

## OPINION

# The Ultimate Global Antipoverty Program

Extreme poverty fell to 15% in 2011, from 36% in 1990. Credit goes to the spread of capitalism.

By **DOUGLAS A. IRWIN**

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The World Bank reported on Oct. 9 that the share of the world population living in extreme poverty had fallen to 15% in 2011 from 36% in 1990. Earlier this year, the International Labor Office reported that the number of workers in the world earning less than \$1.25 a day has fallen to 375 million 2013 from 811 million in 1991.

Such stunning news seems to have escaped public notice, but it means something extraordinary: The past 25 years have witnessed the greatest reduction in global poverty in the history of the world.

To what should this be attributed? Official organizations noting the trend have tended to waffle, but let's be blunt: The credit goes to the spread of capitalism. Over the past few decades, developing countries have embraced economic-policy reforms that have cleared the way for private enterprise.



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China and India are leading examples. In 1978 China began allowing private agricultural plots, permitted private businesses, and ended the state monopoly on foreign trade. The result has been phenomenal economic growth, higher wages for workers—and a big decline in poverty.

For the most part all the government had to do was get out of the way. State-owned enterprises are still a large part of China's economy, but the much more dynamic and productive private sector has been the driving force for change.

In 1991 India started dismantling the “license raj”—the need for government approval to start a business, expand capacity or even purchase foreign goods like computers and

spare parts. Such policies strangled the Indian economy for decades and kept millions in poverty. When the government stopped suffocating business, the Indian economy began to flourish, with faster growth, higher wages and reduced poverty.

The economic progress of China and India, which are home to more than 35% of the world's population, explains much of the global poverty decline. But many other countries, from Colombia to Vietnam, have enacted their own reforms.

Even Africa is showing signs of improvement. In the 1970s and 1980s, Julius Nyerere and his brand of African socialism made Tanzania the darling of Western intellectuals. But the policies behind the slogans—agricultural collectives, nationalization and price controls, which were said to foster “self-reliance” and “equitable development”—left the economy in ruins. After a new government threw off the policy shackles in the mid-1980s, growth and poverty reduction have been remarkable.

The reduction in world poverty has attracted little attention because it runs against the narrative pushed by those hostile to capitalism. The Michael Moores of the world portray capitalism as a degrading system in which the rich get richer and the poor get poorer. Yet thanks to growth in the developing world, world-wide income inequality—measured across countries and individual people—is falling, not rising, as Branko Milanovic of City University of New York and other researchers have shown.

College students and other young Americans are often confronted with a picture of global capitalism as something that resembles the “dark satanic mills” invoked by William Blake in “Jerusalem,” not a potential escape from horrendous rural poverty. Young Americans ages 18-29 have a positive view of socialism and a negative view of capitalism, according to a 2011 Pew Research poll. About half of American millennials view socialism favorably, compared with 13% of Americans age 65 and older.

Capitalism's bad rap grew out of a false analogy that linked the term with “exploitation.” Marxists thought the old economic system in which landlords exploited peasants (feudalism) was being replaced by a new economic system in which capital owners exploited industrial workers (capitalism). But Adam Smith had earlier provided a more accurate description of the economy: a “commercial society.” The poorest parts of the world are precisely those that are cut off from the world of markets and commerce, often because of government policies.

Some 260 years ago, Smith noted that: “Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a

tolerable administration of justice; all the rest being brought about by the natural course of things.” Very few countries fulfill these simple requirements, but the number has been growing. The result is a dramatic improvement in human well-being around the world, an outcome that is cause for celebration.

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