

THE PATH FROM POVERTY TO PROSPERITY

February 17, 2016 | By ISI Archive

At 11:00 a.m. on May 29, 1953, beekeeper Edmund Hillary and his Sherpa guide, Tenzing Norgay, reached the summit of Mount Everest, the highest point on earth. Hillary, a native of mountain-and-glacier-draped New Zealand, was part of a much larger British expedition led by John Hunt. He was one of ten elite climbers picked for their mountaineering prowess.

The 1953 expedition established its first base camp in March, eventually reaching its final base at South Col in Nepal, 25,900 feet up. While on the mountain, the team had slowly adapted to the frigid and rarefied air while waiting for the relative warmth of late spring.

But they still had more than 3,000 feet to go. Even today, a shot at Everest's summit involves years of preparation, hundreds of thousands of dollars, and many weeks on and around Everest. But no future attempt was as bold as that one in the spring of 1953, for the simple reason that in 1953 it hadn't been done before. Hillary and Norgay were the first to get to the top and live to tell about it.

There are other ways up Everest, but none were known in 1953 and probably none are as conducive to success as Hillary's basic route. Indeed, in the intervening years, thousands of mountaineers have retraced Hillary and Norgay's steps in their own efforts to reach the top. Along the way, they have established many base camps that were not there before, making the route more accommodating for future expeditions. We now know, in detail, as Hillary and Norgay did not, the best way up the mountain.

The cultural path from widespread poverty to widespread prosperity is like that route up Mount Everest. For centuries, most people lived in subsistence poverty, near sea level on the upward path to wealth creation. Over the past two centuries, however, more and more cultures have climbed that path from the low-lying flatlands and hills up to the summit, creating new base camps along the way and eradicating absolute poverty in their midst (though not, of course, relative poverty, which we will always have with us).

Many around the world still languish in absolute poverty. At the level of culture, however, we *know* how poverty is alleviated and wealth is created. We know the path to the summit of culture-wide wealth creation, and it is now well traveled by climbers from different places of origin. What is so maddening is how many well-meaning people continue to commend other routes that have been well trod to their bitter ends, over a cliff or into a crevasse.

This is crazy. Surely the better course is to encourage others to take the same route to the top that we have taken. There are ten major features that allow such cultures to alleviate poverty and create wealth. The more of these a culture has, the more likely it is to be prosperous.

10 KEYS TO PROSPERITY

NUMBER 1: RULE OF LAW

Contrary to the stereotype that a free market is akin to anarchy, the rule of law is a precondition of rather than a hindrance to a free market. As Adam Smith recognized, the market order needs a system of rules that prods even selfish motives toward socially beneficial outcomes. The butcher, the brewer, and the baker may primarily have regard for their

own interest, but in a free market their self-interest encourages them not to steal from or defraud their customers but to provide beef, beer, and bread that others will freely buy.

NUMBER 2: LIMITED GOVERNMENT

Widespread economic freedom requires a government strong enough to maintain the rule of law but limited enough not to trammel the rule of law under its boots. Neither the law of the jungle nor the arbitrary rule of despots allows a population to prosper. The United States has prospered because the American Founders sought to avoid these extremes with checks and balances. Two chambers in the legislative branch, a separate judiciary and executive branch, strictly enumerated powers for the federal government, and individual states all act as a counterweight to one another and to the federal government.

NUMBER 3: FORMAL PROPERTY SYSTEM

Peruvian economist Hernando de Soto has emphasized the economic importance of a formal titling system, which allows land to become property. He argues that the system by which we represent land allows it to *become property*. Securely titled property, in turn, changes the habits and attitudes of those who own it and of everyone else, who must respect it. Titled property allows land to become capital, which can be priced, compared, and traded for other goods in a market. As property, that land can become collateral for a business loan, or inspiration for a farmer to invest in equipment or plant crops that yield greater profit in the long run but take years rather than months before the first harvest. This representational system allows land to become an instrument for moving beyond subsistence and onto the ladder of economic progress. Much of the success of North America, and failure of South America, can be traced to this factor.

NUMBER 4: ECONOMIC FREEDOM

If a society has rule of law, limited government, and a robust property and titling system, it creates space where individuals and groups are free to engage in win-win exchanges. The danger at this point is too much government. In advanced societies, champions of the free market rightly focus much attention on criticizing government barriers that prevent people from freely trading goods and services—barriers such as tariffs, subsidies, price controls, and regulations that incur more costs than benefits. But this we know: the more economic freedom a society enjoys long term, the more prosperity its citizens will enjoy. For years, the Index of Economic Freedom has listed Hong Kong as number one, and North Korea as dead last. That’s a perfect summary of the link between economic freedom and prosperity.

NUMBER 5: STRONG CIVIL INSTITUTIONS

Economists have begun to document the economic importance of vibrant “mediating institutions” such as the family, churches, private charities, and the like, which limit the power of the state. These institutions mediate between individuals, the state, and the market. Economists for too long ignored the vital role of these institutions, but they are now confirming common sense. Does anyone doubt the bad economic consequences of broken families, out-of-wedlock births, bad schools, and dysfunctional religious and charitable institutions?

NUMBER 6: BELIEF IN A MEANINGFUL UNIVERSE

Although it would be an overstatement to say that wealth creation requires everyone always to believe in God, a number of scholars, such as sociologist Rodney Stark, have pointed out the economic importance of Judeo-Christian assumptions to the *emergence* and success of Western capitalism. (This argument is at the heart of Stark's book *The Victory of Reason: How Christianity Led to Freedom, Capitalism, and Western Success*.) Even common sense suggests that if the majority of a population either languishes in existential despair or fritters away its time appeasing capricious nature gods, it will be less economically fecund than a population that sees its daily labors as part of a larger cosmic drama within a rational, orderly universe.

NUMBER 7: PROPER MORES

Prosperity doesn't require a perfectly virtuous society. If it did, no society would be prosperous. But economic success does require certain practical habits and mores that breed economic success. The German sociologist Max Weber argued as much in his *Protestant Ethic and the Spirit of Capitalism*. Although the details of his argument have not stood the test of time, his basic insight—that morality and a vibrant economy are intimately connected—has only gotten stronger. The key “commercial virtues” include an orientation to the future; the belief that improvement (but not utopia) is possible in this life; a willingness to take thoughtful risks and delay gratification (which in turn encourages thrift, saving, and investing); habits of diligence; and respect for the rights and property of others. These mores not only allow wealth to be created but also encourage individuals to save and reinvest some of that wealth—ultimately creating more—rather than merely consuming it.

NUMBER 8: PROPER UNDERSTANDING OF WEALTH

A cluster of basic economic beliefs also encourages wealth creation. These include the belief that wealth can be created and in inventive new ways, that free trade is typically win-win, that risk is essential to enterprise, that trade-offs are unavoidable in the real world, that the success of others need not come at your expense, and that you can pursue legitimate self-interest and the common good at the same time.

A good economic education should teach the wealth-creating power of sound economic beliefs, but properly tutored common sense suggests many of the same things. For instance, imagine a world where young people are taught that wealth is acquired by transferring wealth from one person or group to another (burglary, plundering, taxation). Now imagine another world where young people are taught that they can create new wealth through diligence, creativity, and enterprise, through ventures that find new ways to serve potential customers in win-win exchanges. Which world do you think will be better off in the long run?

NUMBER 9: COMPARATIVE ADVANTAGE

Focusing on your *comparative advantage* is essential to prosperity. A comparative advantage is that thing you can do better than others, or at least that thing you can do best of the live alternatives. Depending on history and geography, not just individuals but even cultures have different comparative advantages. In food, for instance, it's no surprise that Norwegians focus on fish while Central Americans focus on bananas. Although your comparative advantage might be an immaterial asset, such as a good education or a sunny disposition, it often involves access to fertile soil, abundant sunlight, or an oil field.

NUMBER 10: HARD WORK

Which country is likely to do better in the long run: the one with a hardworking population or the otherwise identical one with a population of lazy freeloaders? Clearly, the former.

The most intuitively obvious way to create wealth is to apply muscle to increase the natural creative capacities of field, herd, and factory. Even Karl Marx got this one right. But hard work is much more likely to create large amounts of wealth in a setting that includes the other nine ingredients. A Steve Jobs has a lot more wealth-creating potential in the United States than he would in, say, North Korea.

With the partial exception of number nine, the top ten ingredients for wealth creation all involve immaterial rather than material realities. Indeed, the more advanced an economy, the more important the immaterial and intangible becomes (as even the World Bank acknowledged in its 2005 report “Where Is the Wealth of Nations?”).

Many religious people believe in an immaterial reality and yet sometimes are the last to understand the immaterial nature of wealth creation. Instead, they accept the same materialistic assumptions held by many of their nonreligious counterparts. These religious people may earnestly desire a solution to third-world poverty, but they support counterproductive wealth-transfer schemes and ignore the moral, cultural, and legal preconditions for long-term wealth creation.

This needs to change. If we really want to alleviate global poverty, then we should seek ways to spread the top ten ingredients for wealth creation, and not the many popular, well-meaning plans that fail or do more harm than good.

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