How Cultures Move from **Poverty to Prosperity**

At 11:00 am on May 29th, 1953, beekeeper Edmund Hillary and his Sherpa guide Tenzing Norgay reached the summit of Mount Everest, the highest point on earth. Hillary was a native of mountain-and-glacier-draped New Zealand, but 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 over 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 were as likely to lead to success as Hillary's basic route. Indeed, in the years since then, thousands of mountaineers have retraced Hillary and Norgay's steps in their own efforts to reach the top. Along the way, they have set up base camps that were not there before. These make the route easier 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. In the last two centuries, however, more and

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more cultures have climbed that path from the low-lying flatlands and hills, to the base camps and up to the summit.

However, many around the world still languish in absolute poverty, even though we know the path to the summit of culture-wide wealth creation. What's maddening is how many well-meaning people still commend routes that have not simply been untraveled, but rather, well trod to their bitter ends in a cliff or crevasse.

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

Number 1: Rule of Law

Contrary to the stereotype that a free market is akin to anarchy, the rule of law is a precondition rather than a hindrance to a free market. As Adam Smith saw, 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 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 capricious 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 each other 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 system allows land to become a tool for climbing 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.

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The danger at this point is too much government. In advanced societies, champions of the free market rightly criticize government barriers that prevent people from freely trading goods and services, barriers such as tariffs, subsidies, price control, 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.

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Number 5: Strong Civil Institutions

Economists have begun to document the economic role 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

Everyone doesn't have to believe in God for a culture to prosper. Still, 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 economies. And even common sense suggests that if most of a population either languishes in despair or fritters away its time appeasing capricious nature gods, it will be less prosperous than a population that sees its daily labors as part of a larger cosmic drama within a rational, orderly universe.

Number 7: Right Mores

Prosperity doesn't require a perfectly virtuous society. If it did, no society would prosper. But economic success does require 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*.

His argument has not stood the test of time. Still, his basic insight—that morality and a vibrant economy are connected—has only gotten stronger. The key "commercial virtues" include orientation to the future; belief that progress 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 allow wealth not only to be created, but also encourage people to save and reinvest some wealth—creating more—rather than merely consuming it.

Number 8: Right Understanding of Wealth

A cluster of basic economic beliefs also encourages wealth creation. They include the belief that wealth can be created and in creative new ways: that free trade is typically win-win; that risk is key 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. 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 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: Focus on Your Comparative Advantage

A comparative advantage is that thing that you can do best compared to your live alternatives. Depending on history and geography, not just individuals but cultures have different comparative advantages. In food, for instance, it's no surprise that Norwegians focus on fish while Central Americans focus on bananas. Though 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: Work Hard

The most 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. There was a lot more wealth-creating potential to Steve Jobs in the US than to Steve Jobs in Haiti.

Again, this should be common sense. Which country is likely to do better in the long run, the one with a hard-working population, or the otherwise identical one with a population of lazy freeloaders? Obviously, the former.

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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. Ironically, many people of faith believe in an immaterial realm and yet fail to grasp the immaterial source of wealth creation. Instead, they accept the same materialistic assumptions held by many of their non-religious counterparts. These religious people want a solution to third-world poverty, but they support counterproductive wealth-transfer schemes and miss the preconditions for long-term wealth creation.

This needs to change. If we really want to fix 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.