Poverty Is Easy to Explain

BY WALTER E. WILLIAMS

Academics, politicians, clerics, and others always seem perplexed by the question: Why is there poverty? Answers usually range from exploitation and greed to slavery, colonialism, and other forms of immoral behavior. Poverty is seen as something to be explained with complicated analysis, conspiracy doctrines, and incantations. This vision of poverty is part of the problem in coming to grips with it.

There is very little either complicated or interesting about poverty. Poverty has been man's condition throughout his history. The causes of poverty are quite simple and straightforward. Generally, individual people or entire nations are poor for one or more of the following reasons: 1) they cannot produce many things highly valued by others; 2) they can produce things valued by others but they are prevented from doing so; or 3) they volunteer to be poor.

> There is very little either complicated or interesting about poverty. Poverty has been man's condition throughout his history.

The true mystery is why there is any affluence at all. That is, how did a tiny proportion of man's population (mostly in the West) for only a tiny part of man's history (mainly in the nineteenth, twentieth, and twenty-first centuries) manage to escape the fate of their fellow men?

Sometimes, in reference to the United States, people point to its rich endowment of natural resources. This explanation is unsatisfactory. Were abundant natural resources the cause of affluence, Africa and South America would stand out as the richest continents, instead of being home to some of the world's most miserably poor people. By contrast, that explanation would suggest that resource-poor countries like Japan, Hong Kong, and Great Britain should be poor instead of ranking among the world's richest places.

Another unsatisfactory explanation of poverty is colonialism. This argument suggests that third-world poverty is a legacy of having been colonized, exploited, and robbed of its riches by the mother country. But it turns out that countries like the United States, Canada, Australia, and New Zealand were colonies; yet they are among the world's richest countries. Hong Kong was a colony of Great Britain until 1997, when China regained sovereignty, but it managed to become the second richest political jurisdiction in the Far East. On the other hand, Ethiopia, Liberia, Tibet, and Nepal were never colonies, or were so for only a few years, and they rank among the world's poorest and most backward countries.

Despite the many justified criticisms of colonialism and, I might add, multinationals, both served as a means of transferring Western technology and institutions, bringing backward peoples into greater contact with a more-developed Western world. A tragic fact is that many African countries have suffered significant decline since independence. In many of those countries the average citizen can boast that he ate more regularly and enjoyed greater human-rights protections under colonial rule. The colonial powers never perpetrated the unspeakable human rights abuses, including genocide, that we have seen in post-independence Burundi, Uganda, Zimbabwe, Sudan, Central African Empire, Somalia, and elsewhere.

Any economist who suggests he has a complete answer to the causes of affluence should be viewed with suspicion. We do not know fully what makes some societies richer than others. However, we can make guesses based on correlations. Start out by ranking

Walter Williams is the John M. Olin Distinguished Professor of Economics at George Mason University.

countries according to their economic systems. Conceptually we could arrange them from more capitalistic (having a larger free-market sector) to more communistic (with extensive State intervention and planning). Then consult Amnesty International's ranking of countries according to human-rights abuses. Then get World Bank income statistics and rank countries from highest to lowest per capita income.

Compiling the three lists, one would observe a very strong, though imperfect, correlation: Those countries with greater economic liberty tend also to have stronger protections of human rights. And their people are wealthier. That finding is not a coincidence, so let us speculate on the relationship.

Rights and Prosperity

One way to gauge human-rights protection is to ask to what extent the State protects voluntary exchange and private property. These signify the rights to acquire, keep, and dispose of property in any fashion so long as one does not violate the rights of others. The difference between private property rights and collectively held rights is not simply philosophical. Private property produces systemically different incentives and results from collective property.

Those countries with greater economic liberty tend also to have stronger protections of human rights.

Since collectivists often trivialize private property rights, they are worth elaborating. When property rights are held privately the costs and benefits of decisions are concentrated in the individual decision maker; with collectively held property rights they are dispersed across society. For example, private property forces homeowners to take into account the effect of their current decisions on the future value of their homes, because that value depends, among other things, on how long the property will provide housing services. Thus privately owned property holds one's personal wealth hostage to doing the socially responsible thing—economizing scarce resources.

Contrast these incentives to those of collective ownership. When the government owns the house, the individual has less incentive to take care of it simply because he does not capture the full benefit of his efforts. It is dispersed across society instead. The costs of neglecting the house are similarly spread. You do not have to be a rocket scientist to predict that under these circumstances, less care will be taken.

Nor is nominal collective ownership the only force that weakens social responsibility. When government taxes property, it changes the ownership characteristics. If government were to impose a 75 percent tax on a person selling his house, it would reduce his incentive to use the house wisely.

This argument applies to all activities, including work and investment. Whatever lowers the return from or raises the cost of an investment reduces incentives to make that investment in the first place. This applies to investment in human as well as physical capital—that is, those activities that raise the productive capacity of individuals.

To a significant degree the wealth of nations is embodied in their people. The starkest example of this is the experience of the Germans and Japanese after World War II. During the war, Allied bombing missions destroyed nearly the entire physical stock of each country. What was not destroyed was the human capital of the people: their skills and education. In two or three decades, both countries reemerged as formidable economic forces. The Marshall Plan and other U.S. subsidies to Europe and Japan cannot begin to explain their recovery.

Proper identification of the causes of poverty is critical. If it is seen, as is too often the case, as a result of exploitation, the policy recommendation that naturally emerges is income redistribution—that is, government confiscation of some people's "ill-gotten" gains and "restoration" to their "rightful" owners. This is the politics of envy: bigger and bigger welfare programs domestically and bigger and bigger foreign-aid programs internationally.

If poverty is correctly seen as a result of the unwise government intervention and lack of productive capacity, more effective policy recommendations emerge. FEE