

The Causes of Third World Poverty

INTRODUCTION

It is very important for the leaders of our Third World countries to understand the root causes of our poverty, if we are ever to be able to rise to the status of prosperous peoples. This article attempts to summarize the reasons for our backwardness.

There are various aspects from which to study the causes of poverty, some of which pertain to the field of morals (like the degeneration of the family or the addiction to drugs); others to the required preconditions of legal maturity and domestic tranquillity, which are the realm of politics; and still others which are the domain of economics. In this essay we limit ourselves to the economic causes, retaining a sympathetic ear to the moralists, sociologists, and political scientists, who deal with other vital aspects of the problem of poverty.

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But even in the economic field there circulate both "false" causes, which are those generally heralded in the press and the political dialogue, and "real" causes, which are most often discounted. Let us begin enumerating some of the false causes.

FALSE CAUSES OF POVERTY

Poverty is not caused by insufficient natural resources or limited national territory, or by high levels of illiteracy or lack of technical preparation.

Nor is the cause the presence of multi-national companies that sell powdered milk, cola formulas, or gasoline to worldwide markets.

It is not the fact that some folks (or companies) are rich that accounts for the misery of the poor, or that the gap between them might be widening. It is not greed or speculation that is the culprit.

It is not because governments (either local or remote) are insensitive to the realities of poverty and have not done the "required macroeconomic planning" or initiated sufficient development projects or funded huge sums of money.

It is not because of the very unequal distribution of resources, that permits a small handful of the world population to absorb the lion's share of its wealth, income, production, or whatever. It is not because advanced countries consume too much and distribute too little.

It is not because of the heavy burden of debt, foreign and domestic, that saddles many a struggling nation, or the deficit in its balance of payments. Nor is it because the national currency is weakened or "attacked" or devalued. It is not because a government is insolvent, nor is it due to inefficiency, thievery, or whatever reason.

It is not even true that rich countries get high prices for their elaborate products and that poor countries have to be satisfied with low prices for their unelaborated "raw materials".

Nor could it be true that capitalism is the villain, especially in those areas in which premodern or socialist systems prevail.

Improving some of the above factors might make things a little better but, in some cases, might even worsen them. The truth is that the practical solution to poverty does not rest with paternalistic employers, victorious unions, government funding, land redistribution, super-technology, universal education, U.N. supervised democratic elections, populist politicians, debt forgiveness, World Bank grants, or international summits. It has nothing to do with sensitivity or largesse. Nor with the people's struggle for anything. It does not result from bearing grave financial sacrifices. Nor does it depend upon just plain good luck.

The causes of poverty lie elsewhere. There are two, progress-impeding economic structures and poverty-perpetuating attitudes. If we don't identify and then correct these, little will be accomplished to create prosperity, no matter how much time, resources, money, preoccupation, hand-wringing, or preaching we dedicate to the solution of the poverty problem.

PROGRESS-IMPEDING ECONOMIC STRUCTURES

Poverty is the resultant of a defective economic structure. The different growth-refraining structures can be listed as pre-modernist, mercantilist, interventionist, and domestic-oriented. We exclude the socialist and communist models from this discussion, although the interventionist model usually contains many of their retardatory features. It is to be noted also that all modern structures contain mixtures of the various types; no single model is exclusive in any country.

Pre-modernist Structure

The pre-modernist or semi-feudalist structure harkens back to the Middle Ages, when life was considered a continuously repetitive struggle, and there was little or no notion of progress. It is characteristic of labor-intensive agricultural production that has little division of labor. It can consist either of small parcels, where individual families produce traditional crops for self-consumption and for local markets, without modern technology and equipment, and often with the obligation of paying some form of tithe to fief or landlord. Or it can consist, as in

the colonial epoch, of large plantation-type agriculture, producing crops for international markets under conditions reminiscent of slave labor. In either case, the workers are practically wedded to the local soil, in isolation from modern industry and the amenities available in world markets. Theirs is a monotonous existence that affords little incentive for self-betterment and promotes the continuous emigration of illiterate serfs from the rural communities to the capital cities and the outside world. A very high reproductive rate usually exacerbates these effects.

Pure feudalism does not exist as such and is gradually disappearing. However, its vestiges still remain and serve to impede the agricultural prosperity that is so necessary for third-world progress. Some factors causing the feudalist structure to disappear and to converge into modern structures are, briefly: in the case of the small agriculturist, the direct access of cash crops to international markets and to capital and technology improvements (like fertilizers, irrigation, pickup trucks); in the case of the plantations, modernization results from the creation of processing plants that refine the agricultural produce into forms saleable in world wholesale and consumer markets, the consequent technification and specialization of the workers, and incentive-creating systems of remuneration, which are directly geared to output production. All of the above signal gradual exodus from poverty status and admittance into a more humane mode of modern existence.

Mercantilist Structure

The old mercantilism (1600's to 1700's) was characterized by the practice of the newly emerging centralized states (England, Spain, France, Holland) to control their national industry and commerce. They did this by granting unique privileges to individual companies to produce and distribute specified products. And they attempted to protect these companies by every sort of exclusion, tariff, and subsidy.

The continuation of many mercantilist practices dominates the industrial and commercial structure of many underdeveloped countries. Exclusivism and privilege limit entrance to many markets, thus preventing the growth of cost-cutting competition. The law shelters these artificial monopolies from intrusion by others. The result is markets serving a limited number of high-priced products to a very reduced clientele, thus favoring only the already well-to-do sectors and eliminating the masses from participation in the benefits (quality and price) of world commerce. In the domestic market the national entrepreneurs can raise the prices of their tariff-protected products, and thus can sell inferior substitute goods at higher than world cost; but these same high costs serve to bar them from participating in world commerce.

Interventionist Structure

The growth of government interventionism is one of the great causes of poverty. Interventionism is responsible for the many poverty-creating structures set up within government, in the form of multiple ministries and departments with

seemingly unlimited agenda. These are directed by well-intended but inefficient bureaucrats, who are responsible for imposing an infinite array of complicated and overlapping programs, regulations, eligibility requirements, prohibitions, reporting rules, accounting burdens, and arbitrary decisions upon the citizenry and upon the productive enterprises of a nation. The administrative cost of this regulative burden contributes enormously to the country's uncontrolled deficit, and results, as often as not, in most dubious benefits to the hamstrung public, that is forced, under pain of fine or imprisonment, either to comply or to make the illegal payoffs that some unscrupulous public servants extort. The underground market, which enjoys no legal sanction or protection, arises because of the inability of most small producers to comply with the multiplicity of arbitrary requirements and payoffs the law imposes upon them.

The conviction that government should be unlimited in its obligations towards its citizens, and thus directly responsible for their health, education, housing, old age, and even recreation, has contributed greatly to this problem of interventionism. Very few services escape this direct tutelage. The state bureaucracy has added greatly to the inefficiency and high cost of the most essential services and is responsible for the deplorable unavailability of the latter. The bottom line is that, even after the outlay of huge social expenditures, the population never seems to be able to surmount the poverty of the past and the demoralization the system often creates.

The further conviction that government has immediate regulatory responsibility over private business and banking activity has produced an

unsupportable restraint upon the productivity of a nation. The notion that it is the duty of the government to intervene for the protection of consumers, workers, and investors, that it must regulate in detail prices, wages, and interest rates, that it must be the first-line policeman of all market activity, has created an overbearing (and ineffective) supercontrol that tends to shackle business initiative and efficiency, and impede the consequent earnings that foster economic growth. It impoverishes much more than it protects. It creates insecurity rather than prosperity. It refrains rather than stimulates.

In addition, the mercantilist countries generally intervene to nationalize the industries most essential for growth, like communications, energy, transportation. Most of them have only one nationalized airline, telephone company, electric company, among others. The result is even more bureaucratic inefficiency, waste, and enrichment of public servants, with the corresponding deficits and debt. Central America, for example, urgently needs millions of more telephones, which the nationalized companies are incapable of providing and servicing.

Another characteristic of interventionism lies in the attempt of a nation to control its monetary unit by means of a variety of policies directed by its central bank. The latter is considered the guardian of the currency. But in the futile attempt to finance excessive government expenditures, to amass international reserves, to regulate prices, and to protect the overvalued national currency, the bank destroys the monetary unit, distorts the economy, and incurs sizeable deficits. This is most often due to the lack of a sound monetary discipline and the political tampering with the money creation

process. Thus the money supply is continuously augmented; and this inflationary process serves only to destroy stability, confidence, and capital creation.

Finally, how does the third-world country finance these multiple activities? Practically all of the latter cause huge deficits, as is the case of the social services, the nationalized industries, the central banks, and the usually ever-present bloated bureaucracies. To secure the necessary funds, reliance is made on an inefficient and progressive tax-collecting system (that serves to create an oppressive fiscal drag), on international loans (which serve to further skyrocket the country's debt), and as often as not, on the inflationary creation of money (which is the basis of the notorious devaluations of the past).

Interventionism is at the root of the backwardness of the Third World and of its seemingly incurable poverty.

Domestic-Oriented Structure

International or inter-regional trade is one of the principal vehicles of progress. The goods that engage in this trade are those which the exporting country (or region) produces in abundance and at low cost, and which the importing country either does not produce or does so in insufficient quantities and at high cost. The more the international commerce between trading partners, the richer both become.

Those third-world countries that devote their efforts principally and often exclusively to producing for the local market, and impede commerce with other regions, are hampering their own progress.

They tend to produce little at high cost and low quality. This is aggravated when they introduce interventionist measures to protect inefficient local production by tariffs, subsidies, and quotas. Progress is greater via international markets than expanded local ones.

The prevailing economic ideology called "structuralism" has attempted to promote domestic production at the expense of international commerce and has contributed greatly to the backwardness of many Latin American countries.

Why consume your bananas locally at five cents each, when you can sell them for more than a dollar in the northern climates? The logic is overriding.

POVERTY-PERPETUATING ATTITUDES

The second root cause of poverty lies in certain progress-impeding attitudes that prevail in a society. These attitudes are of a personal nature, but they are often generalized so as to become characteristic of entire groups or nations. There are some attitudes proper to the Third World, which greatly impede its initial growth (such as indolence, indifference, resistance to change) and others adopted later on, after it has begun to imitate First World practices, like heavy dependence on unions or government. These latter attitudes are present in all the most advanced countries, where they serve to retard growth, but they are devastating to the emerging economies of the poorer countries.

The following are some of these attitudes:

-- It is my right to live unmolested in my traditional agricultural activities, just as my ancestors did before me.

-- As society advances beyond the remnants of feudalism, I demand the right to my own land, even if it must be taken from others, and to grow on it my own corn or beans or rice.

-- No matter what I do or produce, it is my right to have sufficient income to be able to enjoy all the comforts of modern living, even if this requires price supports or handouts to bolster my standard of living.

-- I will be content to sit on a corner selling chewing gum to passers by. If I am a student, I will study as little as possible. If I am a businessman, I will sell whatever brings me the most profit today and will choose the safest investment, regardless of the long-run benefits to myself and to my fellows.

-- I will work if I have to, but I will always do the minimum possible, rising as late as I can, doing only what I am forced to do or what has to be done today and cannot be postponed, exerting the least amount of effort and no personal initiative, taking advantage of as many loopholes as I can get away with, and quitting at the earliest moment. I will always promote shorter hours, longer weekends, more holidays and vacations, and earlier paid retirement.

-- I do not consider myself responsible for my fate. It is my employer who owes me not only my job and my salary, but he has many other obligations towards me as well, such as better working conditions, health plans, and grievance mechanisms. The employer is an

adversary to the employees, and he must be controlled and taken to task whenever he does not provide ever greater emoluments and benefits. I hold the right to participate in paid work stoppages whenever I am not satisfied with his performance. In addition, I hold him to be a selfish capitalist, interested only in amassing his personal fortune, and ready to take advantage of me at every opportunity.

-- I have delegated responsibility for looking after my interests to my trade union, which I consider to have been the principal agency for promoting the welfare of the workers and for maintaining alive the spirit of conflict towards the employer. The union must have complete power to negotiate and force continuous improvements in my condition, using whatever means (even illegal) to attain these ends. In the Third World, a principal function of the union is to obtain for the workers they represent the same standards of benefits received by the trade unionists of the First World. My total loyalty is to my union and I will cooperate with it, resisting every effort to make me work harder, longer, or beyond the letter of the union contract.

-- I hold government not only to be responsible for protecting my union and disciplining my employer, but also for assuring that my salary is ever increasing. I look to government for multiple benefits: for financing and providing for my health coverage (including maternity benefits for women), the day-care and education of my children, my periods of unemployment, sickness, and disability, and my old age. The government is also responsible for assuring that the prices, bus-fares, and rent that I pay are held to a minimum, and that the quality of all that I buy is up to

par. The government will acquire the necessary funds for these services by taxing those richer than I am, by issuing debt, or when convenient, by creating more money.

These attitudes, so characteristic of modern times, are reflected in many economic fallacies, which form the basis of today's political programs. Some of these are:

(a) The more we spend and the less we save, the richer and more prosperous we are. Corollary: Saving produces stagnation. This attitude leads directly to consumer waste (called consumerism) and the drying up of the scarce capital which must be allocated to providing many unessential amenities.

(b) The more jobs we create and the higher the salaries we pay, regardless of productivity, the richer we are. Corollary: It is counterproductive to cut labor costs. This error leads to the high costs associated with bureaucracy, inefficiency, and featherbedding.

(c) Unemployment is a more serious evil than inflation. Corollary: Print all the money necessary to create jobs for everybody, no matter how much or little work is performed.

(d) Inflation is preferred to raising taxes or curtailing government services.

(e) Debt is unimportant, Better incur debt than to sacrifice present well-being. Our grandchildren can just write off the debt, and inflation makes it appear irrelevant.

(f) Prices must be kept low, notwithstanding the fact that the money

supply and wages have been increased. Always blame the producers for the high cost of living and prosecute them with all classes of penalty. Never consider blaming the Central Bank for the rise in prices.

(g) The government is a loyal public provider, and its intervention in all social programs is both beneficial and inevitable.

THE SYMPTOMS OF STAGNATION

The stagnation resulting from the structures and attitudes described above are reflected in two poverty-causing and poverty-perpetuating phenomena: unemployment and the shortage of capital.

Unemployment

Unemployment (or underemployment, the incomplete or inefficient use of human resources) is a major result of the attitudes and structures we have described.

Unemployment is principally caused by high rather than low wages; it results when wages are not governed by productivity, but by the pressure of unions or by government fiat. No recognition is given to the fact that if the productivity of the employees is not high enough, in a particular industry, to provide a "living wage" or a "family wage", the company or industry concerned is loss-creating and enroute to bankruptcy; and thus all possible remedies should be applied to make it profit-creating.

Unions create unemployment by forcing uneconomic wage increases or high-cost

employee benefits. These ultimately promote a reduction in the otherwise available work force, the premature mechanization of plants (to save high labor costs), and the resultant higher prices of the goods sent to market. Work-slowing and work-stopping practices contribute to creating these negative effects.

Governments create unemployment by wage regulations and norms of employment beyond the capacity of the economy to absorb.

A minimum wage promoted by legislation is one of the principal causes of unemployment, along with union-forced high wages. Protective tariffs result in inefficient cost control and higher prices to the general public; this means less is produced and sold; and consequently employment is reduced.

When wages are sufficiently low so that everyone can find a job, there is no unemployment; there results a greater abundance of products in the domestic and foreign markets; and prices are kept low, so that all can afford to buy the output produced. It is low wages that create prosperity and progress. It is low wages that make for more humane living conditions, that benefit the less fortunate families and help them improve their lot.

It is low wages that will permit the Third World to make productive its nearly infinite supply of human resources, to compensate for its lack of capital, to fill the first world with its products, and thus create abundance for its citizens.

Capital Scarcity

The second result of the structural and attitude problem is the scarcity of capital in the Third World.

Capital is scarce because it is wasted, or is impeded from being created or imported. Capital is essential to make the labor force more productive, and to finance and furnish many needed wealth-creating projects.

Capital is wasted both by government and private enterprise:

(1) By applying resources to non-productive uses. For example, the dedication of a significant percentage of the national income to government health programs, which in most cases are incapable of providing the services for which they were created. Massive government wastes enormous amounts of otherwise available capital.

(2) By tying up capital in projects that do not serve the basic needs of a population. Examples of this are:

(a) Investing in the obligations (bonds or debentures) of governments or central banks, which only serve to cover past deficits and do not create new goods or services. It appears that the principal investment outlet in many countries is government debt, instead of wealth-creating projects.

(b) The nationalized industries, which are generally characterized by high bureaucratic cost, poor service, and capital loss.

(c) The excessive construction of exclusive shopping centers, superfluous

office buildings, and elegant housing, instead of investing in income-generating products for export.

(d) Private investment in products that foster exaggerated consumerism on the part of the people, instead of those that serve their greatest and most urgently demanded necessities: popular housing, health facilities, and education.

(e) Certain environmental regulations and prohibitions that result in high costs and no proven tangible benefit.

(3) By the forced confiscation of profitable farm enterprises and the subsequent land redistribution, that has destroyed agriculture in many countries. Capital is impeded from being created or imported, not only because of political and economic uncertainty, but also because of definite entrepreneurial and governmental policies, such as: 1) prohibitions, exclusive privileges, and excessive regulation, which defend existing monopolies and prevent the rise of new and competing projects, even though there are venturesome promoters at home and abroad, ready and willing to create them; 2) high marginal taxation of income and exports, which skims away likely investment capital and wastes it in dubious alternatives; 3) discriminatory limitations on foreign investment; 4) loans and donations from international sources, which often substitute for local self-responsibility and initiative.

Capital needs never be scarce, as it naturally flows (when not impeded) to those areas and projects that are most needful of it. It is because of the above policies that the latest in technology, products, and processes does not flow to

the Third World, but rather remains in the already opulent First World.

Thus our capital-starved human resources remain unproductive and in poverty.

CONCLUSION

The Third World will never have a chance to progress and to participate in the wealth-creating ability of the first world if it:

1. continues to attribute poverty to false causes and rejects recognition of the two root causes of economic backwardness;

2. perpetuates and protects the failed pre-modernist, mercantilist, and interventionist structures, and does not substitute them with a system of competitive free enterprise, characterized by mass low-cost production and healthy participation in international markets, a system that permits free men, unencumbered by oppressive controls, to work the economic miracles we are looking for;

3. rejects the classical attitudes of hard work, thrift, cooperation, and self-initiative, and instead assigns responsibility for progress to governments, unions, and to international bodies and their handouts.

By ignoring these indispensable changes, the Third World will continue to be plagued with the waste of its human and capital resources, that makes progress and abundance impossible.

This essay has attempted to summarize in very concise and orderly form the principal obstacles to economic progress. It is planned to expand and demonstrate each of the principles mentioned in subsequent individual essays. The writer attributes most of the ideas here conveyed to the writings and teachings of his great mentors, among whom he would like to mention, in

particular, the late Ludwig von Mises and Goetz Briefs, and also Lord Peter T. Bauer and Manuel Ayau Cordon, to each of whom he remains forever grateful. He welcomes all criticisms and suggestions geared to understanding the reasons for the poverty of the Third World and to promoting its participation in the First World's economic progress, as soon as it possibly can happen. May God so grant.