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Poverty is a function of maladjusted institutions, not personal failure. It arises when people are denied access to natural opportunities, preventing them from earning a living. When rural irrigation projects and urban renewal projects increase prosperity in an area, the only ones who benefit are landowners because the value of their property rises. The cause of unemployment has nothing to do with individual characteristics. Instead, according to Henry George it is due to the monopolization of resources. Hoarding of land is also responsible for cycles in which great prosperity is followed by periods of high unemployment.



Poverty not Based on Natural Limits

Poverty is a pervasive problem. It has been resistant to many efforts to get rid of it. It has many manifestations which are devastating. It is caused by maladjusted human institutions, rather than inadequacies of human beings or nature.

WHY GLOBAL POVERTY?

Eliminating poverty would reduce the level of misery and desperation, the number of people who are willing to debase themselves just to survive. There would be no involuntary employment; everyone who wants to work will have a job. People will be able to pay for the things they need like health-care; when an emergency comes along they will have reserves.

Most people are capable of making a living. The world has natural opportunities; that is, resources do exist from which people can make their living. Those societies which have become prosperous have done it without being especially well-favored. The wealthiest nations on earth are not the nations that have the most natural resources. Thus, there is no natural limitation that prevents people from earning a living and being prosperous. Poverty is not due to natural limitations.

Why Growing Wealth Leads to Inequality

In countries well endowed with natural resources, we can expect to find a great disparity between rich and the poor, because natural resources tend to get monopolized by a minority, leaving the majority of people even poorer than they would be without those resources.

The World Bank provides funding for various projects, usually conspicuous large-scale projects that benefit the people in control of land and natural resources. Consequently those people will tend to benefit, but people who are earning their living by ordinary trades and occupations will tend not to benefit from it. They will have to compete with even better-heeled controllers of natural resources in order to get access to natural resources and good locations.

Let us consider what would happen if a village received aid from the outside in terms of financial resources to do an irrigation project? If they currently allocate plots of land at the beginning of each growing season in a relatively egalitarian manner, that system would probably begin to die. If an irrigation system raised the value of the land, the most likely outcome would be that someone from outside the village would assert ownership rights to the land, bring in tractors, and throw the villagers off the land.

The villagers might have a short run benefit because they already had crops planted when the irrigation project was completed, and so they would get a higher yield for a season. But before the next season's plantings, someone, either inside or outside of the village, would decide to exert private, exclusive ownership to a significant portion of the land. Over time, fewer and fewer people would benefit, because of the assertion of private ownership by a small number of people.

The same principle operates in cities. An example is an urban renewal project in which the land and buildings in a particular rundown area are bought up by a city government, often with federal money. That purchase benefits the owners of those lots, while the renters of the dilapidated buildings are left without housing when the buildings are demolished. Developers benefit by having the opportunity to start with a clean slate after the blight has been removed. The neighborhood down the street is next. The owners of those lots stop maintaining the buildings and wait for the urban renewal project to be expanded. The poor people wind up with no benefits. The owners of land allow each neighborhood to deteriorate and then become ready for the federal dollars to flow in, enriching the owners. Through a program that was supposed to alleviate poverty, a few wealthy people get the benefits, while the plight of the poor becomes more desperate.

The Cause of Unemployment

Unemployment also adds to the suffering of the poor. People typically explain employment based on individual attributes such as educational level, diligence, and credit history. The premise is true that those characteristics increase a person's chances of being employed, but a false conclusion is often drawn that if everyone worked harder, had more education and better credit scores, unemployment would be reduced. That conclusion is simply unwarranted. The level of unemployment is cyclical and does not respond to personal attributes, like how hardworking or well-educated people are, but those attributes do explain which people are at the top and the bottom of the ladder.

The writings of Henry George offer a different explanation of unemployment, based on the artificial monopolization of opportunity. Sometimes that involves monopolization of natural resources. At other times it involves land speculation, which causes many sites to be underused, or not used at all. These conditions reduce employment opportunities.

This Georgist explanation also fits with the cyclical nature of the unemployment rate, because land speculation is also cyclical. Unusual prosperity causes the price of land to rise. That causes land speculators to grab more land and to hold to it, instead of developing it. That, in turn, worsens the shortage of land and curtails the prosperity, which increases unemployment. Eventually the price of land will drop, which will allow more people to be employed, as startup businesses gain access to land and become successful. The new prosperity starts the cycle again. So land is involved in an observable cyclicity that explains the cyclicity of unemployment as well.