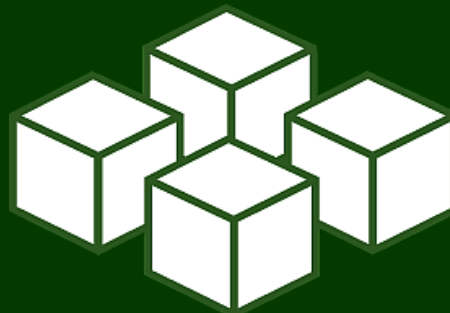

EXECUTIVE SUMMARY OF THE POVERTY OF NATIONS

by: Wayne Grudem & Barry Asmus

Prepared by:
Excellence in Giving



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Executive Summary of

The Poverty of Nations

A Sustainable Solution

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The Poverty of Nations: A Sustainable Solution
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PREFACE

Questions about poverty and the inequality of the distribution of wealth among the nations brought the authors together in a project that has spanned several years. Barry Asmus an economics professor and Wayne Grudem a professor of theology, combine their expertise to attempt and answer the question of world poverty. Their study has led them to find many factors that cause either prosperity or poverty. This unique book discusses seventy-nine of these “factors.”

INTRODUCTION

According to the authors, this book "...hopes to provide sustainable solutions to poverty that the nations can use in their fight against poverty."

This book focuses on the entire nation as whole rather than individuals. The laws, policies, and culture, etc. at a national level are what play a crucial role in prosperity or poverty of any nation. For any country to change, the change needs to incorporate all of these laws and policies at a national level. This book hopes to encourage world leaders to own their poverty issues and with the tools given come up with workable and sustainable solutions. Thus, the thoughts and ideas in this book are for leaders at work in poor countries, as well as for those who have influence in poor countries through missionary work etc., but reside in affluent countries. The book, though mainly for Christian leaders, as its basic premise of loving your neighbor is based on Scripture; invites non-Christians to read and glean from it, as the solutions for poverty alleviation are based on sound economic history and theory.

THE GOAL

Produce More Goods And Services

One of the most important measures of a country's wealth is its Gross Domestic Product (GDP). This by definition is the value attached to the "goods and services" that are produced within a country. The size of the GDP determines the wealth or the poverty of a nation (48). Therefore, for a country to move from poverty to wealth, it must increase its production of goods and services. "The most important question, then, is this: What will increase a country's GDP?" The answer is complex, involving as many as seventy-nine factors, all of them contributing to or hindering the growth of GDP (48). In order for a continual increase of "goods and services" a country has to examine very closely its entire socio-political, legal, and cultural structure and laws. One example of producing more would be to create new products of value that did not exist in the country before. For example, Taiwan, that does not have too many natural resources, is now a manufacturing hub for electronics, textiles, and machinery among other things, raising its GDP significantly.

The role of the government and the leaders of a country then should be not just to see what can be produced but also to provide the, "right conditions for innovation and entrepreneurship to happen in a free-market system" (63).

WRONG GOALS

Approaches That Will Not Lead to Prosperity

There have been many goals and approaches to alleviate poverty around the world. Over the decades, one of the major approaches has been for richer nations to supply aid to the poorer nations. Many leading economists, including those from within the poorer nations, are now of the view that while aid may be needed in disasters etc., the continual dependency of a country on the richer nations in fact perpetuates poverty. While there are a few factors for this, one major reason is the corrupt government leaders who take the money, who apart from lining their own pockets do not invest that money into increasing production of goods and services; nor into the building of infrastructure or a free market economy.

God's ideal for humanity was to enjoy the fruit of one's labor, not to live off charity. Even in the Promised Land, the Israelites were provided everything yet they had to harvest, and till the land and trim the vines, and mine the copper.

Donations from wealthy nations, or redistribution of wealth within a nation cannot lead to a higher GDP. Blaming outside factors like Colonialism, among other things, does not help either. It is time to look away from the past to the present and the future with the only focus being to produce more goods and services.

WRONG SYSTEMS

Economic Systems That Did Not Lead to Prosperity

The most logical question to ask next is: “What kind of economic system best brings about regular increases in Gross Domestic Product (GDP)? ...The question can also be phrased...What kind of economic system best motivates and enables people to create more goods and services of value? (107).”

While economies of any nation, whether rich or poor, are very complex, so are the explanations of why one is rich and the other not. Therefore, one single solution will not be sufficient to lift a nation out of its poverty; however, a good place to start would be a workable economic system. One economic system that works is a free-market system, which is defined, “as one in which 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 (108).”

A brief look at eight other economic systems like subsistence farming, feudalism, and socialism and communism among others in history, shows that while some work better than others it is the free-market economy that is the better choice and better solution for nations grappling with poverty.

THE ECONOMIC SYSTEM

The Free Market

Free market as defined in the previous chapter then simply means that it is the people and not the government that owns farms and businesses; where the people themselves are also free to choose their own places of employment. Taking this one step further, "market" is defined as the "array of exchanges" that voluntarily take place in society between individuals or groups of people (132).

In a free market system, one is rewarded for the fruit of one's labor and neither the society nor the government has to compel people to work. Statistics show that the greater the freedom for commerce in a country the higher its per capita income.

One factor that is necessary for a free market to thrive is the rule of law. Prevention of crimes like theft, fraud, selling of spurious or defective products etc. is important for the success of a free market. The growth of China is a proof of the free-market at work.

Free-market economies do not need one central figure to plan productions of goods, and yet complex goods are put together and manufactured. Free market economies thrive when there is private ownership of properties that have legal titles. Titles and deeds, etc. make it possible for people to borrow money for investment and build wealth; without verifiable documents their assets are useless. Private ownership brings with it a sense of stewardship, which is taken away if the government puts in restrictions on private ownership.

The government though plays a crucial role in the success of free market economies namely through the establishment of a stable currency and to maintain a low tax rate. If people can keep more of what they earn they tend to produce more and innovation and creativity increase

Index of Economic Freedom ranks countries according to the degree of freedom they enjoy.

THE MECHANICS OF THE SYSTEM

How Does the Free Market Work?

There are many questions as to how the free market system works like: who decides what is to be produced? Or, How much has to be produced? etc. There are seven features of the free-market system that this chapter examines. One of these seven features is the whole area of specialization. One way in which a country can produce goods that have greater value is through specialization followed by trading of that specialized product. Specialization helps in increased production of goods. Specialization based on comparative advantage can work for the benefit of a nation. If a nation produces good quality products at a cheaper price it is in everyone's interest to buy them. While a richer nation may have an absolute advantage at making most products, a poorer nation could still have comparative advantage at making some products. This could be the road to success. Specialization does one other interesting thing in that once a poor country moves from specializing in simple agricultural based products to complex products, the wealthier nations move to other innovative products and services. This helps in creativity, innovation and overall improvement in the standard of living.

The free-market system uses an amazing system of signals that determine what needs to be done and what needs to be produced. The supply and demand of products determines the price, wages, and interests, etc. of a functioning market. This then is a clear signal of what needs to be produced, in what quantity or what needs to be done differently. Profits and losses do this signaling very well in a free market system. They act as the green or red light for the economy.

Another factor in the working of a free market economy is that of competition and cooperation. In this day and age, to become a true competitor in the market, cooperation of many people is required. To make one complex product and to sell it in the market requires a team of people who specialize in parts and services of that product to bring it together and then to market it. This brings about better services, better quality and overall progress.

The free-market has an important person in it to make it truly dynamic and workable and that is an entrepreneur. These are the people who are risk takers and are looking for innovations and new products and services to bring to society.

One of the ways then that a wealthy individual or business in a rich nation can help the poor nations is to invest in for-profit businesses within that country that can produce either goods or services within the country thereby helping it to grow.

THE MORAL ADVANTAGES OF THE SYSTEM

A Free Market Best Promotes Moral Virtue

A free-market economy is best suited to promote moral values. While this does not mean that it makes morally perfect people, it definitely tends to promote and reward morally right behavior. Within four broad categories there are at least sixteen advantages of the system.

- A. Promoting personal freedom: It encourages choices and is consistent with the moral principles of dignity of individuals.
- B. Promoting personal virtues: It encourages truth telling, integrity and accountability. When there is a prospect of future trade relationships, there is an incentive for the individual to tell the truth and to be accountable. Among other things it also promotes charity.
- C. Promoting interpersonal virtues: By supplying the needs of fellow humans; by supplying goods and services at lower prices and constantly in a quest to improve everything, the wants of others are prioritized. Out of this also come the virtues of truly helping the poor, while also promoting virtues like courtesy and punctuality among other virtues.
- D. Promoting societal virtues: It is in free-market economies that one sees the fading away of religious, tribal, ethnic and other conflicts. There is a real promotion of harmony and peaceful coexistence. It also holds people accountable thereby promoting a fair society.

Some objections to free market are that they don't work or are based on greed; or promote inequality and can turn into bad capitalism. For those who say they don't work, no better system has been suggested; while greed is a potential risk, the consumer and the rule of law can check it. One major objection is that people do not need more things. However, for nations to rise out of poverty, production is important and the only means out of it. God intended for man not just to survive but also to flourish and enjoy the bounties of this earth. Man was commanded to be a good steward of everything and while there are temptations that accompany rising wealth, one has to guard against those, and not necessarily turn against industry and work.

THE GOVERNMENT OF THE SYSTEM

Leaders Who Use Their Power for the
Benefit of the People as a Whole

For a country to move from poverty to wealth it also needs to have a government that benefits all its citizens and not just the leadership. Unfortunately though, many poorer nations have corrupt officials and governments that seek only to benefit themselves. Certain safeguards need to be in place for a government to be protected against corruption. Among these are rules of law where no one is above the law and there is justice for all; it also includes the absence of bribery. Officials should be paid well and strong laws against bribery should be formulated and executed. The government should have limited power so that individual freedom and enterprise is not compromised because the more powerful a government the more corrupt it tends to become.

The government should provide certain protections like against crime, disease, foreign invasion as well as protection against violators of contracts etc. The government needs to also actively promote education for all; laws that will contribute to strong family structures like economic incentives; as well provide religious freedom to all.

These are some of the ways a "government can use its power for the benefit of the people as a whole" (258)

THE FREEDOMS OF THE SYSTEM

Essential Liberties for Economic Growth

Any nation that wants to move from poverty to wealth while following the other suggestions given must over and above protect at all cost “the general condition of ‘freedom’” (259). One cannot overemphasize the importance of freedom for economic growth. Governments must protect and promote socio-economic, and political freedoms. Scripture from Genesis to Revelation supports individual liberty and the freedom of choice.

There are twenty-one specific freedoms that require protection from the government like— freedom to own property; to buy and sell goods and services; freedom to travel; freedom to live anywhere; to trade; to change and modernize; freedom for women; freedom to be upwardly mobile so that anyone who works hard and reaps benefits of that work can move up in society irrespective of class, caste or status; and many others.

The protection of these freedoms, “...will release the tremendous economic productivity of the people in the nation, and it will begin to produce more goods and services of value” (307).

THE VALUES OF THE SYSTEM

Cultural Beliefs That Will Encourage Economic Growth

Any nation that seeks to take the necessary steps outlined in the previous chapters in order to grow and change has to overcome one major challenge, namely—to encourage people to change any beliefs and traditions that are counterproductive to economic growth. Changing centuries old entrenched cultural, religious beliefs, and traditions is no small task and though it seems near impossible it can be done. This is where Christian ethics and morality taught by pastors and other grass-root workers could play a significant role. Cultural context of a nation is crucial in understanding why different nations adopt different kinds of economic systems, what laws they enact, what kinds of freedoms they provide and protect, etc.

Explained through thirteen broad categories are cultural beliefs that encourage economic development. Some among these are beliefs about religious matters (318-322); about moral standards and human nature (322-332); others include beliefs about time, education, knowledge, humility and learning from others, etc. An example of how values shape a nation is seen in what German sociologist Max Weber argued. According to him certain traits that marked Protestantism were the biggest contributor in the economic development that swept Northern Europe and the United States (319).

While material prosperity is important, it is not as important as one's relationship with God. Therefore it is imperative that, "...rich and poor alike... make their own personal relationship with God the first priority of their lives...that every reader will come to a deeply satisfying and rewarding relationship with God through Jesus Christ..." (367).

About the Authors

Wayne Grudem (PhD, University of Cambridge; DD, Westminster Seminary) is research professor of theology and biblical studies at Phoenix Seminary, having previously taught for 20 years at Trinity Evangelical Divinity School. Grudem earned his undergraduate degree at Harvard University, as well as an MDiv from Westminster Seminary. He is the former president of the Evangelical Theological Society, a cofounder and past president of the Council on Biblical Manhood and Womanhood, a member of the Translation Oversight Committee for the English Standard Version of the Bible, the general editor of the *ESV Study Bible*, and has published over 20 books, including *Systematic Theology*, *Evangelical Feminism, Politics—According to the Bible*, and *Business for the Glory of God*.

Barry Asmus (PhD, Montana State University) is a senior economist at the National Center for Policy Analysis, a non-profit organization dedicated to promoting private sector, market-based solutions to economic growth and development. Named by USA Today as one of the five most requested speakers in the United States, Asmus has been writing and speaking on political and business issues for over 25 years. He has twice been voted the Outstanding Professor of the Year and has received the Freedom Foundation at Valley Forge Award for Private Enterprise Education. He is the author of eight books including *Crossroads: The Great American Experiment* (coauthored with Donald B. Billings), which was nominated for an H. L. Mencken Award.