Economic and Spiritual Impact of the Introduction of Capitalism in Developing Countries

Sara Gulbranson

Crown College

Abstract

Governments exert different levels of control over a country's economy. A capitalist economy is evidenced by free business enterprise with minimal government control. Introducing capitalism to a developing country, though challenging, can positively impact the economic and spiritual lives of its people. Capitalism provides several economic benefits to a developing country, including increased per capita income and increased participation in the global economy, resulting in higher wages, technological advancements, and better working conditions. Criticism for the capitalist model involve concerns over monopolies, unemployment, inequality, and using profit as a primary motivator. Government involvement can enable market competition and the workforce without controlling the economy. A strong economy is more effective than government funding in the fight against poverty. The effects of economic advancement on spiritual lives of citizens is mixed. Capitalism may open doors for Great Commission Companies to engage in evangelistic efforts. Believers are equipped to model and infiltrate a society with cultural values that support a capitalist economy. Capitalism further provides opportunities for believers to live out their faith in helping the poor. Lastly, believers should be driven primarily by eternal rewards.

Economic and Spiritual Impact of the

Introduction of Capitalism in Developing Countries

Government plays a key role in a country's economic development through government spending and policies (Farnham, 2014, p. 292, 316). The extent of a government's economic involvement has been defined by terms such as socialism, communism and capitalism. A capitalist economy is evidenced by free business enterprise with minimal government control. (Pettinger, 2017, n.p.) A measure of government involvement is still necessary in order to protect property rights (Pettinger, 2017, n.p.) and ensure justice in business dealings (Dowd, 2018, n.p.). A capitalist economy is further characterized by significant consumer choice in goods and services, strong responsiveness to the market (demand and supply), "a developed banking and financial system", low international trade barriers, and ready availability of workers (Pettinger, 2017, n.p.). A capitalist economy also promotes innovation and production efficiency. Critics of capitalism raise concerns that capitalism fosters monopolies, inequality between the rich and poor, inordinate emphasis on profits and does not address needs of the unemployed and disadvantaged (Ryrie, 1992). A capitalist economy has been adopted by the United States, Japan, Great Britain, and Australia (Bernstein, 2018, n.p.). Capitalism has also been introduced in developing countries such as Chile, Indonesia, India, Mexico and Korea (Ryrie, 1992, n.p.). Proponents of capitalism include economists Adam Smith, Milton Friedman and Friedrich Hayek (Pettinger, 2017, n.p.).

Introducing capitalism in developing countries poses practical and cultural challenges. Some countries may have just escaped out of a military-run, or terrorist-controlled form of government. As a developing country seeks to embrace a more democratic political system, several factors may deter a country from embracing capitalism. Citizens may give the new government more economic control out of fear and in hopes of keeping the previous government regime from taking over. In poor countries, the government may sense that there simply are not enough strong businesses to take on the challenge of moving the country forward economically, so the government takes the initiative to control the economy. When the West supplies funding to a developing country, the monies are usually given to the government and not put directly into the business market. The most underdeveloped countries may struggle with resources to meet capitalism's requirement for a "modern financial system" (Ryrie, 1992, n.p.). Lastly, certain cultures lend themselves better to capitalism that others. If religious and cultural norms do not coincide with capitalistic values (for example, profit motivation), the integration of capitalism will prove difficult. (Ryrie, 1992, n.p.)

Capitalism provides several benefits to a developing country. Capitalism is strongly associated with increased per capita income. For example, in Mexico, Nuevo Leon's per capita income is nine times higher than Chiapas, which has significantly less of its workforce employed by private companies. Likewise, in Columbia, Bogota has a higher per capita income than Maicao, attesting to the impact of a capitalist economy. (Hausmann, 2015, n.p.) By contrast, state-owned companies can actually drain a nation's Gross Domestic Product (GDP), as such was the case when Argentina lost six percent of its GDP. Capitalism can result in a standard of living up to four times higher. (Ryrie, 1992, n.p.)

A capitalist economy facilitates participation in the global economy. Capitalist countries benefit as they welcome international companies inside their borders. "Bringing in companies with world standards of efficiency in management and technology can be a wonderful stimulus to domestic companies" (Iacono, 2016, n.p.). Studies show that foreign companies provide better working conditions and salaries than native businesses in developing countries (Iacono, 2016, n.p.). International companies pay on average twice the going wage of the indigenous businesses. American businesses located abroad pay locals at least eight times the going wage. (Bernstein, 2018, n.p.) Foreign manufacturing companies raise the wage of unskilled labor in a developing country and may bridge the inequality between the rich and poor (Iacono, 2016, n.p.) Even “sweat-shops” in foreign countries often have better living conditions that the surrounding native businesses (Iacono, 2016, n.p.). Foreign countries may also contribute to a lower cost of living. Due to increased efficiency and technology, foreign companies can provide cheaper products to nationals than surrounding businesses. (Iacono, 2016, n.p.) According to Pew Research, 85 percent of the population in “developing” nations view incoming international manufacturing companies as a positive addition (Iacono, 2016, n.p.).

Capitalism can promote international trade through lower tariffs. The National Bureau of Economic Research studied the economic development of 125 countries who underwent free trade reforms instigated by the General Agreement on Tariffs and Trade (now the World Trade Organization). Against a control group, the reformed countries’ economies grew while the control group’s economies fell or stagnated. The results provide support for an increase of approximately 20 percent in per capita income over the long run as countries reform towards freer trade. (Iacono, 2016, n.p.) Other benefits of free trade include “lower rates of extreme poverty and child mortality in developing countries” and increased disposable income (Iacono, 2016, n.p.). Chile, Mexico and Indonesia have all benefited with the removal of trade barriers (Iacono, 2016, n.p.).

Opponents of capitalism cite concerns over company monopolies, unemployment, inequality, and an unethical appetite for profit. Capitalism is not the absence of government, but rather more a definition of the government’s level of involvement in promoting the economy. The government acts an “umpire” to promote and ensure “fair play” in the economy (Ryrie, 1992, n.p.). In order to adopt capitalism, countries need “systems for the regulation of markets, sound legal systems, and a modern financial system” (Ryrie, 1992, n.p.). The government can help to build and enforce a framework providing the equity and freedom necessary for economic growth and discourage monopolies.

Unemployment is a genuine concern in capitalism since spending resources on unemployed persons is considered inefficient. However, the solution lies in the creation of new jobs to replace older employs and in growing the economy to increase tax dollars the government can use to invest in helping the poor. The greatest long-term impact on poverty is the creation of a strong economy. (Ryrie, 1992, n.p.) It bears noting that capitalism in underdeveloped countries is not the root cause of poverty. The current or more recent economic and political systems in these countries contributed to poverty prior to the introduction of capitalism. (Bernstein, 2018, n.p.). Inequality in the dispersion of wealth may be a temporary result of adopting capitalism, but will even out over time (Ryrie, 1992, n.p.).

Capitalism necessitates that businesses are profit-driven. “The market philosophy not only recognizes some less admirable aspects of human nature, but seeks to use them for the common good” (Ryrie, 1992, n.p.). Communism failed in part because it does not fully account for human behavior and tendencies. As the capitalist economy strengthens, businesses focused on profitability can also be made up of professionals powered by motivators other than profits. (Ryrie, 1992, n.p.)

Instead of increasing control, government efforts to alleviate poverty should enable the disadvantaged to contribute towards the country’s economic growth. The government should focus particularly in the areas of health and education (Ryrie, 1992, n.p.). The Journal of

Development of Economics conducted a study of the clothing industry in Bangladesh who's increased wages made an education affordable for its young female employees.

> Remarkably the authors found that, "the demand for education generated through manufacturing growth appears to have a much larger effect on female educational attainment compared to a large-scale government conditional cash transfer program to encourage female schooling." (Iacono, 2016, n.p.)

Developing countries increase their Gross Domestic Product (GDP) and boost their economic growth when they achieve significant progress in "education, health, fertility rates, rule of law, electoral rights. Also important factors are propensity to invest, size of government, international openness, and macroeconomic stability" (Barro, 2004, n.p.). Government initiatives targeting these objectives will propel the economy forward by reinvesting tax dollars into the available workforce and increasing economic profitability overall. Facilitating "access to information" through technology and a quality education are important factors in successful capitalism, along with democratic politics (Ryrie, 1992, n.p.).

Economic advancement through a capitalist model impacts the spiritual lives of citizens in a developing country. According to the secularization hypothesis, as a country continues to develop economically, its citizens will grow less religious, as was the case in France, Germany and Britain. However, the United States has not followed this model. (Barro, 2004, n.p.) Adam Smith presented a different hypothesis: "A greater diversity of religions available in a country or region is thought to promote greater competition, hence a better quality religion product, and therefore higher religious participation and beliefs" (Barro, 2004, n.p.). Whether or not a developing country has a state religion and whether or not it allows outside religions to enter the country, will determine how many religions are competing within the country. Studies indicate that religious beliefs in heaven, hell or the afterlife positively impact economic growth since they reinforce reward for integrity and work ethic. However, church attendance alone reduces economic growth, but contributes towards average growth when combined with religious beliefs. Furthermore, strong growth is seen in countries where church attendance is low and religious belief is high. (Barro, 2004, n.p.)

Great Commission Companies (Rundle & Steffen, 2011) can be influential in instilling the values necessary to sustain a capitalist economy in a developing country (Ryrie, 1992, n.p.). A foreign business would likely be well received in a capitalist, developing country. Believers in the newly planted Great Commission Company can impact the indigenous people through every day contact, as well as, direct mission work. As nationals become believers, Christian values begin to permeate the culture and affect the economic environment in which businesses operate (Rundle & Steffen, 2011, p. 58). As the Great Commission Company grows its profits, company expansion affords greater reach and opportunity to impact the culture.

A biblical perspective on capitalism gives further insight into how a believer in a developing country might be influenced by and interact with capitalism. The government's primary role is to execute justice (Romans 13:4). The government should put laws into place and execute justice when a business operates unfairly and without integrity. Alan Dowd supports his biblical case for capitalism's free market by God's desire for people to live freely. God gave Adam freedom in cultivating the garden and gives people free will to make decisions. God delivered the Israelites from slavery. He frees believers from sin to walk in freedom (Galatians 5:1). He does not want believers to become enslaved, but rather seek their freedom, if possible (1 Cor. 6:12; 7:21). (Dowd, 2018, n.p.)

Addressing poverty is best accomplished through a growing economy and generosity. Dowd demonstrates how poverty is the result of a fallen world that a government cannot fix. Poverty is the result of an individual's poor choices, the selfishness of others, as well as, factors from no ill-intent or failure. Christ said, "the poor you will always have with you" (Mark 14:7, New International Version). Government welfare spending has not proven beneficial (Dowd, 2018, n.p.) and overtaxing the wealthy can lead to economic stagnation (Ryrie, 1992, n.p.).

> The redistribution of wealth by government fails…. Consider that Washington has appropriated and redistributed some $22 trillion since 1964, waging war on poverty, and yet "the percentage of Americans dependent on government has remained virtually unchanged," according to Heritage Foundation research. … To be sure, government has a role to play in helping those in need. The very idea of a safety net is to provide some measure of security when circumstances overwhelm us. But government doesn't generate wealth. Individuals and businesses do. (Dowd, 2018, n.p.)

God desires believers to help others in need (Deuteronomy 15:11, Proverbs 29:7, Matthew 25:34) and to give joyfully without compulsion (2 Corinthians 9:7) (Dowd, 2018, n.p.). However, believers should exercise wisdom in their giving to others. If someone is capable of working, he or she should work to earn a living (Ephesians 4:28; 1 Thessalonians 4:11; 2 Thessalonians 3:10). Government involvement in helping the poor should be focused on enabling them to contribute towards the country's economic growth.

Capitalism depends on a strong profit motive (Ryrie, 1992, n.p.). Although believers should not strive after worldly ambitions (1 John 2:16), workers should enjoy the profits of their efforts (Proverbs 27:18, 2 Timothy 2:6) (Dowd, 2018, n.p.). Profitable businesses can consist of hard-working professionals fueled by a variety of motivations beyond wealth (Ryrie, 1992, n.p.).

Believers also have an eternal perspective of reward which frees them to share with those in need.

> Teach those who are rich in this world not to be proud and not to trust in their money, which is so unreliable. Their trust should be in God, who richly gives us all we need for our enjoyment. Tell them to use their money to do good. They should be rich in good works and generous to those in need, always being ready to share with others. By doing this they will be storing up their treasure as a good foundation for the future so that they may experience true life. (1 Timothy 6:17-19, New Living Translation)

References

Barro, R.J. (2004, January 6). Spirit of capitalism: Religion and economic development. *Harvard International Review.* Retrieved from http://hir.harvard.edu/article/?a=1193

Bernstein, A. (2018, April 13). Capitalism and exploitation of third world countries. *Capitalist Magazine.* Retrieved from https://www.capitalismmagazine.com/2018/04/exploitation-of-the-third-world-countries/

Dowd, A. (2018, January 25). *Can a biblical case be made for free markets?* Retrieved from https://tifwe.org/biblical-case-free-markets/

Farnham, P. G. (2014). *Economics for Managers* (3rd ed.). Upper Saddle River, NJ: Prentice Hall.

Hausmann, R. (2015, August 21). Does capitalism cause poverty? *World Economic Forum.* Retrieved from https://www.weforum.org/agenda/2015/08/does-capitalism-cause-poverty/

Iacono, C. (2016, June 16). How capitalism and globalization have made the world a better place. *Quillette.* https://quillette.com/2016/01/16/how-capitalism-and-globalization-have-made-the-world-a-better-place/

Rundle, S., & Steffen, T. (2011). Great commission companies: The emerging role of business in missions (revised, expanded ed.). Downers Grove, IL: InterVarsity Press.

Ryrie, W., Sir. (1992, July 1). The mature society: Capitalism and the third world. *Crisis Magazine.* Retrieved from https://www.crisismagazine.com/1992/the-mature-society-capitalism-and-the-third-world