

# „The Poor (still) Pay More!“

Americans and Europeans should care

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Nearly forty years after the book entitled “The Poor Pay More” appeared empirical research and statistics as well as simple observations reveal that the poor are still as poor as they were before. While the book told about the fate of borrowers exploited by usurious lenders who sold useless furniture in New York big companies today sell specially designed “prepaid” poverty products like card phone services, secured credit cards, costly check cashing and high interest predatory credit. They thus devalue the already scarce income of the poor and prevent them from investing into education, culture, health and future of their children.

Poverty has become a germ. It spreads with free markets throughout the world and has presently affected the process of European unification. Privatization, welfare to work, increased responsibility of the individual, a lean state, balanced budgets, tax-cuts, home-country control are the slogans who in the name of efficiency and low transaction cost conquer the political world of right as well as of left governments in the three economic centers of the world. Automated services, pricing dependant on income and assets and selected access are its private company.

Scholars and politicians from all over the world to learn form the American boom economy. They proudly refer to their seemingly superior experience and skills abroad. Yet they neglect its problems and that America is not only rich in knowledge how to create economic opportunities in a competitive environment but also rich in models, ideas and procedures to deal with the virus of unrestricted economic growth which has become a menace to social peace in Los Angeles, Mexico City, Paris and Berlin.

Five approaches to poverty since the 60ties and their partial failure have to be studied.

The first answer was the credit society. If people were born without capital and resources the American system enabled them to borrow. Unthinkable at that time for Europeans poor people were enabled to draw a check on future income in order to pay student education, buy mobility with automobile financing and own their homes. But the credit society also accelerated the spread of the germ of poverty. It did not only devalue the purchasing power of the poor people but affected credit opportunities itself through redlining and exclusion.

The war on poverty in the sixties was the second seemingly European answer. But its redistributive efforts, education and subsidies did not stop the germ because the question who pays for it arose earlier than in Europe and conquered the middle classes.

In the seventies poverty was identified with black. The “color of money”, the color of universities, the color of opportunities gave rise to anti-discrimination and equal opportunity laws and led finally to affirmative action and damage suits. They all failed to attack the germ itself by isolating black poverty from the question of poverty as it had been the case in the war on poverty. Redistributing poverty more evenly it even created new hostility from those non-blacks that felt deprived of their opportunities. It is the poverty of many black people that deepens their poverty and leads to increased discrimination although historically racism and slavery were once its causes.

In the eighties the ideology that no answer was the best answer led its foundation and in spite of its empirical failure still accounts for much of America’s actual policies.

In the nineties the community movement became an obvious success. Social investment, micro-lending, community reinvestment and equal credit opportunities helped visibly improve poor neighborhoods and got corporate America involved in social issues. Wonderful people and professional volunteers developed a complementary side of the American society with social commitment as an economic tool little known overseas. But its further success is presently in doubt. Its purely quantitative approach in providing “much” access to credit (HMDA, ECOA), investment (CRA), “many” (basic) bank accounts, savings facilities (IDAs), insurance and other basic services has been undermined by an erosion of quality and price-discipline. New poverty services and specialized retailers and brokers take away what volunteer community work has achieved. The germ is about to spread epidemically.

I have two proposals to make where in this area Europeans and Americans could work together.

The first proposal concerns the germ of poverty. The opportunity driven American approach could help Europeans to adapt their minimum standards to markets in order to cope with the effects minimum standards can have on access. On the other hand the rich experience in allocating social minimum standards efficiently where it is most necessary to prevent the development of a culture of poverty and the spread of the germ of poverty could equally be shared. David Caplovitz who wrote “The poor pay more” dreamt of a general insurance which would allocate the risks of poverty to the whole of society. The idea could be used in so far as to stop at least the germ of selffulfilling poverty. Minimum quality standards together with variable usury ceiling like “the double of the average is enough” would narrow the margin under which the poor pay more. Community reinvestment policies would be in charge for access for all especially those who are excluded through ratings and economies of scale.

The second proposal concerns the reminiscent of capitalist slave work. Since modern democracies have developed and guaranteed a market for paid labor slave labor is besides its attain to the liberty of the person a willful deprivation of income which hinders its victim to invest into their future and into their children, into education, culture and communities. This underinvestment is wherever it happens in the world a source of poverty. A fund for financial compensations for slave labor in Germany has been put up where also American firms with subsidiaries in Germany have contributed. A similar fund could be set up internationally for slave labor in the 19<sup>th</sup> century. All countries who profited from it not only the southern States of the US but also those in the North who profited from the afflux of cheap labor as a consequence of the liberation in the south as well as European countries who profited from the American

economy through emigration and trade could contribute. Just like the tobacco fund it could focus on the sustainable elements of this historic deprivation and invest into a free, accessible and excellent educational system as well as access to productive consumer credit.

Separating discrimination from disadvantaging would help to manage a future where poverty becomes escapable in a free market society.

P.S. During my three month stay in New York I have been working about poverty and private law in germany and the US. for those (lawyers) who are interested in either the summary (4) or the paper (100p) (both in English) I can forward the word file by e-mail.

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