The End Of Poverty

Why does poverty persist after more than a century of sustained global economic growth? Most economists point to economic growth as the primary solution to poverty, on the assumption that increased prosperity will "trickle down" to everyone. Yet, even in advanced industrial countries, growth in recent decades has benefited only a tiny fraction of wealthy people, not the average worker. China and India have grown rapidly also, producing their own billionaires, but those at the bottom of the economic pyramid have benefited only a little. So, what does account for the persistence of poverty in a rich world?

The Legacy of Slavery: both in US and in Africa

Americans like to believe that the past has little relevance for the future. Yet, the legacy of slavery is still with us. On average, Afro-American households have about 10% of the accumulated assets that Euro-American households have, even though the saving rate is the same. The difference lies in history. For working families, it takes generations to build up asset values, and until the end of slavery and then Jim Crow (segregation laws), it was extremely difficult for black families to build assets.

The same holds for Africa. The economic development of Africa was not only stifled. The slave trade from sub-Saharan Africa to North and South America, to India and Arab countries, and to North Africa depopulated Africa, disrupted economic and political organization, and interfered with internal trade. This did not occur just once. It was process that was carried out over at least four centuries. In effect, Africans never had time to recover and rebuild their own societies. The result today, according to economist Nathan Nunn, is that the regions of Africa hardest hit by the slave trade now have the lowest incomes. Thus, slavery in the past directly affects the level of poverty in the present.

Colonialism

Not every part of the world was damaged by slavery, but every continent was affected by colonialism. It is no accident that the countries that controlled foreign territories are generally rich and the countries that lost their autonomy under colonialism are generally poor.

In the 17th and 18th centuries, wealthy Europeans profited from the gold, silver, the products of plantations (notably sugar), being extracted from colonized areas. (Others profited from trade for spices and luxury goods in Asia.) Then, as now, only a small portion of the European population benefited from profits extracted from Asia, Africa, and Latin America.

Poverty emerged in the colonized countries for several reasons. First, as in Ireland, the colonial government actively destroyed or interfered with local crafts production, thus stifling the kinds of activities that led to industrialization in Europe. Second, land that had been used for growing food for household use and for exchange in local markets was confiscated for plantation agriculture, just as happened in Ireland. Peasants became tenants, and permanent relationship of dependency arose. Third, instead of establishing a complex, integrated domestic market, the colonizers created an export-oriented economy, often based on monoculture (such as tea or sugar or coffee), that failed to develop the internal linkages that make a modern economy strong.

Even after the end of colonial rule, these economic weaknesses remained impediments to internal development. For example, in many countries, the railroads built by the colonial powers are all designed to transport raw materials to the coast for export. The rail system is seldom useful for internal trade.