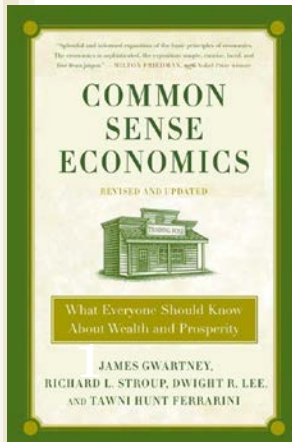


# MODULE G: THE ECONOMICS OF POVERTY



**Common Sense Economics ~  
What Everyone Should Know  
About Wealth and Prosperity**

<http://CommonSenseEconomics.com/>



Turn on the learning light!

# POVERTY AND CHARITY

- Watch: [Domestic Poverty–Helping the Poor through Love of Neighbor](#)
- Watch: [The Limits of Charity](#) with Jay Richards
- Watch: [Effective Charity–Charitable Giving and Dependence](#)



# POVERTY AND CHARITY

- Wanting to Help the Poor is Not Enough
  - The incentive structure accompanying many antipoverty programs often:
    - encourages the breakup of families and the birth of children by unmarried mothers.
    - encourages behavior that reduces employability.
    - reduces the ability of individuals to help themselves, resulting in dependency and despair.
- Effective charity requires donors to consider their impact on the actions of the recipients. Does the action help recipients become more self-sufficient and escape poverty? Or, does it encourage dependency and destructive behavior?



# POVERTY AND CHARITY

## ○ Effective Action

- The problems of the poor are complex and multidimensional. Therefore, effective action requires personal involvement.
- Charity will be more effective when driven by the principle of subsidiarity: The idea that an issue or problem should be dealt with by the people who are closest to it. (e.g. families, churches, community organizations, and local agencies).
- Growth and prosperity enhance charitable activities: Income must be generated before it can be shared with others.



# ECONOMIC FREEDOM, PRIVATE PROPERTY RIGHTS, AND THE RULE OF LAW

- Watch: [Justice for the Poor—Property Rights and the Rule of Law](#)
- Watch: [Free Enterprise and Poverty](#) by Arthur Brooks



# ECONOMIC FREEDOM, PRIVATE PROPERTY RIGHTS, AND THE RULE OF LAW

- Historically, the less developed world has been hampered by insecure private property rights, the absence of the rule of law, and high trade barriers.
  - Charity provides only short-term help. Private property rights and the rule of law are essential for long-term reductions in poverty.
  - The poor, perhaps even more than others, need private property rights and the rule of law. Without this they are unable to build businesses, their employment opportunities are limited, and they become dependent on charity.



# ECONOMIC FREEDOM, PRIVATE PROPERTY RIGHTS, AND THE RULE OF LAW

- Without private property rights and the rule of law the poor are trapped. Their opportunities are limited, they lack the base—the institutional foundation—to grow and prosper. They are what Muhammed Yunus calls bonsai people.
- Building institutions and strengthening property rights is a difficult and evolutionary process. But, it is essential for progress against poverty.



# ECONOMIC FREEDOM, PRIVATE PROPERTY RIGHTS, AND THE RULE OF LAW

- Institutions and Progress Against Poverty
  - During the past four decades, many less developed countries have implemented institutional reforms that relaxed trade barriers and improved their legal systems. This has resulted in progress against poverty.
  - Since 1980, extreme poverty in the developing world has declined by 80%.
    - According to Arthur Brooks, the five key factors underlying this achievement were:
      1. globalization
      2. free trade
      3. property rights
      4. the rule of law
      5. entrepreneurship





# ECONOMIC FREEDOM, PRIVATE PROPERTY RIGHTS, AND THE RULE OF LAW

- Institutions and Progress Against Poverty
  - A free market economy makes it possible for individuals to:
    - Match their skills with their passions;
    - Pursue opportunities
    - Benefit from hard work, merit and dependability;
    - keep what they earn.



# THE POOR: POLICIES THAT HURT AND POLICIES THAT HELP

- Watch: [Tariffs, Agricultural Policies, and Access to Global Markets](#)
- Watch: [Bono's Change of Heart](#)
- Watch: [Human Dignity and the Consequences of Population Control](#)



# THE POOR: POLICIES THAT HURT AND POLICIES THAT HELP

## ○ Counterproductive Policies

- Disempowering Farmers in Poor Countries
  - Agricultural policies coupled with food aid from U.S. and European countries makes it difficult for farmers in developing countries to sell their produce at home and abroad.
- Access to Markets, Competition, and Free Trade
  - Trade restrictions and other regulations have reduced entrepreneurial opportunities in less developed countries.
- Bono, the lead singer of the group U2 initially stressed government approaches to alleviate poverty in the developing world. Overtime, his views changed. Today, Bono stresses that what really brings people out of poverty is commerce and entrepreneurial capitalism.



# THE POOR: POLICIES THAT HURT AND POLICIES THAT HELP

- The ultimate source of wealth and growth is the human mind.
  - Failure to understand this point has led to destructive population control policies.
    - Gender Preference: Due to a male preference in many countries, population control policies lead to millions of girls being aborted.
    - Gender Imbalance: As a result of the population control policies, gender imbalances now exist. Today, in some countries there are 20% fewer young women than men.

**GENDERCIDE**  
What happened to  
100 million  
baby girls?



# POVERTY IN THE UNITED STATES

- Read: [What Causes Poverty in America](#) by Jay Richards
- Read: [Changes in Poverty Rates by the Numbers](#) by James Gwartney and Joseph Connors
- Read: [Reflections on the Minimum Wage and Poverty](#) by Bishop H.R. Jackson Jr.



# POVERTY IN THE UNITED STATES

- Poverty in the United States, 1947-2012
  - The poverty rate of families in the United States fell from 32 percent in 1947 to approximately 10 percent in 1970.
  - But, shortly after the war on poverty programs the poverty rate leveled off and has changed little over the last four decades. (see exhibit 5 of Gwartney-Connors reading)



# POVERTY IN THE UNITED STATES

- Poverty in the United States, 1947-2012 continued...
  - Why has there been so little progress in poverty since 1970?
    - The current anti-poverty system encourages single parent households and discourages marriage. Compared to a two-parent household, the benefits are often higher for a single-parent household. Marriage often results in the loss of benefits.
    - While increases in per capita income have reduced poverty, the increases in single-parent families pushed the poverty rate up.



# POVERTY IN THE UNITED STATES

- Poverty in the United States, 1947-2012 continued...
  - Reduction in the incentive to earn
    - As income increases the benefits from transfer programs declines. Thus, the gains to the transfers are, at least partially offset, by the weak incentive to work and earn.
    - Samaritan's Dilemma: Transfer programs that decrease the adverse consequences of poverty, reduce the incentive of individuals to take steps to avoid it.
    - It looks like it would be easy to reduce poverty through transfer programs. But, this is not the case. Given the impact on incentives, long-term reductions in poverty are difficult to achieve.





# POVERTY IN THE UNITED STATES

- The Minimum Wage and Poverty
  - Does the minimum wage help reduce poverty?
  - Most minimum wage workers are not poor.
    - 40 percent of minimum-wage earners live in households with incomes of \$60,000 or more
    - More than 80 percent of minimum-wage workers do not have dependents.
    - Only 5.3% of minimum-wage earners live in poverty.
  - A higher minimum wage will reduce the employment of low-skill workers.
    - Remember, demand curves slope downward. If the price of labor is higher, the quantity employed will be smaller.
  - Thus, mandating higher wages is an ineffective tool with which to reduce poverty.



# POVERTY, ECONOMIC FREEDOM, AND FLOURISHING

- Reading: [Economic Freedom–The Path to Flourishing for the Poor](#) by Anne Bradley and Joseph Connors



# POVERTY, ECONOMIC FREEDOM, AND FLOURISHING

- Economic Freedom and Human Flourishing
  - In countries with the most economic freedom:
    - People live much longer
    - Infant mortality is very low
    - Extreme poverty is virtually non-existent
    - There is very little corruption
  - People flourish when their lives have meaning and purpose.

Meaning  
and  
Purpose



# POVERTY, ECONOMIC FREEDOM, AND FLOURISHING

- What is human flourishing?
  - Flourishing results when one's life has meaning and purpose.
  - Personal choice is essential. Only the individual knows what will give their life meaning and purpose.
  - The opportunity for flourishing will be greater when individuals have more control over their lives.



# POVERTY, ECONOMIC FREEDOM, AND FLOURISHING

- Economic freedom and flourishing
  - When economic freedom is present, individuals will have greater opportunity to control their own life and make choices that provide purpose and meaning.
  - Linkage between economic freedom and flourishing
    - In countries with more economic freedom, life expectancy is higher, the infant mortality rate is lower, extreme poverty is rare, and there is less corruption.



# POVERTY, ECONOMIC FREEDOM, AND FLOURISHING

- The Story of Tarek al-Tayeb Mohamed Bouazizi
  - Bouazizi, a Tunisian, supported his family by purchasing produce from farmers and wholesalers and selling it in the local market.
  - Sellers were required to purchase permits which made it difficult for small operators like Tarek to engage in business activities. It was common for those without permits to bribe the police.



# POVERTY, ECONOMIC FREEDOM, AND FLOURISHING

- The Story of Tarek Bouazizi continued...
  - On December 16, 2010, Tarek borrowed \$200 to purchase produce for sale in the market. The police beat him and confiscated his produce and scales because he did not have a permit.
  - In response, Tarek committed suicide by dousing his body with gasoline and setting himself on fire. His last words were, “How is a man to make a living?”
  - This triggered unrest throughout the Middle East which became known as the Arab Spring.
  - Tarek’s story personifies what it means to live in a society where freedom of choice and opportunities for flourishing are absent.

