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Poverty as Injustice

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Poverty as Injustice¹

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In much of the world, there are concerns over the abysmal wages among the less advantaged and the many victims of racial and gender discrimination. Though tax credits to single mothers with low wage income provide support and contribute to the development of their children, there are still cruel signs of poverty among working people: malnourishment, poor health and substance abuse.

Less appreciated, many a low-wage worker must pass up a job offering meaningful work because it pays even less. And without a “good job” these workers cannot have “the good life.” Such outcomes in any advanced economy are grim signs that something is wrong: The problem is not “inequality” here. There is a high degree of *injustice*.

The cries of injustice come at a time of deep frustration in a wide part of society—farmers, tradesmen, warehouse clerks and small business proprietors – over a downward trend in the rewards of work and enterprise. Since the 1970s in the United States – later in Britain, France and perhaps in parts of Germany and some other nations – there has been a general decline in job satisfaction and a virtual cessation of growth in real wages of most people. Moreover, real rates of interest have sunk nearly to the vanishing point. Underlying this is a shrinkage of innovation. Here too, something is wrong: Some fault in the mechanisms or wellsprings of human satisfaction has not been adequately addressed and fixed.

¹ The author is grateful for discussions on Rawls to Partha Dasgupta and Larry Udell.

While Western societies work on gaining economic justice, it is essential they restore and preserve widespread experience of the good life. That means meaningful work such as arises with enterprise capitalism in which participants allocate their accumulated wealth and developed abilities to establish various industries and invest in various projects. Brilliant nations have raised and educated people able and hoping to exercise their creativity by conceiving new commercial methods and products – and also people wise and brave enough to take a chance on backing the new thing.

A debate about economic justice is now moving quickly to the fore. Voices in the Democratic Party, and now Joseph Biden, the Presidential nominee, have raised expectations that, if elected, they will address the injustices decried at their recent convention. In contrast, Republicans as far back as Ronald Reagan’s “Morning in America” and, on occasion, Donald Trump make a “growth charge.” They have argued that measures aimed to reduce inequality come at the price of slowing economic growth.

They have in mind the large-scale programs to raise incomes among the working poor enacted over the past several decades in the U.S., beginning with the “Great Society” launched by Lyndon Johnson’s administration in the 1960s and the Earned Income Tax Credit in the 1970s. Also, as recently noted, Democrats “legislated, Medicare, food stamps, Head Start and a host of other programs that helped whites and minorities alike.”² Has all this slowed growth?

It does appear that just after this legislation began, growth of America’s “productivity” – more precisely, total factor productivity, and ultimately labor productivity – slowed around 1972 and, apart from the peak years of the

² Quoted from Fareed Zakaria, Global Public Square, CNN, August 23, 2020.

Internet Revolution, stayed slow. Yet, as the old saying goes, “correlation is not causation.”

My contrary thesis, which has been [argued](#) at length and now [tested](#) extensively, is that what really caused the great productivity slowdown was a major loss of people still keen on coming up with new commercial products and methods, not the Great Society.³ Certainly, it is implausible that those helped by the Great Society are to blame. In any case, there do not appear to be any econometric studies showing that the nations aiding the disadvantaged more have less growth.

There is also a worry on another score. Call it the “fiscal capacity charge.” Some economists and businesspeople express fear that tax rates are already so high that boosting the rates in the hope of raising the revenue needed to pay for substantial reduction of poverty among the working poor would fail to collect much more revenue and might even lose revenue as taxpayers cut back their supply of labor and companies lose interest in finding opportunities to increase efficiency. Yet there does not appear a shred of evidence in academic journals showing that Western economies – and certainly the low-tax American economy – are up against their fiscal capacity.

America, then, and any other Western government to a varying degree, has enough room to attack the serious injustice. To bring up to acceptable levels the wage rates of low-paid workers the state will want to institute a schedule of subsidies that would pull up most strongly the wage rates in the bottom

³ The thesis is argued at length in Phelps, *Mass Flourishing* (Princeton: Princeton University Press, 2013) and tested in Edmund Phelps, Raicho Bojilov, Gylfi Zoega and Hian Teck Hoon, *Dynamism* (Cambridge, Mass.: Harvard University Press, 2020).

rung of workers. The schedule would set lower and lower subsidies in higher and higher wage brackets.⁴

It ought to be noted that much of the attention now paid to economic injustice derives from that landmark of nearly 50 years ago, *A Theory of Justice* by the philosopher John Rawls. Remarkably, he argued that justice requires pulling up pay of the lowest-paid to the maximum.⁵ That would entail taxing to capacity! (A model of Rawlsian taxation was soon built in a paper of mine.)⁶ Of course, a theory abstracts from much, and Rawls focused on poverty from all sources. My hope today is to work for an economy both inclusive and just.

While it is important to know that way out of poverty, it is also very important to know the way not to go. We must oppose the “universal basic income.” Not only would it be a lamentable use of public revenue that would be better directed toward pulling up the wages of low-end workers to a level enabling their self-support, which is essential for people’s self-esteem. It would also draw or keep many people and their children away from work, which is for most people the only available avenue to personal fulfillment and, indeed, to their involvement in the world.

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⁴ An early book for the general reader discussing the need and feasibility of a low- wage subsidy is Phelps, *Rewarding Work* (Harvard University Press, Cambridge, Mass., 1997, 2007)

⁵ John Rawls, *A Theory of Justice* (Harvard University Press, Cambridge Mass. 1971). Incidentally, I had the great pleasure of being a next-door colleague of Rawls at Stanford in 1969-70 and we remained friends the rest of his life.

⁶ I analyzed a model of the optimum schedules of tax and subsidy in an early research paper, “Taxation of Wage Income for Economic Justice,” *Quarterly Journal of Economics* vol. 87 (August, 1974): 331-354.