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Global Poverty's Defeat Is Capitalism's Triumph

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Despite the recent recession in the West, absolute poverty is continuing to retreat in fast-growing developing countries. The escape from poverty that was once limited to the industrialized countries of the West is also happening in "the rest."

Unfortunately, many people remain unaware of the dramatic decline in global poverty, let alone the reasons for it.

According to an announcement released this week by the World Bank, "less than 10% of the world's population will be living in extreme poverty by the end of 2015."

The bank has "used a new income figure of \$1.90 per day to define extreme poverty, up from \$1.25. It forecasts that the proportion of the world's population in this category will fall from 12.8% in 2012 to 9.6%."

True, come the New Year, some 700 million human beings will still live in absolute poverty.

But let us put this in proper context. Grinding poverty was the norm for most ordinary people throughout human history. As recently as 1980, the World Bank estimated that 50% of the global population lived in absolute poverty.

Even in the most economically advanced parts of the world, life used to be miserable until relatively recently.

At the end of the 18th century, to give one example, France had the fourth highest standard of living of any country in the world, behind the U.S., Great Britain and the Netherlands.

Bleak Existence

Yet, 10 million of France's 23 million people relied on some sort of public or private charity to survive, and 3 million were full-time beggars.

Before the industrial revolution, people on farms, including children, spent their lives engaged in back-breaking manual labor and consumed most of the calories they produced.

There was little time or energy for learning and relaxation. Few people ever left their native villages and visited the nearest town. The life in the cities was not much better.

Before mechanization, jobs were scarce and children were a burden. Returning to late 18th century France, of the 30,000 babies who were born in Paris in 1780, up to 8,000 were abandoned by their mothers. Many died.

Thanks to the industrial revolution and global trade, economic growth in the West accelerated to historically unprecedented levels.

Over the course of the 19th and 20th centuries, real incomes in the West increased 15-fold. A huge chasm had opened up between the West and the rest, as Princeton University Professor Angus Deaton documents in his book "The Great Escape."

That gap is now closing.

Some experts thought that poverty reduction depended on financial transfers from rich to poor countries.

But, hundreds of billions of dollars in foreign aid accomplished little. The rise of the non-Western world has been a result of economic growth spurred by the abandonment of central-planning and integration of many non-Western countries into the global economy.

Inflation-adjusted average per-capita income in China, for example, has increased 13-fold since the start of economic reforms in 1978. Following liberalization in India, real income rose three-fold.

Bono Gets It

As Deaton notes that "the rapid growth of average incomes, particularly in China and India, and particularly after 1975, did much to reduce extreme poverty in the world. In China most of all, but also in India, the escape of hundreds of millions from traditional and long-established poverty qualifies as the greatest escape of all."

The importance of growth cannot be overstated. There is not a single example of a country emerging from widespread poverty without sustained economic growth.

As University of Oxford Professor Paul Collier writes in his book "The Bottom Billion," "Growth is not a cure-all, but lack of growth is a kill-all."

Even people who were traditionally skeptical of the free markets increasingly recognize that private enterprise is the key to prosperity.

As the Irish musician Bono opined during his 2013 speech at Georgetown University, "Aid is just a stop-gap. Commerce (and) entrepreneurial capitalism takes more people out of poverty than aid. ... In dealing with poverty here and around the world, welfare and foreign aid are a Band-Aid. Free enterprise is a cure. ... Entrepreneurship is the most sure way of development."

Yet, ignorance about the real state of the world is rife. In 2013, for example, professor Hans Rosling of the Karolinska Institute in Sweden asked a representative sample of American citizens whether absolute poverty rose or fell over the last 20 years.

Some 66% of respondents thought that it had almost doubled, and 29% thought that it remained more or less the same.

The new poverty figures will, hopefully, fix some of those misconceptions.

But as we rejoice in the knowledge that the world has never been freer from absolute poverty, let us also recognize the role of industry and trade in bringing this prosperity about.

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