

The Poverty of Nations: A Sustainable Solution

Wayne Grudem and Barry Asmus. 2013. Wheaton, IL: Crossway. ISBN 978-1-4335-3911-4. \$30.00.

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How can poor nations come out of poverty? This is an age-old question that academics and policymakers alike have sought to answer. In their book *The Poverty of Nations: A Sustainable Solution*, economist Barry Asmus and theologian Wayne Grudem integrate free-market principles and biblical values to address global poverty at the national level. They focus first on the types of economic systems (Chapters 3-6), then on government laws and policies (Chapters 7-8), and finally on cultural values and beliefs (Chapter 9) that can help a nation overcome poverty.

The authors state the goal of the book outright: “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” (p.25). This is a tall order, but the authors are able to remain focused on the parameters they set forth for themselves at the beginning of the book, engage creatively and meaningfully with the views of other economists and development historians, as well as argue convincingly for the importance of the values and beliefs of a system, including moral and spiritual convictions, which are often ignored in discussions about economic development and growth.

Asmus and Grudem are clear about the parameters of the book: It addresses poverty not at the personal or community level, but at the whole-nation level. The book suggests solutions that can be and must be implemented *from within* a nation, by its own leaders. This means the focus is not on what rich countries can do to help the poor (e.g. by removing tariffs and quotas on products imported from poor countries, or by restraining from commodity dumping on the world market), but on what a poor country can do for herself (regardless of what rich countries do). This also means that the authors are less interested in exploring the *causes* of poverty *per se*. For instance, even though colonialism in the past may have led to what Acemoglu and Robinson (2012) call “extractive institutions,” which in turn depress a nation’s economic development, Asmus and Grudem do not believe “looking to the past and blaming colonialism does much of anything to solve the current problems, all of which have complex causes” (p.89). “The crucial question for today is, what can a poor country do now, *looking forward?*” (p.89, emphasis added).

Asmus and Grudem's proposed solution is that poor nations need to produce more goods and services in order to escape poverty (Chapter 1). This goal of increasing production is reiterated again and again throughout the book. The idea is simple: as the standard measure of wealth is GDP per capita, a poor country needs to increase her GDP by producing more goods and services. This goal may seem a no-brainer at first. Doesn't a poor person get wealthier by working more and making more money? Simple though this goal may be, one can appreciate why the authors spend one chapter to defend this goal when one considers that the intended audience of this book is the ordinary reader, not the professional economist (p.31). To the ordinary reader, it is important to point out that the transfer of goods from one person to another does not increase GDP; neither does the printing of money. Only by producing more goods and services can one increase GDP.

Using this logic, the authors argue that there are *wrong* goals for the elimination of poverty, which include: more aid; more equal distribution of wealth; discovering new natural resources; seeking debt forgiveness; better terms of trade; restraining multinational corporations; and promoting fair trade coffee (Chapters 1-2). The authors argue that these are wrong goals because they do not contribute to the increase in production of goods and services. While I do not agree with all the arguments that the authors make nor with some of the conclusions that they draw (in particular with respect to inequality), I appreciate the fact that they tackle these proposed solutions that one often hears in association with economic growth and development. It helps the average reader understand the economics behind some of the naïve rhetoric often espoused by the general public; for example, we need to "restrain the power of large multinational corporations that are unfairly taking advantage of poor nations," or we need to "persuade Starbucks customers to buy 'fair-trade' coffee," and "expand 'fair-trade' agreements to other products and other companies" (p.51). The authors rightly point out that "claiming that rich countries are responsible for the poverty of poor countries, or that poverty is the result of rich companies 'exploiting' poor countries, is often contrary to fact, and is certainly counterproductive" (p.106). As for fair-trade campaigns, the authors cite the works of Paul Collier and Victor Claar to demonstrate that such campaigns do not do much good and may even do some harm (pp.94-95).

Having ruled out alternative goals for the elimination of poverty, Asmus and Grudem then focus on the question: What economic system best motivates and enables people to produce more goods and services? The answer is the free-market system (Chapter 4), as opposed to socialism,

communism, or the welfare state (Chapter 3). The authors define a free-market system as “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” (pp.131-132, emphasis added). The idea of individual choice and individual freedom as superior to government control is a constant theme throughout the book, and it spills over to not just the discussion of the mechanics of a free-market system (a.k.a. Adam Smith’s invisible hand, Chapter 5), but also to the argument that there are essential liberties for economic growth (Chapter 8) and that a nation’s cultural values and beliefs should place a high premium on individual freedom (Chapter 9). At first glance, the emphasis on individual freedom may seem very individualistic, Westernized, or even Americanized. However, if one reads the text carefully, one will appreciate that the authors are upholding individual freedom as the antidote to *excessive* government control, as seen in a lot of poor countries today where “a small, wealthy elite... control[s] all the wealth and power in a nation” (p.47).

It is clear from the book that the authors advocate for minimal government. They point out that two economic policies are crucial for a free-market system to function effectively: a stable currency and low tax rates (p.155). The authors cite the work of Alvin Rabushka, who reconstructed the tax and growth rates of fifty-four developing countries over a thirty-year period, and showed that “lower tax rates were generally associated with more rapid rates of growth” (p.159). The authors caution against the policies of developing countries in Asia, Africa, and South America that “frequently levy high rates to raise revenue to finance government-directed projects” (p.159). The authors even point out that “there is no biblical teaching that government has the right to manage the economic decisions of a nation” (p.139). Instead, the Bible teaches a limited role for government. The government should only “punish wrongdoers, reward those who do good, and maintain order in society” (p.139). While I agree that economies should generally strive for low tax rates in order not to distort individual incentives to work and produce, I think the authors’ claim that governments have no right to manage the economic decisions of a nation is too much of a blanket statement and needs to be qualified. Given that the authors are proposing that a nation’s government should protect citizens against crime (pp.239-241), disease epidemics (pp.241-242), and violations of contracts and copyrights (pp.242-246), and also provide universal education for children (pp.253-256), it is impossible to achieve these goals without imposing certain taxes to raise revenue.

Moreover, these actions by the government are by definition economic and not just political. I think the book would have been strengthened by a discussion of market failure in a free-market system, and how government involvement may be beneficial or even necessary in the case of market failure.

The authors make it clear that a free-market system is not *the* only requirement or the only solution to poverty. Nor are other related institutions by themselves sufficient:

The solution to poverty can never be *merely* a free market, private property ownership, the rule of law, government accountability, the absence of bribery and corruption, a good work ethic or superior education... But a nation that genuinely desires to escape from poverty will seek to implement *as many as possible* of the steps we recommend in the following chapters (p.108).

In fact, the authors list as many as “seventy-eight distinct factors within nations that, we believe, will enable any poor nation to overcome poverty” (p.22; also see Appendix, pp.369-373). The seventy-eight factors are listed under the four subheadings of the nation’s economic system, the nation’s government, the nation’s freedoms, and the nation’s values. There are instances where some factors seem to be more descriptive than prescriptive, and instances where the factors seem more correlational than causal. For example, “the nation is annually improving its score on an international index of economic freedom” (p.162) seems more a description of the ideal than a prescription of a way to get there. The discussion of a nation’s freedoms in Chapter 8 also seems to fall under the descriptive rather than prescriptive category. No one will argue against everyone in the nation being granted the freedom to be educated (pp.291-292), but how do we get there?

This is where the last part of the book is so important. In the last chapter, the authors present a list of cultural values and beliefs that will encourage economic growth. To make the necessary economic and political changes outlined in previous chapters, the authors argue that “the most effective way... is to persuade people to change any cultural beliefs and traditions that are hindering economic development” (p.309). It is only when society embraces certain values that people, and in particular the leaders, are willing to adopt and embrace certain economic and political changes.

The emphasis on having the right cultural values and beliefs is a fresh and important contribution to the economics literature that seeks to understand the wealth and poverty of nations. Asmus and Grudem compare their work

to Acemoglu and Robinson's influential book *Why Nations Fail* (2012), which studies the effect of economic and political institutions on a nation's economic development. Acemoglu and Robinson focus on extractive versus inclusive institutions, the latter of which share a lot in common with the economic systems and government policies recommended by Asmus and Grudem. Acemoglu and Robinson, however, do not explain why certain countries adopt inclusive institutions in the first place. They attribute it to some form of luck, and, as Asmus and Grudem note, speak of changes in institutions as a result of "institutional drift" that has no predetermined path (p.311). In contrast, Asmus and Grudem propose that whether or not a country implements certain steps to economic prosperity has to do with the country's deeply held cultural beliefs, for example, whether the country believes that there is a God who will hold all people accountable for their actions (pp.318-319), whether the country respects private ownership of property (pp.324-326), whether the country values a highly trained work force (pp.354-355), and so on. Of course, such a proposal pushes the question of "how do we get there" one step further: How do we change a nation's deeply held cultural beliefs then? The answer to this question will probably take up the length of another book, but Asmus and Grudem do offer that "while changing cultural values is difficult, it is the place where religious organizations—especially, from our perspective, Christian churches and organizations that emphasize Christian teaching—can have a great influence for good on a nation" (p.316).

While I thoroughly enjoyed reading this book, there are some topics that I wish the authors were able to expand on. One is the topic of inequality. The authors state that seeking more equal distribution of wealth is a wrong goal (p.49). While I agree that simply redistributing wealth from the rich to the poor may not necessarily increase the total GDP of a country, I do believe some form of redistribution is necessary in order to have economic growth (e.g. if the government is to raise revenue in order to provide universal education or basic public health). Another way to put this is that if a country produces more goods and services but the increase in goods and services is not spread across everyone but only concentrated towards a wealthy few, then the country is still not going to escape poverty. It would be nice if the authors could talk more about how the twin goals of efficiency and equity are often held in tension, rather than ignoring the issue of inequality altogether, by saying that it is not a relevant issue.

Second, it would be nice if the authors give a more holistic definition of development. The working definition in the book is quite one-dimensional, focusing on an increase in GDP and seeing human flourishing as simply

having the greatest economic productivity. Even though the authors mention in the introductory chapter that material prosperity is only a secondary issue compared to one's relationship to God (p.41), the overall focus of the book is still on how to increase a nation's material wealth. It would be nice to balance out the discussion by talking about other aspects of human flourishing.

Finally, for some of the statements made in the later chapters of the book, particularly those that pertain to a nation's freedom (Chapter 8) and values (Chapter 9), it would be helpful to discuss some of the underlying assumptions as well as empirical evidence, when the causal link is not immediately obvious. For example, when discussing freedom for women, the authors write that raising and nurturing children is "a God-given responsibility, one that we hope many women will choose to pursue full time while they have children at home and are able to do so" (p.292). The recommendation that women should be stay-at-home moms seems to stem from the authors' underlying assumptions rather than economic theory. Another example is the statement that "the society [should] believe that the earth's resources will never be exhausted" (p.339). The word "never" seems a strong assumption to make, and runs counter to most economists' assumption of scarce resources. I understand the authors' argument that countries should not be paralyzed by a fear of running out of productive land or natural resources, but I think it will be more helpful to qualify this statement than making a blanket claim that the earth's resources will never be exhausted.

In sum, this book powerfully integrates free-market principles and biblical values in addressing the poverty of nations. It contains precious wisdom and insights that are well informed by research. To the ordinary reader, it explains the principles of demand and supply and the workings of a free-market system in easy-to-understand, layman's terms. To the non-economist, it refutes common myths and debunks popular claims by providing an economic rationale as to what works and what does not. To the economist, it engages creatively and constructively with major academic works in economics, development, and history, such as the writings of David Landes, Paul Collier, Daron Acemoglu and James Robinson, Hernando de Soto, William Easterly, and Niall Ferguson. To the reader in a wealthy nation, it suggests practical ways in which wealthy people can help, for example, by investing in for-profit businesses in poor nations and supporting educational programs in poor countries that promote free markets. To the Christian, it highlights the biblical support for more goods and services, affirming creativity and productivity in society, and makes

a case for the biblical support for human freedom in economic systems.

Finally, to the Christian economist, *The Poverty of Nations* provides an excellent model for the integration of one's faith and one's discipline, by recognizing that economics is never morally neutral, and by bringing in discussions of cultural values and moral and spiritual convictions to bear on important economic questions. The authors speak to the common objection that championing economic prosperity places too much focus on material wealth and is therefore morally objectionable. They affirm that economic productivity should be seen as a moral advantage (p.206) as it reflects God's own ability to create (p.59) and fulfills God's command to humankind in Genesis 1:28 to be fruitful and to subdue the earth (p.59). The authors see the free market as "a divinely ordained process that is built into human nature" (p.132) and that its economic foundation of assigning property rights to individuals is affirmed in the Bible and implies both a right and an obligation for responsible stewardship (pp.142-144). However, the authors do warn that material wealth should never become our highest goal (p.215) and that "the abundant productivity of wealthy modern economies provides strong temptations to sins such as greed, materialism, and insensitivity to the need of others" (p.219). I cannot agree more with the authors' ending comment, that "to be truly wealthy, a nation needs more than material prosperity. It also needs to be spiritually wealthy" (p.366). It is certainly our call, both as Christian economists and as members of the Church, to help countries move from poverty to both greater economic *and* spiritual prosperity.

Reference

Acemoglu, D. & Robinson, J.A. (2012). *Why nations fail: The origins of power, prosperity, and poverty*. New York: Crown Publishers.■