New Poverties? Look to the New Rich for the Causes

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Some people are poor because other people are very rich, whether we are talking about income, the effects of climate change, natural and man-made disasters, or a transportation policy focused on private rather than public transportation.

This may sound like a tautology, as in developed countries poverty is a relative measure: not an income of less than $1 or $1.90 or even $5.50 per day, but rather less than one-half of the median income in the country.

In other words, being very rich means having a lot more, and being poor means having a lot less, not only of money but also of whatever social goods society has on offer. In Israel, close to one fifth of households are defined as poor (18.4%), compared with 12% in 1979. If we look at individuals, we find 21% poor among Jews and 50% poor among Arabs.

I should add that the Adva Center recently did a study on households whose income was 25% above the poverty line and found that their spending on health and education resembled that of the poor. The bottom line of that study is that "the poor" together with the "near poor" constitute about 26% of Israeli households.

Focusing on the period following WWII, Thomas Piketty showed that for the US and the countries of Europe, the 1950s and 1960s constituted an era of greater social equality than ever before. People were neither terribly rich nor terribly poor. However, the trend began to change in the 1970s, with the ascendency of neo-liberal ideologies translated into neo-liberal policies, which led to erosion of the welfare state (meaning the universal provision of social services) in many countries. In Israel, neo-liberalism came into its own in 1985, with the Emergency Economic Stabilization Plan.

The process of wealth accumulation was enhanced not only by neo-liberal policies, which involved lowering taxes for the rich, but also by globalization, which turned the whole world into the playground of multi-national corporations. If the cost of labor was deemed too high in the home country – meaning it reduced profits -- the corporation moved its production line to wherever the cost of labor was lower. Workers in the home country lost their jobs, and their increased supply reduced the value of their labor.

It is well known that an assembly-line worker at General Motors had the wherewithal to purchase one of the cars on whose assembly he worked. As some industrial economies morphed into service economies, wages decreased to the level of the minimum wage; unlike the industrial worker of yesteryear, today's service worker, whether in child care, cleaning, food services or security work, cannot purchase the services she herself provides.

The concentration of wealth can be seen in the fact that in the US, for example, the share of the total income of the top 1% increased by 100% since 1980 (Aldred, 2019). In the US, the average pay of a CEO in the largest firms is now 354 times that of the "typical" worker and 400 times the minimum wage worker. Looking at it in another way, CEO compensation grew 940% between 1978 and 2018 (Mishel and Wolfe, 2019). The compensation of wage earners in the top 0.1% grew by *only* 339%. Compare this with the increase of the typical worker: 12%.

Allow me to ask: how can the work of one person be worth 400 times that of another? We are not talking about productivity, but about something that predated the industrial and service revolutions: greed. If the sky's the limit for the privileged few, then what's left for the rest, the floor workers, is a "minimum wage" or a much lower wage. To quote Mishel and Wolfe of the Economic Policy Institute, "CEOs are getting more because of their power to set pay, not because they are increasing productivity or possess specific high-demand skills" (Ibid).

In Israel, the disparity is lower but still high:
In general, we don't have wealth figures in Israel, but we do have a very interesting 2015 study by the Institute for Structural Reforms, according to which the top 10 percent owns 51% of the wealth in Israel and the top one percent holds 22.5%. Not only that, Israel ranks 6th highest among OECD countries in its concentration of wealth in the hands of the top one percent. As for the average pay of top CEOs, in 2017, it was 36 times the average wage and 74 times the minimum wage (Adva, Social Report 2018).

That puts Israel way behind the United States, but I still can't understand what makes a CEO 74 times more valuable than a standard employee. It seems to me that change must come, among others, via the labor market, and specifically via the wage system. CEOs need to earn less and the rest need to earn more. The race to the top for top executives creates the race to the bottom for rank and file employees. The corporate pie makes unkindly cuts.

What we have seen over the past 20 years is a redistribution of wealth, with more of the national income going up to the top, and less of it stopping at the middle and the bottom. That's the reverse of the so-called "trickle down" theory of laissez faire economics. In Israel, as in many western countries, we can see this clearly in the figures on distribution of national income: the share of employees is decreasing and that of employers increasing (Adva Center, 2016).

The welfare state for all is morphing into the welfare state for the better-off, or in the words of Robert Reich, "socialism for the rich," in which private ownership rights ("taxation is stealing my hard-earned money") trump social rights ("I'm not going to share what I have with anyone else").

I can illustrate the morphing of the welfare state in Israel with the areas of health and education. Israel has a national health insurance law that provides a generous basket of health services for all residents, for which we pay a health tax based on earned income. However, since the law was underfunded, the Knesset allowed the health funds to supplement their income and provide more services by marketing supplementary health insurance (now owned by 74% of health fund members), which in turn provided the insurance companies with a new way for their CEOs to get richer: market additional medical insurance, often duplicating the supplementary insurance of the health funds. Who knew the difference? Research shows -- hardly anyone.

If 74% of health fund members have supplementary insurance, who do you suppose the 26% who don't have supplemental insurance, not to mention purely commercial insurance, are? The poor, of course. To add insult to injury, the additional benefits of these two kinds of extra medical insurance were built on the platform of the national health insurance that everybody pays for.

The situation with education is no different. When the Israeli government began to reduce education budgets in the 1980s, upper middle class parents paid out of pocket, first for the teaching hours lost by the budget cuts, and later for special schools for their own children. As with health services, the platform for these schools – their basic income – comes from the state. The specials and extras are paid by parents in the form of tuition, which has the additional benefit of keeping out students whose parents are poor. Last month Israel's Supreme Court rejected a plea to abolish the parental payments that contribute to inequality in the education system.

Here I am speaking not only of the rich but also of the upper middle class, those in the top two income deciles in Israel. But it is the rich and the "national" concern for their wealth and welfare that is responsible for the budget cuts that led to privatization. Privatization means you have to pay for what was once free of change, making the formerly not well off even less not well off.

Back to my contention that the concentration of wealth is what makes some people poor.

In its January 2019 report, **Public Good or Private Wealth**, Oxfam revealed that the number of billionaires has almost doubled since the financial crisis of 2008. This concentration of wealth has allowed its owners to make investments, but not necessarily in enterprises that create jobs. Rather, they often make investments that increase their wealth without the bother of handling personnel or marketing products. Allow me to quote from the blog of a US organization called "Patriotic Millionaires": . . . instead of supporting local businesses and investing in the types of ventures that lead to higher wages and more jobs, most wealth collects dust (and interest) in some already rich CEO's investment portfolio. Simply put, wealth is wasted on the wealthy."

According to Chilean economist Jose Gabriel Palma, in OECD countries, the top 10% are getting richer at the expense of the bottom 40% (Ghosh, 2018).

So people are poor because they don't have jobs. Or they are poor because the jobs they do have do not pay well. Or they are poor because, in the absence of jobs, they start small businesses, many of which fail. Those are the persons who were interviewed by psychologist Amia Lieblich in her book, **Voices**, and most of them have academic degrees. Another factor in what Lieblich labels "the new poverty" is the high cost of purchasing an apartment and of rent on the private market, as documented in Adva Center's three reports on the housing crisis in Israel (Swirski and Hoffman-Dishon, 2015, 2016, 2017).

And then there is gender (women earn less) and ageism (older persons, especially women, are not favored candidates for jobs). And one more thing: several of Lieblich's interviewees experienced crises – illness, an accident or a nasty divorce – that contributed to their fall from the Eden of the middle class. But such crises are exactly what the universal welfare state is supposed to cushion us against. Something is terribly wrong with the system if it doesn't.

What do the rich do that makes people poor?

If the top 1% own natural resources and industrial plants that spew out toxic waste, they hire lobbyists to prevent legislation designed to require waste disposal systems that protect the environment. So people are air and water-poor because they live in areas in which noxious wastes enter their air and water supplies. And poor people are those most likely to live in those areas.

The top 1% contribute to the political campaigns of politicians who do not favor taxing them. But it is their tax money that could provide the wherewithal to prevent man-made disasters or shore up against natural disasters. Thus some people are poor because they cannot afford to live in areas not subject to disasters, and when there is a disaster, they are less likely to respond to advance warnings, more likely to live in vulnerable homes, more likely to sustain serious injuries, and less likely to access resources that might assist them to put their lives back together (SAMHSA, July 2017). Moreover, severe natural disasters (1) increase migration out of the country on the part of the better off, and (2) increase poverty rates within the country (Boustan et al., 2017).

Not only that: here I would like to quote Philip Alston, UN special rapporteur on extreme poverty and human rights: He contends that the impacts of the climate crisis could increase divisions: "We risk a climate apartheid scenario, where the wealthy pay to escape overheating, hunger and conflict while the rest of the world is left to suffer."

So what can we do to prevent such divisions and such poverties? Here are four suggestions relevant to the work we do at the Adva Center:

- Work through the labor market: limit the salaries of CEOs and other outliers, and raise the minimum wage. Throw out the word "minimum": what people need is a **living wage**, a **taxable wage**; that is a wage that is high enough to be taxed; over 60% of women workers in Israel do not pay income tax!

- **Reinstate higher marginal income taxes**: the highest marginal income tax rate in Israel is 50%, (60% between 1975 and 1983), in the US 45% (previously 70-75% and in the 1940s, 94%) and in the UK 40% (previously 83% and even as high as 98%). The corporate tax in Israel is 23% (between 52% and 61% in the 1970s), but large, multi-national companies pay hardly any tax at all. And there is yet another reason to raise taxes, and here I quote George Monbiot, a *Guardian* columnist, "Defending ourselves from oligarchy means taxing it to oblivion . . . raising revenue is only one of the purposes of tax. Another is breaking the spiral of patrimonial wealth accumulation (Monbiot, 2019).

  Of course, higher tax revenues do not necessarily mean better services: the monies can be spent on defense (the preference of our Defense Ministry) and on lowering the national debt (the preference of our Finance Ministry). And even if revenues are channeled to social services, the rich get more than the poor, but never mind, the poor and the middle class will benefit. It's not just yours truly who is asking for higher taxation: on June 25, the *New York Times* published an opinion piece entitled, "I'm in the 1 Percent. Please, Raise My Taxes." And on June 30, the *BBC* published an article entitled, "Young, mega-rich – and demanding to pay more tax."

- **Reinstate higher corporate taxes**; perhaps this can be done for firms that have higher ratios of CEO-to-workers compensation and by reforming corporate governance to give greater "say on pay" to stakeholders. (Mishel and Wolfe, op.cit.)

- **Provide universal social services, not "poor relief":** high quality education and health services for all, public housing, and public transportation. High-quality public services may very well obviate the "need" for private services. Don't ever give up on these! Defend them to the last!

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