Poverty of Nations

Wayne Grudem

(summarized by Paul Schlehlein)

INTRODUCTION

- Book has composite list of 78 distinct factors within nations that will enable any poor nation to overcome poverty.
- Thesis: "The goal of this book is to provide a sustainable solution to poverty in the poor nations of the world, a solution based on both economic history and the teachings of the Bible." (25)
- Unique in that it is aimed at the level of the whole nation, *not* individual poor, businesses etc.
- This books solution is complex because economic systems are complex. But it is a real, viable solution and it has been proven again and again in world history. It is supported by the moral teachings of the Bible. (32)
- Books to get: Landes, *The Wealth of Nations: Why Some Are So Rich and Some So Poor.*
- Some people are cultural equalizers, saying that no culture is superior to others. So are some poor by accident? Many economics books say nothing about cultural transformation.
- Scripture concerned for the poor (Deut. 15:7-8, 11; Ps. 41:1; Prov. 14:31; Gal. 3:20; 1 John 3:17).

I. **The Goal: Produce more goods and services**

- Two key economic concepts that determine if a country is rich or poor (per capita income and GDP

A. What makes a country rich or poor?

1. The standard measure of wealth and poverty: Per capita income
    a. If a country wants to raise this, they must increase the total amount of goods and services it produces
2. Standard measure of what a country produces is the GDP
    a. Final market value of all good and services in a country for a given amount of time.
3. What will increase a country's GDP?
    a. Increasing the production of good and services

B. Other goals suggested

1. More aid: this is the wrong goal; should be increasing goods and services
2. More equal distribution of wealth: but merely distributing wealth does not change the amount of wealth a nation produces each year, which is the only way to prosper.
    a. When government forces economic equality (e.g. heavy taxes), it diminishes incentive. This is easy to see in communist regimes like N. Korea and Cuba.
    b. "A society that puts equality before freedom will get neither. A society that puts freedom before equality will get a high degree of both." Milton Friedman
    c. A society must produce wealth before it can distribute or enjoy it.

3. Natural resources: but some nations with almost no natural resources (Japan, Hong Kong) are very wealthy
4. Debt Forgiveness: this is essentially more foreign aid, as a loan is turned into a gift. So the same reasons apply.

C. The amazing process of creating value that did not exist before
- This is not done by taking valuable from someone else (this does not increase the GDP) but by creating new products and services

1. Examples
   a. A woman has $3 of cotton cloth. She sews and sells for $13. GDP moves to $2,000,010. Or, $3 of flour for $4 bread. $1 material to make $100 glasses.
2. Transfers of goods from one person to another do not increase GDP
   a. Giving a $13 from one person to another doesn't change GDP.
3. Printing money does not increase GDP
   a. Remember, money is not a product of value.
   b. Imagine people stranded on island. They begin to build houses and catch fish and sell beads. Now someone prints $1,000 Lost Island Dollars. Any more wealthy? No!
4. How can a nation create more good and services? Creating more goods and services

D. Examples of nations that have become prosperous by producing more goods and services
1. Britain: cotton manufacturing and the Industrial Revolution
2. Nations that that have grown more prosperous today (Japan, China, South Korea etc.)

E. Biblical support for creating more goods and services
1. The Excellent Wife in Proverbs 31
2. Genesis 1:28; 2:15. "God's ideal for us is not that we live in caves and barely survive on a subsistence diet of nuts and berries, but rather that we discover and develop the abundant resources that he has placed in the earth for our benefit and enjoyment."
3. Matt. 22:39 → Love Your neighbor as yourself.
4. Work with hands (Eph. 4:28; 1 Thess. 4:11; 2 Thess. 3:10).

F. What goods and services can your country create?
1. Principle of comparative advantage says no person and no country can make everything, so there is always something we can do. Also, humans have limited needs but unlimited wants, so they will always want additional products.
2. Traditional products often do not bring out of poverty. Weaving machines in Britain and cars in Japan were not traditional and they brought their country out of poverty.

II. **Wrong Goals: Approaches that will not lead to prosperity**

A. Dependence on donations from other nations
1. The harmful results of dependence on foreign aid
   a. No country in history has grown wealthy by depending on donations from other nations.
   b. There are reasons nations are poor (like Afghanistan and their extractive institutions).
   c. Dambisa Moyo says foreign aid is the main cause for poverty in Africa. "But has more than US$1 trillion in development assistance over the last several decades made African people better off? No. In fact across the globe recipients of this aid are worse

off; much worse off. Aid has helped make the poor poorer and the growth slower…. The notion that aid can alleviate systemic poverty, and has doen so, is a myth. Millions in Africa are poorer today because of aid; misery and poverty hade not ended but have increased. Aid has been, and continues to be, an unmitigated political, economic and humanitarian disaster for most parts of the developing world." (66)

d. "For almost half a century the countries of Africa have been awash in aid. Hundreds of billions have been given to African governments. More billions were lent to these same governments. Countless tons of food have inundated the continent, and swarms of consultants, experts, and administrators have descended to solve Africa's problems. Yet the state of development in Africa is no better today than it was when all this started. Per capita income for most of Africa is either stagnant or declining." James Peron (67)

2. The reasons foreign aid is harmful
   a. It props up corrupt governments, providing them with freely usable cash.
   b. So much aid is still given because approx. half million people who work for aid agencies. Their livelihood depends on it.
   c. Small percentages of the aid actually reach the target to help the poor. Most is wasted through corruption and overhead.
3. Biblical teaching about dependence on donations from others
   a. This is not God's ideal; his plan is that we work and create our own goods and services, not simply receive donations.
   b. God put Adam and Eve in garden to work it (Gen. 1:28)
   c. God blessings come through productive work that created new goods and services.
   d. Deut. 15:6 (lend, don't borrow); a person could become a servant for a while for a wealthy person to pay off debts (Lev. 25:39-43). Exceptions were handicapped (Mark 10:46; Luke 18:35).
   e. Paul rebuked the idle (1 Thess. 5:14; 2 Thess. 3:7).
4. "Earned Success" is more important than money
   a. Primary economic factor that makes people happy is not money but "earned success".
   b. "Earned success means the ability to create value honestly—not by winning the lottery, not by inheriting a fortune, not by picking up a welfare check. It doesn't even mean making money itself. Earned success is the creation of value in our lives or in the lives of others." Arthur Brooks (73)

B. Redistribution of wealth form the rich to the poor
   1. In some nations, people are rich because of abuse of government
      a. But the cause of the disparity is not inequality of wealth but the improper use of government power to protect a wealthy few and prevent others from increasing their wealth through hard work and thrift.
      b. So redistribution does not solve the problem because it does not create more goods and services. Imagine total wealth in Zambia is $40 billion; the next day you take half of it and give it to the poor; the total value is the same. Of course, these poor can buy

houses and cars for a time, but the day will come when they food dries up and the cars are broken.

2. In other nations, people are rich because they have rightfully worked and earned more money.
    a. Grudem believes governments should provide safety nets for those who lack the very basics (Dan. 4:27, Rom. 13:4; Deut. 24:19-22).
    b. The Bible never says government's role is to equalize differences between rich and poor but rather to punish those who do evil and praise for those who do good (1 Pt. 2:14).
    c. It is unjust to take from the rich to give to the poor because the rich legally and justly earned their money (Prov. 17:26!).
    d. Problem, as Jay Richards says, is poverty, not the rich. People are sick but the fault is not those who are healthy. We need to find the solution to the illness.

C. Depletion of natural resources
    1. If you put too much stock in your natural resources, this will turn south.
    2. Yes, Botswana found diamond mines, but there also has been no wars, good property rights, and clean elections.

D. Blaming poverty on outside factors or entities
    - Main problem with blaming outside factors (e.g. colonialism, banks, rich nations etc.) is that it does nothing to solve the problem.
    - *Internal factors* are the main causes of poverty, not external. External may have some bearing, but they are small.

    1. Colonialism
        a. Did these countries merely plunder their colonies and impoverish them?
        b. Many former colonies have prospered (US, Canada, Hong Kong, Norway and South Korea. Some nations were kinder than others.
        c. Though colonialism almost always brought suffering to the people, it also brought much material gain like roads, water, railroads etc. Also the spread of the English language. Would they really have been built had they been free? Worse, successor regimes have allowed infrastructure from colonialism to deteriorate.
        d. Positive: Think of the education in Ghana in 1900 compared to 1950 after colonialism. Think of the mission houses, gold valleys, health centers etc. Slave trading was practically eliminated.
        e. Negative: bloodshed; worse… socialist idea that government should control the economy. Further, they often gave territory to the wrong group, split ethnic groups up, and combined into single nations two or more groups that were enemies.
        f. Solution: Change import tariffs that hinder poor nations from selling (2) stop agriculture price support programs that depress world prices for crops (3) start companies that increase jobs (4) no government-to-government aid
    2. Agencies that lend money to poor countries
        a. External debts of third world countries is not a sign of exploitation; they represent resources supplied.

b. Scripture teaches that borrowers must repay their debts (Ps. 37:21; Rom. 13:7-8).
c. Debt forgiveness (really more foreign aid) means someone else has to pay for debts, like taxpayers. This is giving aid to those who have proven their ability to misuse aid. Mismanagement and corruption is the cause of this and will continue to be.
d. The loans themselves do not make the country poor but the corrupt leaders who steal the money.

3. World economic system and international terms of trade
   a. Thoughts on free-trade coffee: it is an artificial increase of the price of coffee above world market price, thus encouraging them to grow more coffee than market demands. This then depresses the prices for other coffee growers not part of fair-trade.
   b. This encourages them to keep on making coffee when they should change to a different crop. This crop keeps them in poverty.
   c. Rich nations wrongfully impose harmful tariffs and quotas on produces they import from poor nations. But if Mexico can grow and sell tomatoes cheaper than US, it benefits US and Mexico.
4. Is it true that rich nations are rich by making poor nations poor?
   a. Poor nations were poor before rich nations became rich. The poor nations today were poor in the past. Rich countries get that way by producing more goods and services. In the Industrial Revolution, some got richer, while others *stayed poor.*
   b. Some poor nations sell their natural resources. This is "buying", not stealing.
5. Economic contracts with the West have mostly benefitted poor nations.
   a. That wealthy countries "exploit" the poor nations is standard claim of Marxist ideology.
   b. Corporations don't pay unfair wages, they are set by the prevailing price. They are free to offer what they want. This is *an economic advantage* to demand lower wages, than say, in America. If prices were same, US wouldn't come to Africa.
6. Scripture does not blame rich for poverty. Caused by evil governments who rob people (Prov. 13:23) or result of laziness (Prov. 6:9-11, 14:23, 21:17, 28:19) or God's sovereignty (Prov. 11:24, 28:22).

E. Conclusion: Producing more goods and services does not happen by donations, redistribution, depleting natural resources, blaming colonialism, banks, world system or rich nations.

III. **Wrong Systems**

- "The causes of both poverty and prosperity are complex, and single-cause explanations are always deficient." (107)
- Right kind of system is crucial; gives incentives to work.
- Free-market system definition: "Economic production and consumption are determined by the free choices of individuals rather than by government, and this process is grounded in private ownership of the means of production."

A. Hunting and gathering
B. Subsistence Farming – some environmentalists still prefer this. After Industrial Rev., life expectancy moved from 29 years to 67 in 2001.
C. Slavery

D. Tribal Ownership – all land is owned by tribe or community. Common in Africa. When no particular owner has responsibility for it, little incentive to improve it. "Tribal ownership eliminates individual incentives and reduces the tribe members to primitive economic activities and burdensome tribal duties." (114) Aristotle: "Property that is common to the greatest number of owner receives the least attention; men care most for their private possessions, and for what they own in common less, or only so far as it falls to their own individual share." This is why graffiti is on the walls of public restrooms by not in our homes. The overgrazing of grass is in the public domain.
E. Feudalism
F. Mercantilism
G. Socialism and communism
    1. Common in 20th century in Marxist countries (German, South America, Africa) and communistic countries (China, Soviet Union, Eastern Europe). Both systems want to abolish private ownership, belief in God and inequality.
    2. Socialism is an economic system in which the government owns the means of production (the businesses and farms), and goods are almost entirely produced and distributed by government direction. Communism is where government owns not only the means of production but all other property, including people's labor; socialism must come about by violent revolution as a step toward utopian society that is classless and moneyless.
    3. Communism was born by Marx and *The Communist Manifest* (1848). Marx thought the value of something was based on how many hours was put into it, rather than the preferences of buyers. He denied that property owners deserve profit for their investment of time, effort, planning, and risk.
    4. Marxism was responsible for producing equality of material conditions. We know now that communism gives people no incentive to work, for they cannot keep the fruit of their labor. Abolishing private property destroys incentives. Communism in one sentence: "Abolition of private property." – Karl Marx
    5. No real world success in communism. Not one example. No other time has such barbaric evil and murder taken place than in communism, about 85 to 100 million people murdered (China, USSR, North Korea, Cambodia, Afghanistan, Vietnam). Socialism and communism can NEVER bring country out of poverty.
    6. Reasons: lack of sufficient incentive, loss of productivity, private ownership, freedoms. Government decides.
H. Welfare state and equality
    1. Government owes me human rights, like education, good jobs, long vacations, retirement, pensions, housing, and health care.
    2. Remember many of the biggest welfare states (Europe) were built by free-market systems. But the government benefits have created equal achievers, slow growth and entitlement mentality.
    3. "When you reward an economic activity, you get more of it; when you penalize it, you get less."
I. Best: Free-market

1. People, not government own businesses and property.

IV. **The Economic System**

A. Free market system defined
   1. A free market system is one in which economic production and consumption are determined by the free choices of individuals rather than by governments, and this process is grounded in private ownership of the means of production.
   2. "The market is probably the most complex structure in the universe". – FA Hayek
   3. How can governments get their people to produce more? Some have tried slavery, others socialism/communism through government planning and compulsion to make people work. But the genius of the free market is that it does not compel people to work. Rather, it gives free choice and rewards them with keeping the fruit of their labor. The government just gets out the way and lets the free market work.
   4. A free market must have laws to prevent crime. "Free" doesn't mean anarchy.
   5. Is that true? "Most decisions about production and consumption in the United States are still made by individuals and private companies, not by government? (134) Seems like wishful thinking.
   6. Give examples from *2012 Index of Economic Freedom.*
   7. Prefer not to use term *capitalism*. But free market system is solution to poverty in poor nations. It has been far more successful than an of the other systems discussed above.
   8. Biblical support
      a. Teaching of private ownership (Ex. 20:15; Lev 25:10; 1 Sam. 8:10-18).
      b. Personal stewardship responsibility to God (Ps. 24:1)
      c. All beings created in image of God
      d. Limited role of government (Rom. 13:1-6; 1 Pt. 2:13-14).
      e. No biblical support government should control

B. The wonder of a pencil

C. Economic foundation of a free market: private ownership of property
   1. Justification of private property (9th commandments assumes; Deut. 19:14; 1 Kings 21; 1 Sam. 8:10-18; Acts 5:4).
   2. Private property implies an obligation for responsible stewardship

D. Historical examples when gov. prevents private ownership
   1. Communist countries; trapped in horrible poverty
   2. Tribal; every nation this way is poor and will stay poor. Africans expect rich to borrow, but this prevents expanding business. Excellent two pages on 146-147 talking about African culture and borrowing. See *African Friends and Money Matters*

E. Importance of legal titles to property

F. Government rules that make property ownership impossible; in free countries, getting a title for a business takes days or weeks but those who are not free, it takes years and decades. It is humiliating and breaks most people.

G. Crucial economic factors for free market
   1. Stable currency

a. Currency not backed by gold is called fiat currency. It has value because the government *says* it has value.
b. "Inflation occurs when the quantity of money rises appreciably more rapidly than output, and the more rapid the rise in the quantity of money per unit of output, the greater the rate of inflation. There is probably no other proposition in economics that is as well established as this one." – Friedman, 157
c. Inflation gives illusion that we have more money than we actually do. Everyone loses except government.

2. Low tax rates – guarantees people are free to use their money how they choose.
   a. When people don't get to keep much of what they make, they tend not to try to earn very much.
   b. Economic history is clear: high tax rates retard progress, reduce investment, and hold back economic growth.
   c. The Laffer Curve, very interesting. Tax rate should be close to 15 to 20%.
   d. Three major tax reductions were by Coolidge (Roaring Twenties), Kennedy in the 60's and Reagan (great expansion). It stimulated growth and employment.

V. **The Mechanics of the System** (How does the free market work?)

A. "No one" decides what, how, and for whom a national economy will produce
   1. Who decides what is produced? No one. Illustration: the pencil.
   2. Adam Smith called it the invisible hand.
   3. Human creativity honors God because it reflects His creativity (Gen. 1:1, 27); Humans are to subdue the earth, meaning they are to make useful products from the earth—to create products of value for humans. In this way, we are imitators of God (Eph. 5:1).
   4. Examples of creators in Scripture:
      a. The tabernacle's skilled craftsmen (Ex. 36:1).
      b. Virtuous woman who makes clothing and sells it (Prov. 31:24).
      c. Jesus the carpenter (Mark 6:3).
      d. Aquilla, Priscilla, and Paul the tentmakers (Acts 18:3).
   5. The free market allows creativity to flourish and produce by human decisions, not through government control.

B. Specialization is the key to greater prosperity
   1. The benefits of specialization
      a. Specialization allows output to be greater. Division of labor helps proficiency.
      b. Self-sufficiency is inefficient, while specialization always produces more.
   2. Specialization works because everyone has some comparative advantage.
      a. In developed countries, we let others grow our food, cut our hair, build our homes, provide our health care, make our cars, and do our dry cleaning. Common sense tells us to specialize and trade.
      b. "It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy." Adam Smith
      c. If other countries can make shoes better and more cheaply, buy from them.

d. But what if another country can do everything better. Still specialize and trade? Yes.
e. Example: a doctor can type 120 words per minute; a secretary can type 60 words per minute. It would take the doctor 4 hours and her 8. The doctor has an *absolute advantage* compared to the secretary. He's better at everything because he can type better and help patient better. The AA is not the issue, but the *comparative advantage* is. The doctor's time is worth $100/hour. Secretary $15/hour. If he spends four hours, it costs him $400; the secretary $120 hours. Doctor's comparative advantage lies in practicing medicine.
f. So it is always in a person's advantage to specialize in what he does best, even though someone can do it better. A poor country might not have an *absolute* advantage in making a product, but it always has a comparative advantage.

3. Specialization in a nation changes over time.
a. Japan began by manufacturing small toys, then automobiles—so well in fact it made US workers retrain for other jobs.
b. Will the world run out of new products to make and new jobs? No, because the world has limited needs (food, shelter) but unlimited wants. These come about every years. Sure, some of these reflect wrongful greed, but wanting new better products is not wrong in itself.
c. Developed countries will start by producing new inventions, leaving other markets, thus freeing them for less-developed countries.

C. The remarkable signaling system of the free market
1. The free market doesn't need government to tell it what jobs need to be done and what products need to be made. Rather, the pricing system all the important information.
2. "There are sixty thousand items in a modern hardware and lumber store, and there are forty-five thousand items in a large food supermarket, and whenever the stock on hand diminishes, there products arrive on time, when and where they are needed, each and every day (including pencils). But there is not too much, for if a surplus arises, the store must lower prices to clear the excess, and this lower price tells the manger not to buy so much next time." (174)
3. The price system of the free market, not socialistic systems, can never generate the kind of supply and demand information that enables individuals to be successful.
4. Gravity is, and in the same way, the market is. It just happens.

D. Prices are an amazing worldwide source of instant economic information
1. Prices are the language of the market
2. Nothing conveys information faster than prices.

E. Profits and losses are the green and red lights of the system, by which customers signal "go" and "stop".
1. Profits and losses tell entrepreneurs whether their ideas are succeeding or failing.
2. Profits are incentive but losses cause some to lose everything. Risking personal money and time with the hope of profitability drives the whole process. But if this hope of reward is taken away (like high taxes etc.), fewer will take risks and the economy will fall.

F. Competition leads to interpersonal cooperation, better products, more choices, and lower prices.
    1. Palm pilot→Blackberry→iPhone—Android. No central government planner could every make this happen. Capitalism is known for unceasing economic progress and improvement.
    2. Competition AND cooperation are needed.

G. Entrepreneurship: many try, few succeed, but all of society benefits
    1. In order to be successful, you must be proactive.

H. Summary of how a free market system functions
    1. (Four necessary foundations for a free-market system) Private ownership w/ easy legal documentation of ownership (2) rule of law (3) stable currency (4) low taxes
    2. (Seven key components of free market system) (1) decentralized decision making (2) specialization and trade (3) signaling system of the market (4) prices as the language of signaling system (5) profits and losses as red and green lights (6) competition and cooperation (7) risk taking

I. How wealthy people in rich nations can genuinely help poor nations
    1. A nation must increase it GDP by producing more good and services of value. Only free market system does this.
    2. We shouldn't create dependency rather than productivity.

VI. The Moral Advantages of the System: A free market best promotes moral virtues

A.