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Introduction

To understand our civilization, one must appreciate that the extended [economic] order resulted not from human

design or intention but spontaneously: it arose from unintentionally conforming to certain ... practices, many of which men tended to dislike, whose significance they usually fail to understand, whose validity they cannot prove, and which have nonetheless fairly rapidly spread by means of an evolutionary selection – the comparative increase of population and wealth – of those groups that happened to follow them. ... This process is perhaps the least appreciated facet of human evolution.¹

Adam Smith's question of two centuries ago—Why do some countries prosper and others do not?—remains unanswered in key respects and is even more pressing in today's world of growing disparities of wealth between developed and undeveloped countries. Indeed, given the money, the effort, and the intellectual capital invested in understanding and attacking the roots of poverty around the globe, the persistence of the question mystifies.

After all, any number of key studies, such as the *Index of Economic Freedom*, have clearly identified the essential predicates underlying the success of affluent countries in unambiguous terms. And all countries have access to science and to international capital markets. A number of countries, as we shall see, have fully drawn on such resources and have rapidly developed economically in the space of a generation to approach the first ranks of standard of living. Yet, by all measures, more countries than not continue to stagnate or even fall further behind.² How can this be explained?

The answer is not found in conventional economic theory, as noted by economist Elhanan Helpman, who stated that economists have been studying the wealth of nations without interruption since Adam Smith³. While the discipline of economics may have mastered many critical elements of modern economies,

it has had difficulty formulating a complete model, akin to physics still lacking a unified field theory. That absence was pinpointed by Peruvian economist Hernando de Soto's comment, when he lamented that the West "never preserved a blueprint of its own evolution."⁴ This acute observation suggests that while it is possible to identify key policies and institutions necessary for an affluent society, until one knows how these *evolved* originally, we may not be able to understand why each is essential and why they take hold in some countries and not others. That understanding is hindered because such measures were contentious as they emerged over centuries in the now affluent countries, and they continue to be resisted in less developed countries today.

It turns out that this puzzle was addressed, albeit in passing, by Nobel Prize-winning economist Friedrich von Hayek, as is evident in the opening quotation. Hayek's key insight was that the absence of a blueprint and an imperfect understanding stem from the fact that the elements comprising a new economic and social order were not consciously planned, but arose spontaneously and incrementally to meet needs of the day. New ways were innovated by participants in economic transactions because they met pragmatic needs and were adopted even when their underlying economic rationale was not fully understood and even if they were seemingly at odds with prevailing mores of society. Those outside the marketplace often looked down on such practices as being at odds with tradition. Thus, while practitioners increasingly adopted the new approaches and values, they were not codified, documented, or legitimized in a manner that could be considered an unimpeachable "blueprint" and, as a practical matter, are continually subject to debate. And because new practices emerged in this manner, they tended to be veiled in the pages of history.

In addition, Hayek emphasized that to understand the nature of the modern economy it was essential to view it sociologically,

in terms of the ability of members of society to cooperate productively. He characterized the modern free market system as an *extended order of human cooperation*, having a number of key attributes. First, productive activity would be increasingly freed to be shaped by basic economic forces such as supply and demand, comparative advantage, and free market prices, rather than governmental fiat. Second, greater latitude would be accorded the inventor, the entrepreneur, and the individual himself. And thirdly, societal value systems would evolve beyond the instinctual and communal to systems that are more impersonal and contractual, which became possible only because societal norms increasingly emphasized mutual trust and expectations that others will live up to their commitments. As this book will show, the key features of the extended order are prominent in developed countries and stunted in undeveloped ones. This likelihood was anticipated by another early economist who said that Adam Smith saw “a Scotsman in every man,” suggesting that he “formulate[d] laws of economic behavior that might be regarded as axiomatic only in fully developed societies.”⁵

In such a light, one would expect to see significant societal differences regarding interpersonal cooperation and vis-à-vis the institutions underlying free markets in developed and underdeveloped countries, respectively. And, indeed, surveys of individual values taken around the globe demonstrate this clearly. For the case of underdeveloped countries, take Lawrence Harrison’s characterization: “In the typical peasant society, an individual or a family can progress only at the expense of others. The typical peasant sees little or no relationship between work and technology on one hand, and the acquisition of wealth on the other: one works to eat but not to create wealth. The Anglo-Saxon virtues of hard work and thrift are meaningless in peasant society. ... Peasants are individualistic, and each social unit sees itself in continual struggle with its neighbors for its share of scarce wealth.

An individual or family who advances is viewed as a threat to the stability of the community, which behaves like crabs in a barrel. Similarly, the peasant avoids leadership roles, fearing that his motives will be suspect.”⁶

Then, contrast this view with conclusions regarding advanced societies derived from the *World Value Surveys*. The Survey results show that measurable cultural values markedly change as societies become more industrialized. As populations become more urban, move into new occupations, become more literate and educated, and reside in an altered political milieu, world views move along a trajectory characterized by “a shift from traditional values toward rational-bureaucratic norms; an increasing emphasis on economic achievement; rising levels of mass political participation and major changes in the types of issues that are most salient in the politics of the respective types of societies.” More specifically, the surveys measured a decline in adherence to tradition and absolute religious norms as populations became more socially mobile, individualistic, economic oriented, and secular. Importantly, “social status became something that an individual could achieve, rather than something into which one was born.”⁷

So, we see a congruence of views identifying a historical process of evolutionary change: von Hayek’s paths of evolutionary change of practices, institutions, and interpersonal behavior, and the *Values Survey’s* trajectories of value change—i.e., in terms of how individuals view themselves, their role in society, and the wider norms and institutions of society. But how is it that some countries followed that path and others did not, and in numerous cases rejected it?

To the extent that the world views and value systems of the undeveloped countries can be considered what was once the norm for the world’s early cultures and civilizations, contrasting these with those of developed countries can provide markers of key

paths evolution took to produce the extended order. And, with those markers in hand, we can re-examine the pages of history to uncover those evolutionary paths and even produce the outlines of the blueprint sought by de Soto.

To that end, this book describes how the extended order arose out of mankind's atavistic past to produce: free markets, institutions securing liberty, the possibility of more empowered individuals, and modern science. It examines in some detail all of the world's major cultural groupings to show how values, world views and institutions necessary to the workings of the modern world did or did not evolve, and why. That analysis helps one to gain insight into a host of related issues: why some poorer countries continue to languish, why attempts at nation building confound us, and why trillions of dollars of Western financial assistance to less developed countries have failed to assist. In other words, by examining the world views of different cultural groups, the specific hurdles they face in adopting the predicates of the extended order become much more evident. At the same time, we get to appreciate the virtues of our affluent societies so as to better protect and nurture them.

But to undertake this exploration something more is needed, namely a model of how societal evolution occurs, along with illustrations of how it unfolded historically. To understand the evolutionary process, the book turns first to the work of the philosopher Phillip Scribner,⁸ who describes how societal evolution works within the context of broader evolutionary theory. He argues that the evolutionary rules evident in the concept of survival of the fittest apply at the human group level as well as at the species level. In effect, when humans evolved capacities for speech and reason a new entity—the societal animal—was created. Through their capacity for cooperation, groups can work to achieve goals just as purposefully as individuals. And because societal animals are in constant

competition with one another for survival, an evolutionary dynamic occurs, with fitter groups surviving preferentially to others.

Scribner identifies cultural values and modes of argument as central to the social evolutionary process. He argues that groups most open to innovation and change will advance most rapidly through a natural selection of values and the arguments. He makes an analogy that arguments, institutions and values are part of the genome of the societal animal, comparable to DNA in living organisms. In that light, cultures that honor reason, value debate, and tolerate change are amenable to evolving rapidly. The test of evolutionary success—i.e., fitness, is the relative capability of the group to further its reproductive success, particularly by controlling sources of sustenance, such as food and energy, and to protect itself from aggression.

Second, with regard to societal evolution in practice, we are able to track group selection back to man's origins, even to his primate legacy. Studies show that man's earliest existence was highly precarious; indeed humans may have been close to extinction as recently as 50,000 years ago, in part because of incessant tribal warfare. Yet competitive warfare had the virtue (from a parochial modern human perspective) of driving the process of group selection. But natural selection remained a slow process until mankind learned the ways of settled agriculture around eight to ten thousand years ago. Once that happened, a multitude of new ways of organizing activities and forms of governance became possible – offering greater possibilities of protection against predatory groups and providing the basis for generating and accumulating wealth. These possibilities facilitated, in evolutionary terms, a radiation of societal creatures. The most rapidly evolving groups moved up the evolutionary scale from hunter-gatherers, to tribal units, to city-states, and eventually to empires.

Empires rose and fell over millennia. A number of these managed to establish widespread stability, which when accompanied by extensive trade, produced a modicum of affluence relative to mankind's early existence. Several enjoyed such affluence circa 1100 A.D: Europe, following the fall of the Roman Empire, was on the upswing with the "Renaissance of the Twelfth Century"; Islam achieved a peak of affluence during the Abbasid Empire after a consolidation of widespread victories; and China reached a high plateau of civilization in the Sung Dynasty, which also coincided with a "Golden Age" in Japan.

But they were seemingly caught in a *value trap*, which precluded significant societal advance. For example, the most advanced civilizations of the time—i.e., European, Islamic, Chinese, Japanese, and Indian—held very similar fixed traditions including autocratic governments, tightly regulated trade, and guild systems that rigidly organized crafts and manufacturing. Without a potential for science to unfold, commercial activity to be unleashed, and new compatible forms of governance to be found, no dramatic increase in affluence was possible.

The West, however, relatively suddenly broke out of this traditional value trap by evolving new institutions and worldviews that allowed its societies to grow more prosperous and strong. That process was largely unplanned, but not random—it had a direction and a coherence that is discernable in the context of evolutionary group selection. It transpired that the West possessed unique circumstances favorable to evolutionary advancement—a Greco-Roman-Christian cultural heritage situated among fragmented power centers, which were ineffective in stifling competitive change. The outcome was, in Hayek's formulation, the *extended order* of human cooperation characterized by free markets, representative governments with institutions securing liberty, and empowered individuals.

With this template, we are equipped to examine just how new values emerged in the West, primarily over the last millennium. Of four principal avenues of societal evolution—commerce, governance, science, and individual empowerment—commerce led the others, bringing them in its wake. Accordingly, the investigation begins by examining the flowering of commerce. Growing affluence and the new institutions for generating that affluence called forth other evolutionary advances in society. For example, the emerging commercial and industrial classes brought pressure for new forms of representative government to protect their wealth from arbitrary and predatory government. And with affluence, of course, came more opportunity for society to transcend a preoccupation with basic survival needs to produce more vibrant arts, philosophy, and eventually science. In the West, this led to Humanism, the Renaissance, and the Protestant Reformation, epochs during which individuals found greater scope for entrepreneurship and creativity of all kinds, while they demanded an increasingly greater say in governance. During the last few centuries a creative hothouse for social evolutionary change arose, creating expanded competition among ideas, practices, arguments, and worldviews.

Science is an especially important and illustrative microcosm of the evolutionary process, epitomizing an intellectual survival of the fittest. And modern affluence simply would not be possible, even with evolutionary advances in the other arenas, without the availability of science and its applications.

In short, the evolution of the extended free market system was an experiential process wherein innovations, when successful, gained adherents even when they ran counter to tradition, which they often did. Of central consequence was the cultural shift whereby values of ancient lineage—e.g., compassion and solidarity, were preserved in the extended family and local

community, but gave way to contractual, impersonal ways in larger society.

The above analysis can also help us better understand the nature of the world's residual poverty. Specifically, contrasting the performance of economically successful and unsuccessful present-day cultures against this evolutionary framework reveals the role of cultural antecedents. For example, when societies outside the West possess a threshold of necessary values—essentially having a pragmatic similarity to the Protestant ethic, as do some Confucian traditions—it can be achieved in a generation. But without an evolved set of values and institutions, development is discouragingly difficult. And finally, to help understand the nature of that difficulty, the book examines the powerful undertow of atavistic worldviews retarding the adoption of evolved values.

This argument is presented in the space of eight chapters:

1. Wealth of Nations: The Cultural Nexus. Chapter I reposes in modern terms Adam Smith's question of two centuries ago regarding the source of the wealth of nations: how is it that when all countries have access to science, to successful policy models, to global capital markets, and substantial financial aid, more countries than not fail to take advantage of these, and the economic development gap between developed and less developed countries continues to widen?

To frame the question, the chapter identifies indispensable elements of successful affluent countries and shows how developed and less developed countries fall into different cultural groupings regarding the extent to which they have adopted these elements. It goes on to identify key pragmatic differences in the cultural world views of the different groupings that could account for the varying

performance. To provide greater specificity of value differentials, the chapter draws on recent cross-cultural data bases, notably the *World Values Surveys* analyzed by Ronald Inglehart. And implicitly, value differentials between advanced and undeveloped countries identify the key paths of evolutionary change taken by developed countries over the last millennium or so: first by the Protestant West, but quickly by some others, notably those with a Confucian heritage. The most telling avenues of cultural evolution that come to light are those associated with free markets, institutions securing liberty, the rise of science, and the empowerment of the individual. This framework guides the investigation of subsequent chapters, which show just how evolution unfolded along each of those avenues.

2. The Evolution of Societies. Chapter II presents the theory of societal evolution and shows how it unfolded from mankind's prehistory to the pre-modern era. Societal evolution is a process of Darwinian *group selection* in which groups that are more evolutionarily fit survive preferentially in competition with others. For the theory, the chapter draws on the work of philosopher Phillip Scribner, which describes how group selection works within the context of broader evolutionary theory and identifies the critical roles of cultural values and modes of argument in that process.

Viewed through that prism, groups can be seen to evolve through changes in practices and institutions that prove themselves to be more efficacious than those previously extant. This is an experiential process that often runs counter to tradition and evokes modified world views to accommodate new ways. Evolutionary leaps have occurred at key junctures of human existence—e.g., the movement from hunter-gatherer societies to fixed

settlements and from settlements to city-states and then empires. A number of major civilizations—e.g., Roman, Persian, Islamic, Hindu, and Chinese, progressed through this evolutionary process, achieving rich cultures and modest levels of prosperity but eventually tended toward evolutionary stagnation. About one thousand years ago, however, a burst of evolutionary societal change began in the West, which is the subject of ensuing chapters.

3. **Commerce: Driver of Change.** A driver of societal evolution is man's propensity for enterprise and commerce, what the economist Ludwig von Mises termed *human action*. Evolutionary advance accelerated 1,000 years ago when Western Europe embarked on a mercantile revolution that produced greater wealth, power, and important new worldviews. In part, this evolution occurred in the West and not elsewhere because the fragmented and dispersed power centers of the West had less incentive and less capability to interfere with the natural instinct to create, build, invest, and innovate. Relatively free chartered cities and new towns arose in ways that promoted trade, protected wealth, and found more efficacious ways of deploying capital. At the same time, the needs of expanding commerce led to the spontaneous rise of innovative instruments and institutions, such as money, banks, contracts, and courts to enforce contracts. In the West, in generally unseen ways, new worldviews corresponding to the utility of modern commerce and enterprise displaced value systems that had once been universal.

4. **Securing Ordered Liberty.** The growth of commerce and enterprise led to the evolution of political institutions as the mercantile classes sought ways of protecting their wealth from the predatory state. The new institutions built

on traditions reaching back some two and a half millennia: principles of liberty and ordered government were identified in ancient Greece, were given early institutional form in the Roman Republic, and were preserved by tradition in the Dark Ages. But it was the British who evolved the most effective and enduring institutions for ordered liberty—a working system of constitutional law, representative government with checks on power, property rights, and the rights of the individual vis-à-vis the state. The United States built on this structure with a written constitution, a federal form of government, and more explicit checks on the exercise of power.

5. The Emergence of Science. Pure science, as opposed to technological creativity and efforts cataloguing the natural world, is the essential factor for making widespread affluence possible, and it arose uniquely in the West. Phillip Scribner argues that science could not have emerged without an enabling metaphysics, and that the metaphysics formulated in the West was primarily developed by Christian thinkers drawing on early Greek speculation. The new approach for gaining knowledge entailed a non-superstitious and non-mystical way of viewing the world, requiring a belief that the workings of nature, while not immediately visible to our senses, could be discerned through inductive reasoning, rigorous experiment, and applied mathematics. In addition, for science to emerge on a significant scale, society had to have a modicum of affluence and a culture that tolerated debate. From the first intellectual grasp of the scientific method around the 12th century, several more centuries elapsed before Europe developed the tools—instrumentation and mathematics—essential for productive scientific enterprise. But once the institutional base was laid, scientific

discovery exploded along evolutionary lines, powered by widening competition among ideas. Science, married to a free market system, liberated mankind from a heritage of poverty and precarious existence.

6. **The Empowerment of the Individual.** Via Greek philosophy, Roman republican principles, Judeo-Christian emphasis on a God-given conscience, Humanism, and the Protestant Reformation, the West evolved a culture in which the individual's ability to think and act for himself was freed from close control by his social group. In practical terms, this facilitated the decentralization of power associated with liberty, unleashed entrepreneurial forces, and accelerated man's creativity.

7. **Cross-Cultural Performance.** The world's other cultures have responded to the West's evolutionary advance in starkly different ways, depending on their cultural readiness for the extended order. Confucian cultures exhibited a particular readiness: Japan coolly determined what was required to catch up and launched the Meiji Restoration, and the Seven Tigers of Asia largely followed that model in more recent years. Latin America, however, with the exception of Chile, lags economically and haplessly resists many dictates of free markets. Islam, after confused efforts to catch up, appears in some quarters to wish to retreat to the primitive religiosity of 700 A.D., and Africa is mired in a post-colonial mindset marred by self-defeating victimology.

8. **Innate Resistance to Change.** The relative failure of some countries to advance, despite the general availability of science and clear prescriptions of sound macro-economic policies, can be traced to the contrary pull of atavistic traditions. Understandably, values crucial to past survival are not readily discarded, certainly not through

abstract argumentation. To replace these familiar beliefs with new ones, societies first require experiential demonstration of their validity. Yet, even where populations have been beneficiaries of efficacious new practices, retrograde forces persist. Examining some of the cultural battles underway in the United States provides a clearer understanding of why value change is so difficult, and why, ultimately, outcomes are determined pragmatically—i.e., when the Darwinian fitness of the institutions and policies in question has been demonstrated and accepted.

This book was written to cast new light on the evolutionary process that produced modern affluent societies in a way to inform policy makers regarding matters at home and abroad. But it serves another purpose as well, by highlighting the cultural and institutional roots of modern affluent society so as to better equip us to nurture and defend the values and the practices of our culture.

As the book is being written, the world is experiencing one of its recurrent economic downswings—after a prolonged period of unprecedented growth. Such recessions grow out of institutional mistakes and investor excesses, but are self-limiting (without further institutional mistakes). While they are dismaying and painful in consequences to many, the inevitable calls questioning the capitalist model demonstrate a bewildering ignorance of the free market track record. To paraphrase Churchill's famous aphorism, free markets are the worst kind of economic system except for any other.

Of perhaps greater concern are broader ideological attacks on the Western model, whether it be from groups generally hostile to 'globalization', fanatical Islam, or "Bolivarian socialism." All too often, key elements of Western society respond to such attacks

more with fecklessness than resolution. They seem to be insufficiently cognizant of the dictates of the modern economy, as they are preoccupied with ill-founded moral relativism, myopically concerned with residual areas of social shortfall, past moral lapses, and ungrounded good intentions.

While robust debate is a healthy and essential feature of democratic societies, a pervasive lack of vision can ultimately be dangerous. To be sure, danger is not yet at our doorstep and Western societies are demonstrably in the vanguard of an evolutionary process in which societies tend to grow more 'fit' — i.e., wealthier, stronger, and more creative. One way or another, the evolutionary process will continue, but in any society there can be shocking setbacks. The book's concern is that, through a lack of confidence in their cultures, Western societies will derail the process, as they once almost did in the first half of the 20th century, by needlessly empowering destructive forces at substantial cost to themselves, and to the entire world. To counter that possibility, this book would rally support for the essential underpinnings of modern society: for free markets and free people. Consider the words of Jose Ortega y Gasset⁹:

“If you want to make use of the advantages of civilization, but are not prepared to concern yourself with the upholding of civilization—you are done ... Just a slip, and when you look around, everything has vanished into air.”