your aid, you need to vote in favor of us rulers." So they do.

The poor pay little or no income tax, but they pay sales and excise taxes. The purpose of taxes on the sale of goods, and taxes on value added during production, is to force the poor to pay taxes. There is an even bigger tax on the poor, the deadweight loss of taxation, the reduction of income and growth caused by taxation, which falls hardest on the poor. The poor get taxed much more than the value of the aid they receive, but the schooling provided by government avoids any hint of this. That is why governments provide "public education" rather than vouchers that would let parents send their children to private schools where they just might learn the hidden economic reality.

But there is a problem with this arrangement. The middle class resists being taxed too much, as they see much of the money being routed to the poor and to wealthy rent seekers. To enlist the voting support of the poor and the middle class, the ruling aristocracy borrows money to spend on more welfare. The poor also support labor unions so that they can strike to get higher wages, and government workers then get unionized also. Labor unions in the private sector end up pricing themselves out of the market, but government workers can get big pensions and higher wages if the government borrows more money. Governments end up with huge budget deficits and unpayable debts.

That's where we are now. On the vanguard of government debt are California and Greece, which resorted to accounting tricks to keep on borrowing, but that game is now checkmated. Unable to borrow, governments cut the welfare aid to the poor. They also try to cut some of the pensions and wages of workers. Outraged, the poor go into the streets and riot.

A little voice in the corner cries out, "untax labor, tap the rent, stop the subsidies," but that voice is drowned out by the yelling of the protestors who demand their welfare aid. The middle class does not want their rent tapped for public revenue, because they feel insecure in their jobs, and see their land value as their security. They don't understand that in a pure free market, their untaxed labor and full employment would be better security. They say, "if this were true, we would have learned this in our government schooling."

Economists are trained in graduate school that there are only two factors, land and capital. What about land? That is part of capital. Why not tap the rent? Because it is only a tiny part of national income. Why do you think so? That is what the government reports say. Have you analyzed this? "If that were important, I would have learned this in graduate school."

Now the landed aristocracy is in deep trouble. California can't borrow much more. Greece can still borrow from the International Monetary Fund and from the wealthier European countries, but only for a couple of years. The USA still has good credit, but it is doing nothing to reduce future deficits. The line of least political resistance is a default, softly in the form of a restructuring of the debt, or harshly as repudiation during a financial crisis.

The banks holding these failed bonds will get bailed out. They have to get rescued, because they loan out the money for the real estate purchases that prop up land values. But the debt crunch ends up hurting everybody, the rich, middle class, and the poor, when governments are no longer able to borrow.

We are now coming to an "end of history," of a century of government deficits that got the revenue to placate the poor. After the crunch, a new history will begin, but the price will have been paid as environmental damage, conflict, and the perpetuation of poverty. That's what Henry George foresaw when he explained how perverse progress creates poverty.

Henry George also foresaw the rise of new barbarians. Who are they? Terrorists who have grievances, but have no clue as to the ultimate source of the injustice. The ultimate cause of the terrorist threat is injustice in land tenure, but they don't teach that in school either.

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