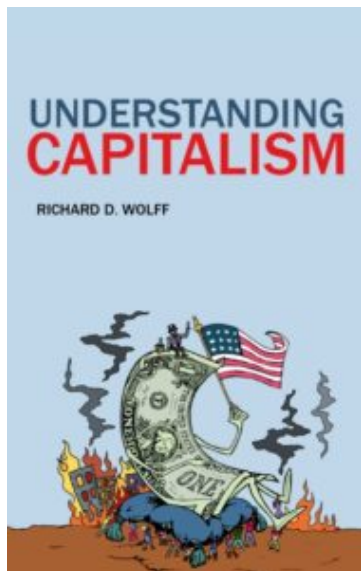


Why Poverty Reduction Under Capitalism Is A Myth



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08-27-2024 ~From its beginnings, the capitalist economic system produced both critics and celebrants, those who felt victimized and those who felt blessed. Where victims and critics developed analyses, demands, and proposals for change, beneficiaries, and celebrants developed alternative discourses defending the system.

Certain kinds of arguments proved widely effective against capitalism's critics and in obtaining mass support. These became capitalism's basic supportive myths. One such myth is that capitalism created prosperity and reduced poverty.

Capitalists and their biggest fans have long argued that the system is an engine of wealth creation. Capitalism's early boosters, such as Adam Smith and David Ricardo, and likewise capitalism's early critics such as Karl Marx, recognized that fact. Capitalism is a system built to grow.

Because of market competition among capitalist employers, "growing the

business” is necessary, most of the time, for it to survive. Capitalism is a system driven to grow wealth, but wealth creation is not unique to capitalism. The idea that only capitalism creates wealth or that it does so more than other systems is a myth.

What else causes wealth production? There are a whole host of other contributors to wealth. It’s never only the economic system, whether capitalist or feudal or slave or socialist. Wealth creation depends on all kinds of circumstances in history (such as raw materials, weather, or inventions) that determine if and how fast wealth is created. All of those factors play roles alongside that of the particular economic system in place.

When the USSR imploded in 1989, some claimed that capitalism had “defeated” its only real competitor—socialism—proving that capitalism was the greatest possible creator of wealth. The “end of history” had been reached, it was said, at least in relation to economic systems. Once and for all, nothing better than capitalism could be imagined, let alone achieved.

The myth here is a common mistake and grossly overused. While wealth was created in significant quantities over the last few centuries *as* capitalism spread globally, that does not prove it was capitalism that *caused* the growth in wealth. Maybe wealth grew despite capitalism. Maybe it would have grown faster with some other system. Evidence for that possibility includes two important facts. First, the fastest economic growth (as measured by GDP) in the 20th century was that achieved by the USSR. And second, the fastest growth in wealth in the 21st century so far is that of the People’s Republic of China. Both of those societies rejected capitalism and proudly defined themselves as socialist.

Another version of this myth, especially popular in recent years, claims capitalism deserves credit for bringing many millions out of poverty over the last 200 to 300 years. In this story, capitalism’s wealth creation brought everyone a higher standard of living with better food, wages, job conditions, medicine and health care, education, and scientific advancements. Capitalism supposedly gave huge gifts to the poorest among us and deserves our applause for such magnificent social contributions.

The problem with this myth is like that with the wealth-creation myth discussed above. Just because millions escaped poverty during capitalism’s global spread

does not prove that capitalism is the reason for this change. Alternative systems could have enabled an escape from poverty during the same period of time, or for more people more quickly, because they organized production and distribution differently.

Capitalism's profit focus has often held back the distribution of products to drive up their prices and, therefore, profits. Patents and trademarks of profit-seeking businesses effectively slow the distribution of all sorts of products. We cannot know whether capitalism's incentive effects outweigh its slowing effects. Claims that, overall, capitalism promotes rather than slows progress are pure ideological assertions. Different economic systems—capitalism included—promote and delay development in different ways at different speeds in their different parts.

Capitalists and their supporters have almost always opposed measures designed to lessen or eliminate poverty. They blocked minimum wage laws often for many years, and when such laws were passed, they blocked raising the minimums (as they have done in the United States since 2009). Capitalists similarly opposed laws outlawing or limiting child labor, reducing the length of the working day, providing unemployment compensation, establishing government pension systems such as Social Security, providing a national health insurance system, challenging gender and racial discrimination against women and people of color, or providing a universal basic income. Capitalists have led opposition to progressive tax systems, occupational safety and health systems, and free universal education from preschool through university. Capitalists have opposed unions for the last 150 years and likewise restricted collective bargaining for large classes of workers. They have opposed socialist, communist, and anarchist organizations aimed at organizing the poor to demand relief from poverty.

The truth is this: to the extent that poverty has been reduced, it has happened *despite* the opposition of capitalists. To credit capitalists and capitalism for the reduction in global poverty is to invert the truth. When capitalists try to take credit for the poverty reduction that was achieved against their efforts, they count on their audiences not knowing the history of fighting poverty in capitalism.

Recent claims that capitalism overcame poverty are often based on misinterpretations of certain data. For example, the United Nations defines extreme poverty as an income of under \$1.97 per day. The number of poor people living on under \$1.97 per day has decreased markedly in the last century. But one

country, China—the world’s largest by population—has experienced one of the greatest escapes from poverty in the world in the last century, and therefore, has an outsized influence on all totals. Given China’s huge influence on poverty measures, one could claim that reduced global poverty in recent decades results from an economic system that insists it is *not* capitalist but rather socialist.

Economic systems are eventually evaluated according to how well or not they serve the society in which they exist. How each system organizes the production and distribution of goods and services determines how well it meets its population’s basic needs for health, safety, sufficient food, clothing, shelter, transport, education, and leisure to lead a decent, productive work-life balance. How well is modern capitalism performing in that sense?

Modern capitalism has now accumulated around 100 individuals in the world who together own more wealth than the bottom half of this planet’s population (over 3.5 billion people). Those hundred richest people’s financial decisions have as much influence over how the world’s resources are used as the financial decisions of 3.5 billion, the poorest half of this planet’s population. That is why the poor die early in a world of modern medicine, suffer from diseases that we know how to cure, starve when we produce more than enough food, lack education when we have plenty of teachers, and experience so much more tragedy. Is this what reducing poverty looks like?

Crediting capitalism for poverty reduction is another myth. Poverty was reduced by the poor’s struggle against a poverty reproduced systemically by capitalism and capitalists. Moreover, the poor’s battles were often aided by militant working-class organizations, including pointedly anti-capitalist organizations.

By Richard D. Wolff

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