Causes of National Wealth and Poverty

The great classics on causes of national wealth and poverty were written without the benefit of proper scientific evidence.

Thomas Hobbes (1588-1679) *Leviathan* (1651)

Thomas Hobbes wrote *Leviathan* while hiding in Paris from enemies of English King Charles I during the English Civil War. For a short while Hobbes tutored the Prince of Wales, who became King Charles II in 1660.

In his classic, he argued that an all-powerful king was essential to civil order and economic progress. The title was taken from the Bible's Book of Job in which God causes Job to lose his family and his property and tortures Job with ulcers all over his body. When Job asks God why, God replies that Job has no right to question God because God is even more powerful than the terrifying sea monster Leviathan.

Hobbes chose Leviathan to represent his theory of government mostly because of personal experience. In his autobiography he wrote that his mother gave birth to twins, himself and fear, because he was born in the spring of 1588 just before the Spanish Armada tried to invade England.

As a young man Hobbes translated Ancient Greek historian Thucydides' account of 21 years of the Peloponnesian War. He concluded that the war went on for so long because the armies were nearly equal. To eliminate war, there had to be one army more powerful than all others buttressed by religion to avoid the state of nature in which life was "poor, nasty, brutish, and short." He had little respect for parliament which he described as a "behemoth," which is a large clumsy animal like a hippopotamus.

Adam Smith (1723-1790) *The Wealth of Nations* (1776)

Adam Smith wrote his classic *An Inquiry into the Nature and Causes of the Wealth of Nations* based on his knowledge of England's mercantilist trade policies and a two year long tour Smith made of Europe. Although written in beautiful lyrical prose and coherent logic and although his classic popularized the idea that market forces produce national wealth as if guided by an "invisible hand," it contained nothing that we would today call scientific evidence.

Karl Marx (1818-1888) *Capital* (1867)

Karl Marx wrote his classic, *Capital* in the British Museum in London after being exiled from Germany and France. It is based largely on reports he read of the brutal working conditions in England as financiers and factory owners built the first industrial society on the backs of laboring men, women, and children.

Marx expressed the essence of capitalism in the elegant symbols, M-C-M'. Money buys Commodities which are sold for M' which is more than M. He argued that in the

process of accumulating capital through M-C-M', capitalists impoverish the rest of society and create the conditions that lead to their overthrow.

However, nowhere in Marx's classic can we find the kind of valid and reliable data that we expect of science today.

Max Weber (1864-1920) *Economy and Society* (1968)

The German Max Weber filled his classic with lots of historical information about ancient Greece and Roman as well as medieval and modern Europe. It runs to about 2000 pages and was incomplete at the time of his death.

The main idea we can glean from it is that national wealth comes from bureaucratic organization. He summarized the idea in the statement that: "Bureaucracy is to administration what the machine is to production."

Weber's work comes closest to being scientific as we understand it today. However, we expect science to be parsimonious, to express causes and effects efficiently, not in two thousand pages of prose.

Today . . .

The data available today for identifying the causes of national wealth and poverty are vast. I have used four main sources; The World Bank Development Reports, International Monetary Fund Financial Statistics, and The World Book Encyclopedia for 160 countries in 1986 plus the CIA World Factbook for countries in 2008 with similar results.

The method . . .

I used life expectancy as the measure of national wealth. Life expectancy is based entirely on age specific death rates for a given year, in this case 1986. It tells us how well off the people of a nation are; the longer the life expectancy, the lower the death rates for all age groups and that means general well-th. The shorter the life expectancy, the higher the death rates for all age groups and that means general illness.

Then I correlated 14 other variables with life expectancy. I summarize the results here. The variables that correlate with national wealth are ranked from most effective to least. The maximum life expectancy and the maximum Gross National Product per capita that we can expect with each is shown along with the strength of each variable's correlation with life expectancy.

Maximum Life Expectancy and GNP Per Capita with 13 Social Conditions

		Maximum Life	Maximum GNP	

Variable	Value	Expectancy	Per Capita	Correlation
Children in School	100%	93.2	$89,944	.94
Income Equality	100%	90.0	$96,889	.59
Military Expenditures	$3,000 per capita	85.7	$12,701	.72
GNP/PC	$100,000	80.8	NA	.83
Birth Rate	0	80.6	$37,164	-.89
Energy Consumption	7,500 kgPC	77.0	$15,501	.84
Urbanization	100%	77.7	$12,382	.79
Government	Federal	75.0	$12,224	NA
Exchange Rate	1 minute	74.2	$40,238	.83
Literacy	100%	73.3	$3,625	.86
Government Subtype	Parliamentary	73.2	$8,454	NA
Same Language	97%	68.3	$5,043	NA
Inflation	0%	64.6	$7,338	-.17

No country has achieved maximum well-being. The estimates are extrapolations from the equations that best describe the relationships between the variables.

In Sum . . .

Schooling is the single most important correlate of national wealth. The larger the percentage of children in school, the greater the national wealth. Schooling is probably both cause and effect; schooling increases national wealth and national wealth provides the means to build and staff schools.

The second most important correlate of national wealth is income equality. Equality is probably also a cause and effect of national wealth. Income equality means there is full employment, which improves the supply of goods and services; full employment widely distributes purchasing power which improves effective demand.

This is a good time to read Edward Bellamy (1850-1898) *Looking Backward: 2000-1887*. It is a novel about what a society of complete equality would be like. With us now in the year 2010, it makes fascinating reading.

In Relation to the Classics . . .

The evidence of 160 countries in 1986 shows that Thomas Hobbes was most wrong. An all poweful monarch is not the best form of government. Federal and

parliamentary governments are associated with the greatest national wealth. Both of these share power widely. Political equality, like economic equality, is healthier than political inequality.

Nowhere do we see evidence of Adam Smith's invisible hand of a free market. Instead, we see schooling - a deliberately created and maintained collective institution - at the head of the list of wealth producing conditions. Schools probably support Adam Smith's belief that free choice by autonomous individuals is healthy - but this condition is not automatically achieved. A nation must invest in it through its schools.

Marx was upset with capitalists who hoarded profits obtained by working entire families long hours at minimal wages, and the evidence supports his view. National wealth comes from schooling children and spreading income widely among all members of a nation.

Weber's attention to bureaucracy was on the mark. Two instruments are essential to bureaucractic organization and to national well-being; writing and money. They allow long distance communication and therefore large scale cooperation - which is the social source of national wealth. That schooling and income equality top the list of causes of national wealth is consistent with Weber's thinking.

The Information Chain Theory explains these and other relationships. To learn about that theory [Return to Bob's home page](#)