

# The persistence of Poverty in Capitalist Countries

*La persistencia de la pobreza en los países capitalistas*

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## Palabras clave

*Pobreza, clásico, neoclásico, Marx*

## Key words

*Poverty, Capitalism, Classic, Neoclassic, Marx*

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*B12, B14, E11, I3*

## Abstract

This article describes the increased rate of poverty in the United States and Europe in the 2000s. Expanding productivity has not resulted in a concomitant improvement in the standard of living of people. Neither classical nor neoclassical theories explain the persistence of poverty in developed countries. First of all, the classical theory of poverty is based on a minimum level of subsistence for human beings, whereas neoclassicals maintain that low wages will reduce poverty. We argue that these ideas are characteristic of the capitalist perspective and that revising Marxian foundations may provide some insight into poverty in capitalism and its current evolution.

## Resumen

El artículo describe la persistencia de la pobreza en países desarrollados como Europa y Estados durante el neoliberalismo. Afirmamos que tanto la escuela clásica y neoclásica no tienen las herramientas suficientes para analizar la evolución de la pobreza en el capitalismo. Los primeros conceptualizan la pobreza como una vida mínima en los seres humanos, y los segundos que la reducción de la pobreza se basa en la reducción de salarios. Argumentamos que bajo las ideas de Marx puede entenderse la evolución de la pobreza en la actualidad.

## 1. Introduction

The failure of capitalism in the vast majority of the Third World became apparent in the 1960s through the 1970s because during this time countries with high growth rates experienced a myriad of problems, including an increase in inequality and poverty (Sen, 1985; Cornia, 1974), from the 1980s to the present day, poor countries have faced economic stagnation and crises. In the 2000s, capitalism has failed in developed countries. On the one hand, some of these countries, including the United States, have experienced economic stagnation and poverty levels are higher than those that prevailed during the 1970s. On the other hand, other countries, such as those in Europe, have undergone stagnation and minimal poverty reduction during the 2000s. Today, the world is in the deepest economic crisis since the Great Depression.

According to the orthodox point of view, poverty is defined as the inability to reach a minimum level of existence, assuming that the main way people obtain their means of subsistence in capitalism is through selling their labor force. If wages were increased, the result would be more poverty because of an increase in unemployment. Lower wages provoke a higher level of employment, and higher wages provoke higher levels of unemployment. Based on historical materialism, we reject the ideas mentioned before and claim that poverty is inherent to capitalism, and that a lower standard of living and lower wages are needed in capitalism for its perpetuation.

This article proceeds as follows. After this brief introduction, the evolution of poverty in the United States and Europe is described in Section 2. In Section 3, the concept of poverty and its causes, based on classical and neo-

classical roots, is examined. In Section 4, we describe why neoclassical explanations of poverty have become so dominant the present day. In section 5, we offer a rebuttal to classical and neoclassical ideas based on Karl Marx's foundations. Concluding remarks are presented in section 6.

## 2. Evolution of poverty in the US and Europe

Researchers have noted the surprising increase in poverty rates in the 1990s and 2000s in developed countries. After all, not many years ago R. Brenner (2002) recounted how Alan Greenspan (the former Federal Reserve chair) characterized the 1990s as the most impressive era in capacity production in US history. However, in spite of Greenspan's assessment, there were more poor people in the United States in 2012 than in, the 1970s.

From 1963/64 to 1973/74 poverty declined sharply from 19 to 11.1%, which at the time was the lowest level since World War II (Levine, 2001) (see Figure 1).<sup>1</sup> The decline in the rate of poverty was, to some degree, due to the antipoverty program established in 1964 by President Lyndon Johnson (1963-1969) (see Lowe, 1989; Hobsbawm 2003; Ciocca 2000; Levine, 2000). However, this program ended in 1974, perhaps in line with the world crisis of 1973/74. Since then, the poverty rate has experienced cyclical ups and downs, with three peaks in 1983, 1993 and 2010. During 1983 the poverty rate was 15.2%, and during 1993 and 2010 the rate was 15.1%. Two variables appear to be influential in the evolution of the

<sup>1</sup> According to Levine (2001, 19), economic growth in the US during the 1920s did not encompass the working class. However, after WWII, the living conditions of workers improved.

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