

***The Poverty of Nations: A Sustainable Solution* (Crossway, 2013)
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Chapter Four “The Economic System: The Free-Market”

A. Definition of the free-market system

1. Definition: A system where economic production and consumption are determined by the free choices of individuals and this process is grounded in the private ownership of the means of production.
 - a. Theologically: A divinely ordained process built into human nature emphasizing benefits of voluntary exchanges.
2. Some laws are necessary to protect the idea of a free market and do not inhibit a free-market system.
(Theft, fraud, & breaking contracts all violate the idea of free, voluntary exchanges.)
3. Objection: all economies are “mixed,” so there is no such thing as a free market. → talk about mixed economies
Answer: There are clear differences. We can rank economies on scale of 1-100, as in *2012 Index of Economic Freedom* by Heritage Foundation & *Wall Street Journal*. [U.S.= 76.3 out of 100 ('mostly free').]
4. Are we really talking about “capitalism”?
→ the term “capitalism” means many different things to different people – we decided ordinarily not to use the term
-- too many negative connotations, too many negative examples of “crony capitalism” etc. – not really free
5. The economic success of free market systems: all high-income nations (except for oil wealth) have had it
6. Biblical data supporting the idea of freedom in the market.
 - a. Teachings about private property (Ex 20:15; Lev 25:10; Deut 19:14; 1 Sam 8:10-18; 1 Kings 21).
 - b. Personal stewardship responsibility to God for property (Ps 24:1)
 - c. The image of God in all human beings => equal rights before law (Gen 1:26-27; 9:6; James 3:9)
 - d. Limited role of government in Scripture (Rom 13:1-6; 1 Peter 2:13-14)
 - e. Absence of any Biblical idea supporting governmental control and limited economic freedom.

- B. The free-market makes complex products that no one knows how to make (example of ordinary pencil, 140-141)**
wood + graphite + brass (zinc & copper) + eraser made of factice (a vegetable oil) & rubber + paint + printing
The pencil says, “No single person on earth knows how to make me.”
→ yet you can buy one for 10 cents!

- C. The economic foundation of the free market: private ownership of property (very important for free exchanges)**
1. The justification of private property ownership in the Bible (showing great wisdom of God, and God’s intention)
 - a. Ex 20:15 - 'you shall not steal.' Assumes personal belongings, ownership. (also Matt 19:18; Rom 13:9; Eph 4:28)
 - b. Lev 25:10 - 'each of you shall return to his property.'
 - c. Numerous other laws regulating theft and restoration (Ex. 21:28-36; 22:1-15; Deut. 22:1-4; 23:24-25).
 - d. Protection of personal land boundaries (Deut 19:4 – not move landmark; cf. Proverbs 22:28; 23:10)
 - e. Governments sometimes wrongly abused power by violating property rights (1 Kings 21-Naboth; Ezek. 46:18)
 - f. Does Acts 2:44 “all things in common” (also 4:32) imply early 'communism?' No, because:
 - i. Giving was voluntary and not compelled via the government. (see Acts 5:4)
 - ii. People retained individual property, owned houses (Acts 2:26; cf. Acts 12:12; 17:5; 1 Cor 16:19; Col 4:15)
 - iii. Later NT writings still appeal to voluntary individual giving (they owned property): 2 Cor. 9:7
 2. Private property implies an obligation for responsible stewardship.
 - a. The Bible does not teach that ownership is absolute, but is “stewardship” under God (Ps. 24:1).
 3. When governments prevent private property ownership they violate biblical principles and hinder economic growth.
 - a. Of course, government taxation is legitimate, to punish evil and establish order. (Romans 13:4; 6-7)
 - b. But when government takes away property ownership, it ↓ human freedom, stewardship. Dehumanizing.
This keeps individuals from being rewarded for their efforts, and human achievement is stifled.
 4. Historical examples of governments preventing private property ownership.
 - a. Communist countries - North Korea, China (pre-'78 reforms), Cuba, former Soviet Union -- horrible poverty.
 - b. Tribal ownership - on Native American reservations, also much of sub-Saharan Africa (147-148, Maranz)
 - c. Other examples - India prior to British rule (1757), emperor rule in China, and Argentina, other Lat. Am. countries
 - d. Albania example
 5. Importance of legal titles to property (Hernando de Soto, *The Mystery of Capital*, 2000)
w/o titles, assets are useless (“dead capital”) – can’t borrow, start small business – just squatters
the poor of the world hold but do not own \$9.3 trillion in real estate (De Soto estimate in 2000)
in US, settlers (even “squatters”) on land in West – eventually allowed to purchase it
 6. In many poor countries, government rules make property ownership nearly impossible for poor people
(examples 151-152: Peru, Philippines, Egypt, Haiti)
 7. Governments in poor nations must establish governments to form accessible paths to property ownership.

D. **The legal foundation for a free-market: the rule of law**

1. A "free market" system has never meant total anarchy or a nation filled with crime!
2. For a free-market system to work everyone must be subject to the rule of the law (including rulers)
3. Bible: story of David and Bathsheba. (2 Sam 11)
 - a. God sent prophet Nathan to hold David accountable
 - b. → not even the king is above the law that God gave to the nation.
4. Why is rule of law important to free market system?
 - Essence of free-market system: people have opportunity to make voluntary, well-informed choices to buy & sell
 - stealing: violates free choice (didn't freely choose to give up car!)
 - violating a contract: the voluntary, free agreement is not honored (other party would not have agreed)
 - fraud, or defective product: the exchange was not a free, well-informed choice
 - governments should punish such crimes in order to keep the free market genuinely free (Rom 13:4)
5. If rule of law is absent: free market can't function, uncertainty in every transaction, econ. growth dries up

E. **Two more crucial economic factors for a free-market**

1. Stable currency - which provides a mutually understood means of exchange.
 - a. The currency must be known and have a stable value for prices to enable fair evaluation in free exchanges.
 - b. Money -- more efficient than a barter system, and reduces cost of all exchanges through a common denominator into which all goods and services can be converted.
 - c. Fiat currency - paper currency that is not backed by gold. Its value is formed through government declaration.
 - i. This is more vulnerable than gold-backed (or silver) currency that can be exchanged for a known rate.
 - ii. Subject to debasing much more easily than gold-backed currency systems.
 - d. Money has power only because it can be used to purchase something and its value is in what it can buy.
 - i. Allows us to store purchasing power for future use.
 - ii. Acts as a unit of account for costs and revenues.
 - e. Stability is necessary because without a predictable value, the price-signaling system breaks down.
 - f. Purchasing power can be undermined through inflation resulting in a loss of stability, clarity, and efficiency.
 - i. This is the result of a government increasing the money supply faster than the production of goods.
 - ii. It creates the illusion of having more money, but its long-term effects are destructive.
 - iii. Since governments control the money supply, their policies are the main cause of inflation.
2. Low tax rates - production, innovation, and creativity are stimulated by greater personal wealth retention.
 - a. Remember main goal for poor nation:
 - Increase country's GDP by increasing production of goods and services. (see chapter 1)
 - b. Entrepreneurs, businesses are ones who create new value, produce more goods and services
 - c. But higher taxes hinder, penalize entrepreneurs & businesses – restrict growth
 - d. Historically, lower tax rates have been generally associated with rapid growth (Alvin Rabushka, Stanford)
 - important findings on developing countries (159): low tax countries grew 5X faster
 - e. Unfortunately, many developing countries in Asia, Africa, and South America – high taxes for government projects
 - f. The Laffer Curve - lower taxes can mean more money for government! (Art Laffer)
 - Most (not all) economists argue that the tax rate should be near 15-20%.
 - g. Tax evasion in poor countries -- a significant issue. Cannot be resolved through higher taxation
 - i. Romans 13:6-7 challenges pastors and church leaders to influence toward compliance.
 - h. 20th century American history: Tax cuts under Coolidge (20s), Kennedy (60s), Reagan (80s), all → much growth

F. → **Does your country have a free-market system?** easy to answer:

1. Check out your country in the most recent issue of the *Index of Economic Freedom*.
 - a. Accessible at <http://www.heritage.org/index/>.
2. Another valuable resource is the *Economic Freedom of the World index*.
 - a. Accessible at <http://www.freetheworld.com/release.html>.

Audio recording of classes and these handouts are available on the class website: <http://www.christianessentialsbc.com>.
See also waynegrudem.com