Who Pays for Poverty?

by Ed Spannaus and Paul Gallagher

THE "PARTNERSHIP of government and private enterprise" has long been a feature of the political landscape; without it, capitalism would have been dead and buried long ago. The predominant aspect of modern U.S. capitalism is the use of the state budget and public spending to provide investment opportunities for private capital. The defense and aero-space industries, foreign "aid" spending by the federal government, and debt-spending by federal, state, and local governments, have been a major prop of the post-war prosperity. What the Marshall Plan accomplished by opening up investment opportunities for U.S. capital in Western Europe, the U.N. "Development Decade" and the "Alliance for Progress" are now attempting to do by opening up Asia and Latin America for capital investment. But whether this "Third Stage of Imperialism"*—the attempt to industrialize the underdeveloped countries as well as to extract their agricultural and mineral resources—can succeed is by no means assured and remains to be seen over the next decade.

When Federal Reserve Board Chairman William McChesney Martin recently stated that we are facing "the worst financial crisis since 1931," he was, in fact, expressing the acute awareness in leading financial circles of the end of the post-war prosperity. This prosperity was based on productive capital investment in Western Europe and Japan. The Marshall Plan and related aid plans enabled U.S. capital to exploit the situation through large-scale, highly profitable, productive investment in rebuilding European industry. At the same time, European capital, although sharing in the prosperity, was firmly placed under the thumb of the U.S. dollar for the duration.

The duration lasted until the 1964-65 recessions when Western European economies could no longer absorb further profitable investment in productive labor employment. At that point, idle money-capital began to flow into paper investments—stocks, government and authorities bonds and notes, and the parasitical buying-up of existing productive plants. This had the effect of keeping capital in circulation for a profit (thus preventing it from ceasing to be capital). But it lowered the rate of earnings on total investments, since the new investment was not accompanied by expanded production but merely created more claims on existing surplus values.

The evidence of recent events in Europe makes it clear that the "economic miracles" are over. The general strike in France has revealed that the apparent financial stability and lack of inflation in that country were based on the holding down of wages and farm prices, and the cutting of overtime and rise in unemployment, rather than on rising real production.

IN BRITAIN, where comparatively less new investment (except in housing) took place in the post-war period, stagnation in production has been

*For a more thorough discussion, see L. Marcus, *The Third Stages of Imperialism*, (New York, West Village CIPA, 1967).

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relatively constant. As primitive accumulation from the British colonial system became insufficient to support the pound, a partial destruction of fictitious values and a rationalization of existing productive values became necessary. The chosen remedy was the devaluation, the breakneck merger movement in business and financial circles that followed it, and the unrelenting controls placed on the material conditions of life of the working population.

Nor can underdeveloped nations in the third world offer large-scale opportunities for profitable, productive investment in the *immediate* future. The industrialization of underdeveloped countries is a long-term proposition; it requires the development of an industrial proletariat and an industrial infrastructure: roads, bridges, ports, health and education facilities, etc. A steel mill cannot simply be dropped into the middle of a jungle.

THE HOME MARKET

Inside the United States itself, the economic picture has assumed some familiar and ominous features. British-style attack on the living standards of American wage-earners has begun, the major weapons of which are skyrocketing wage taxation, inflation and declining real wages. An immediate cause here is the attempt by business and government to deal with the stark poverty and underconsumption of the black and the poor by siphoning off taxable income from the wage-earner to subsidize dubious economic reclamation projects in the ghettos. With the opportunities for profitable investment within the western capitalist sphere shrinking fast, business has taken a new look at the investment opportunities in the "underdeveloped" core cities. And government is playing its part.

The pork barrels for private investors come in various shapes and sizes but share a common goal and basic strategy. At the grass roots, poverty is to be "shared" by a short-range levelling-up of the material conditions of life in the ghettoes at the expense of a general levelling-down of conditions for the wage-earning population. At the top, public subsidies are to be shared by businessmen and financiers, to each according to the size of his bankroll. This is perhaps best illustrated in the Riot (Kerner) Commission Report.

The Kerner Commission charged "white racism" and called on "white America" to sacrifice in order to save the nation from chaos. The reference is clearly to white *working* America, for the only "sacrifices" expected from white businessmen is the acceptance of government subsidies, tax credits, and "reimbursements for certain costs."

In other words, if business will invest in the inner cities (the goal is one million new private jobs to match one million new jobs in the public sector), the government would foot the bill for the huge necessary expenditures. It would provide for education, job-training, land acquisition and clearance, and the public services necessary to industrialize the nation's most decayed and brutalized areas. For example, the Commission recommends that the government pick up the tab for job-training to the tune of $3500 per worker. It also calls for 6,000,000 new housing units over the next five years, involving massive public subsidies for rent supplements, low-interest loans, and (let's not forget) buying out existing slum owners at full market prices.

The Report did not state where all this public money was to come from; but politicians, Administration economists, and the press have made it abundantly clear that the cost will be borne by tax increases of all types at all levels of government. (Well, not exactly *all* types.) Over the past two fiscal years, federal revenues from personal income taxes have risen 31%, from Social Security payments 22%, and from corporate income taxes 1% (Text of President's Message to Congress on Federal Budget for Fiscal Year 1969, *N. Y. Times*, 1/30/68).

POLITICAL "AID"

Prior to the publication of the Kerner Report, prominent political figures established coalitions with the private sector to develop slum areas. Several months ago, New York Governor Nelson Rockefeller submitted a bill to the legislature to create an Urban Development Corporation—with power to override local zoning rules—which would induce private developers to build housing and light industry in slum areas. The Corporation is nothing short of an investor's and builder's idea of heaven.

In his April 18 campaign speech, Governor Rockefeller called for $150 billion spending over the next decade for rebuilding the cities, suggesting the use of a combination of direct tax revenues and bonds, and recommending that $60 billion of this sum be shoveled back into corporate enterprise in the form of subsidies and tax credits to lure private capital into the ghettos. Because the late Senator Robert Kennedy had kept in closer touch than other politicians with the student movement, black militants, and the New Left generally, his proposals for slum areas are worthy of study: they provide a clearcut example of how the use of popular Left semantics—e.g., "local control"—can obscure the economic facts and figures.

The Urban and Rural Employment Opportunities Development Act which Senator Kennedy submitted to Congress in July, 1967, would provide the following inducements for industries locating in a "poverty area" which would provide jobs for its residents:

a) a 10% machinery and equipment tax credit;

b) a 7% construction or leasing credit;

c) credit carryback (i.e. retroactive tax credits)

of three years, and credit carryover of 10 more years;

d) 50% acceleration of depreciation allowances;

e) carryover of 10 years on operating losses;

f) tax deductions of 125% for salaries of poverty-area workers.

The Urban Housing Development Act (also submitted by RFK) would utilize low-cost loans, tax credits, and accelerated depreciation to guarantee an investor a 12% to 19% profit. After two years, the builder could sell the housing (and the mortgage liability) to the tenants, leaving them with a co-op and little else for security.

The total cost of this bill is $50 million a year for fifty years, aiming at only 3 to 4 million new or renovated units a year—New York City alone needs about one-fourth of that to attack its slum problems. Like buying a newer car, seeking a newer world is going to be an expensive process, and it seems clear who's going to be selling and who buying.

REBUILDING FROM THE TOP DOWN

There are other moves in this direction: the billion-dollar loan fund set up by the life insurance companies in the wake of ghetto uprisings last summer. No mention was made at that time of the already extensive real estate and mortgage holdings which these insurance companies, banks and financiers have held in inner city real estate all along. Through the loan fund, they simply insured their existing investments in a shaky real estate market.

The impression has been created that private enterprise is at long last riding into the ghetto like a white knight to save the nation from civil war. Slums and ghettos are, from top to bottom, a creation of private enterprise and a continuing source of profit. To expect any wholesale elimination of slums by the corporate establishment while these areas continue to be a major source of speculative profit is more foolish than cynical.

But there is a difference between profitable *speculative* investment and profitable *productive* investment: the former will not defuse the ghettos. Productive investment and pacification, therefore, are the immediate and top priorities of business and finance, whose leading members are very practical men; they are no longer relying on either welfare or the poverty programs; rather, they are intent on replacing significant amounts of speculative holdings in slum housing with real new production.

Much of the housing built will be middle-income, and that is what private builders prefer. But the "leading minds" are also serious about constructing low-rent housing on a large scale which will drive out some small slumlords and small businessmen in favor of much larger concentrations of capital. Wherever possible a local-control front will be provided in the form of a nonprofit community corporation through which funds pass on their way from the public to the private sector.

IF THE CITIES can be rebuilt at a handsome profit, who loses? Not the financiers and corporations. The poor at the least stand the chance of gaining some more jobs and housing which are an improvement over what they now have. The losers will be the wage earners, whose standard of living will be increasingly taxed to pay for the profits at the top and the physical uplifting at the bottom.

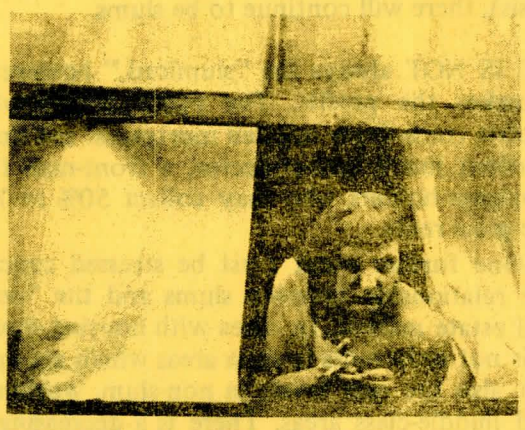
Already the standard of living of workers is being hit. The average white worker is in debt to the tune of $1000 for every member of his family, not including mortgages. Within six months to a year, the further decline in real wages—now cushioned by consumer credit—will make its impact felt and increase the worker's insecurity about his job and about maintaining his life-style. Who will he blame for his economic insecurity? The recent racist outburst by white British workers against further immigration of the "coloured" is an example of who he will blame. And it suggests the degree to which economic insecurity can promote right-wing positions among the American wage-earner.

ALTERNATIVE AID

If the New Left is to come to grips with the ramifications of business in the ghetto it must formulate alternative proposals for financing the badly-needed government spending. One specific alternative is to tax profits not wages.

Taxing speculative profits and wasteful production—instead of imposing more taxes on wages—would increase the production of real wealth, raise the standard of living for workers and unemployed alike, and train the unemployed for

Photo by: Dia Livingston



the new productive jobs which must be created. This type of "class line" on taxation and public spending immediately establishes the common (rather than the competitive) interests between middle-income, low-income, and ghetto poor. It provides a unity without which the radical movement will be relegated to local pressure-group politics— Tamany Hall with New Left rhetoric.

In New York City, The West Side Tenants Union is organizing around such a tax plan. The immediate aims of its program are threefold: to attack the problems of slums, high rents, and high city taxes.

Before describing how the program would work, a brief look at the problems themselves is necessary.

New York City's Housing Administrator recently admitted that "we have at least 800,000 deteriorated apartments in New York City." Approximately 50,000 additional units become slums each year. Total new construction is currently less than 20,000 units per year. Rents are the second highest in the nation. Additionally, the City is faced with a chronic budget crisis, even with the contribution Mayor Lindsay has made to the problem through resident and commuter income taxes.

Housing is a unique type of investment. An apartment house requires a fairly large initial capital investment, but after the initial investment, the investment continues to increase in market value and rent-producing ability with minimal maintenance. Most other investments depreciate, become obsolete and require replacement after a period of time, but in housing profits increase indefinitely.

In the inner cities housing investment tends to be *speculative* (buying and trading existing properties in anticipation of high rent returns) as opposed to *productive* (construction of new housing or substantial capital investment in improvement of the existing housing stock).

Buildings that have been paid for by rents many times over and that have been depreciated (on the books) many times over, continue to provide profits for speculators who buy and sell them within short periods of time. Real estate values in the inner cities are largely based on rent-producing ability and not on the use-value of the housing. As long as a landlord can collect high rents and dump his deteriorating building at a price which reflects potential for even higher rents (on a short-term basis), there will continue to be slums.

IT IS NOT always the "slumlord," however, who makes the profits. The major source of slum profits come from inflated mortgages: the slumlord is often just a rent-collector, a front-man for the mortgage-holders who may collect 50% to 70% of the gross rents.

One further point must be stressed concerning the relationship between slums and the "normal" real estate market. In cities with housing shortages, it is not only rents in slum areas which are inflated, but also the rent levels in non-slum, working-class and middle-class areas. There is a decreasing stock of habitable housing in the cities, due to predominance of speculation over construction. Persons who wish to live in central cities are forced to pay exhorbitant rents because of the tight housing market.

Now, imagine for a moment that the slums were eliminated and that there was an adequate supply of decent, low-rent housing. Would the people in non-slum housing be paying the rents they now pay? No. In that case the values of non-slum housing would fall because market values tend to be based on rent-producing ability.

However, slum elimination and a tight housing market would devalue almost *all* real estate investments. Consequently, "respectable" real estate interests operating in the normal rental market have a very real material stake in slum existence.

The WSTU's tax program would use profits, not taxes on wage-earners, to meet the city's financial problems and to rebuild the city's housing. It advocates a graduated tax on landlords' rental income, based on the ratio of gross rental income to the historical depreciated value of the building. Thus, the older the building, the higher the tax. Likewise, the higher the rents in relation to the real value of the building, the higher the tax. By basing the tax on the real, depreciated value of the building, landlords who have failed to re-invest their profits to improve their buildings are penalized.

Such a tax could do the following:

- –finance the construction of 100,000 units per year of decent, low-rent housing, under the direction of tenants' and construction workers' committees;
- –eliminate the city sales tax and the city income tax on wages of less than $15,000 per family per year;
- –immediately wipe out the slum system and drive most slumlords out of business;
- –vastly lower the market value of old housing, thus lowering acquisition costs for building new housing;
- –provide tens of thousands of construction jobs for unemployed workers from the ghettos.

The tax program is a transitional one dealing with a specific sector of the economy. It is an example of a method: it demonstrates that there is no solution to the housing crisis within the framework of present property titles. Further, it shows in economic terms that there *is* enough money in real estate cash flows to begin to rebuild the city.

Beyond this, the tax program is an educational and organizing device which points out the common interests among white wage-earners and black ghetto poor as well as between the unemployed and the employed. It demonstrates in practical terms just who the enemy is and in which direction the solution lies.

If the New Left is to counter big business' share-the-poverty plan, with all of its divisive implications and economic ramifications, it cannot content itself with organizing people to make demands for local control, for increased spending on education, housing, etc., without facing the problem of who is to pay. It must recognize that the reconstruction of the nation's cities and the industrialization of the underdeveloped world are the central concerns of both the Left *and* the most astute members of the capitalist class. If radical programs fail to deal with the questions of who *pays* and who *controls* such programs, then it will also fail to make the necessary differentiation between its proposals and those of the most advanced policy-makers.