THE ROOTS OF POVERTY IN THE MODERN WORLD

It is often said that poor countries are poor because they are deficient in what economists call **capital stock**: i.e. they lack the tangible infrastructures that enable modern developed societies to function and to create more wealth----roads, communications systems, schools, machines, and factories. But capital stock does not grow wild. Its appearance at a particular time and place is the result of specific human decisions about investment taken in the past.

When a primitive society begins to produce more than it consumes, it ceases to be what economists call a “static” society and begins the process of “growth.” The essential ingredient in this process is **knowledge**. It is the introduction of new ways of organizing work--i.e. a hoe instead of one’s bare hands, a tractor instead of a hoe--that increases human productivity and generates **savings** that can be used to promote further increases in productivity in the future. These savings are called **finance capital** they are actually invested for the purpose of maintaining and creating more wealth. Whether it will in fact produce further wealth for a country, or more important, whether it will create wealth-producing structures (e.g. factories) **depends upon what those who control that finance capital decide to do with it.**

If a country is poor in wealth-producing structures (capital stock) it is because whoever controlled wealth in that country decided to invest their finance capital in something else or somewhere else.

The finance capital generated by the natural wealth of many peripheral societies was not used to develop local factories, schools and other structures for generating more wealth but was siphoned off to the core. It was siphoned off first as plunder, then in the more respectable form of dividends, royalties and profits where it was used to finance the luxuries and the middle-class life-styles and the industrial expansion of affluent societies.

Most of the capital left over in the peripheries was in the control of a small local elite closely tied to foreign capitalists who knew how to consume it in lavish living and where to invest it abroad for a good return.