

Toward the Conquest of World Poverty

Even communists eventually have to make peace with reality.

Steve Chapman | March 29, 2012

Progress can often be defined as the stuff that happens while humanity is preoccupied with everything that is going wrong. On the surface, the first decade of the 21st century looks like an ugly parade of terrorism, war and economic convulsion. But in one important sense it stands as possibly the greatest decade in human history. And that's no accident.

Among the most vicious enemies of human welfare is poverty. In a world plagued with limited resources, bad governments and unsound economic policies, it often appears to be an inescapable scourge. Most people paid no attention in 2000 when the United Nations proclaimed the goal of halving the number of earth's inhabitants living in extreme poverty by 2015, compared to 1990.

But way ahead of schedule, the target has already been hit. For the first time since it began tracking, says a new World Bank report, "the data indicate a decline in both the poverty rate and the number of poor in all six regions of the developing world."

In 1981, 70 percent of those in the developing world subsisted on the equivalent of less than \$2 a day, and 42 percent had to manage with less than \$1 a day. Today, 43 percent are below \$2 a day and 14 percent below \$1.

"Poverty reduction of this magnitude is unparalleled in history: Never before have so many people been lifted out of poverty over such a brief period of time," write Brookings Institution researchers Laurence Chandy and Geoffrey Gertz.

Just as important as the extent of the improvement is the location: everywhere. In the past there has been improvement in a few countries or a continent. Not this time.

China has continued the rapid upward climb it began three decades ago. India, long a laggard, has shaken off its torpor. Latin America has made sharp inroads against poverty. "For the first time since 1981," says the World Bank, "we have seen less than half the population of sub-Saharan Africa living below \$1.25 a day."

The start of most global trends is hard to pinpoint. This one, however, had its big bang in the early 1970s, in Chile. After a socialist government brought on economic chaos, the military seized power in a bloody coup and soon embarked on a program of drastic reform -- privatizing state enterprises, fighting inflation, opening up foreign trade and investment and unshackling markets.

It was the formula offered by economists associated with the University of Chicago, notably Milton Friedman, and it turned Chile into a rare Latin American success. In time, it also facilitated a return to democracy. Chile was proof that freeing markets and curbing state control could generate broad-based prosperity, which socialist policies could only promise.

If that experiment weren't sufficient, it got another try on a much bigger scale when China's Deng Xiaoping abandoned the disastrous policies of Mao Zedong and veered onto the capitalist road. The result was an economic miracle yielding growth rates that averaged 10 percent per year.

The formula was too effective to be ignored. Over the past two decades, poorer nations have dismantled command-and-control methods and given markets greater latitude. Economic growth, not redistribution, has been the surest cure for poverty, and economic freedom has been the key that unlocked the riddle of economic growth.

Over the past 30 years, notes the libertarian Cato Institute in the latest edition of its "Economic Freedom of the World," the average country's economic freedom score has risen from 5.53 (on a 10 scale) to 6.64 -- a significant improvement that has paid off in higher growth and earnings. The evidence indicates a reliable pattern: the freer the economy the faster the growth.

"Nations in the top quartile of economic freedom had an average per-capita GDP of \$31,501 in 2009, compared to \$4,545 for those nations in the bottom quartile," says Cato. The rate of extreme poverty is 2.7 percent in the top quartile and 41 percent in the bottom one.

Among many people a generation ago -- and among a few today -- free markets and private property were seen as the cause of poverty. But the number of adherents has dwindled in the face of repeated refutation.

The latest cover story in The Economist magazine is: "Cuba hurtles toward capitalism." Cuba! Even communists eventually have to make peace with reality.