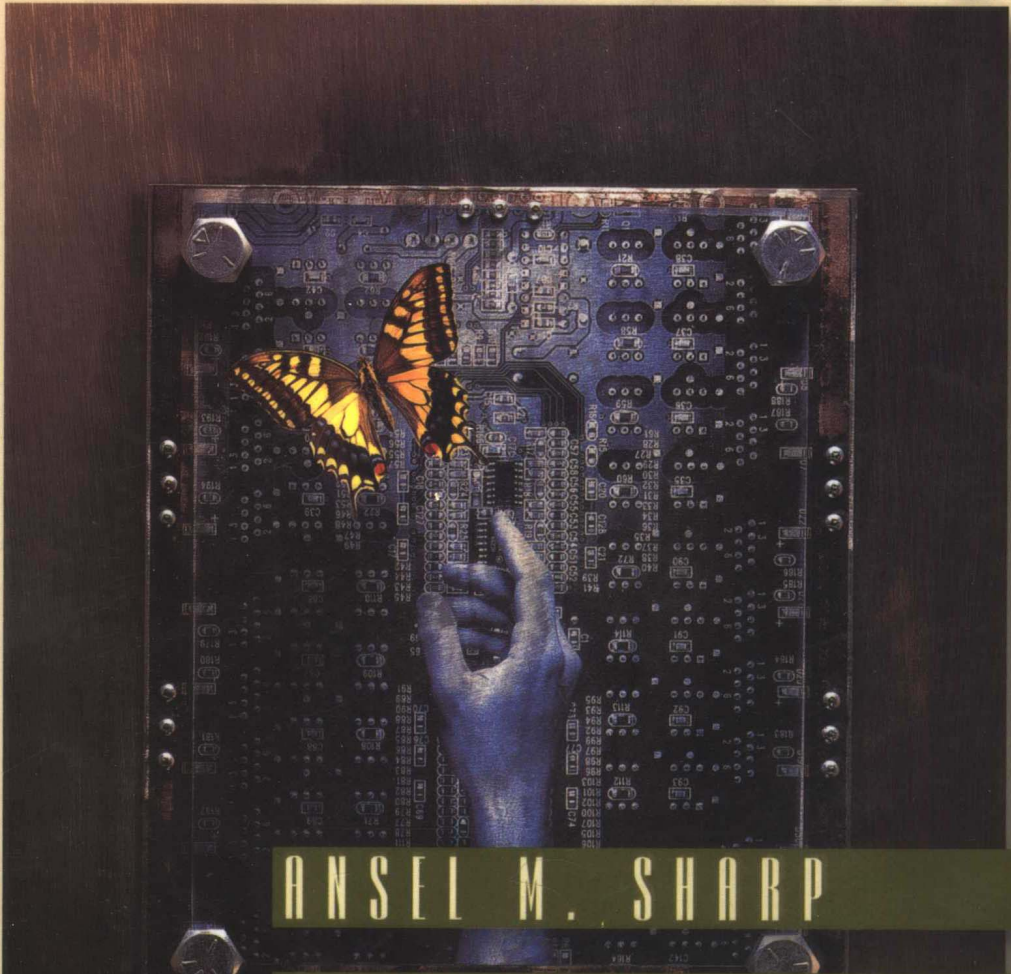


ECONOMICS *of Social Issues*

ENTH EDITION



ANSEL M. SHARP

CHARLES A. REGISTER

PAUL W. GRIMES

ECONOMICS *Social Issues*

THIRTEENTH EDITION

Ansel M. Sharp

Frank W. Wilson Professor of Political Economy
The University of the South

Charles A. Register

Florida Atlantic University

Paul W. Grimes



**Irwin
McGraw-Hill**

Boston, Massachusetts Burr Ridge, Illinois Dubuque, Iowa
Madison, Wisconsin New York, New York San Francisco, California St. Louis, Missouri

Irwin/McGraw-Hill

A Division of The McGraw-Hill Companies

Economics of Social Issues

Copyright © 1998, 1996, 1994, 1992, 1990, 1988, 1986, 1984, 1982, 1980, 1979, 1976, 1974 by The McGraw-Hill Companies, Inc. All rights reserved. Printed in the United States of America. Except as permitted under the United States Copyright Act of 1976, no part of this publication may be reproduced or distributed in any form or by any means, or stored in a data base or retrieval system, without the prior written permission of the publisher.

This book is printed on acid-free paper.

2 3 4 5 6 7 8 9 0 RRDC RRDC 9 0 9 8

ISBN 0-256-17206-4

Publisher: Gary Burke

Editor: Paul Shensa

Marketing manager: Nelson Black

Project manager: Eva Marie Strock

Production supervisor: Michelle Lyon

Designers: Suzanne Montazer and Keith McPherson

Cover designer: Susan Newman

Cover photograph: © Dana Sigall, 1992

Compositor: GAC Shepard Poorman Communications Corp.

Typeface: Palatino

Printer: R. R. Donnelley

Library of Congress-Cataloging-in-Publication Data

Sharp, Ansel Miree, 1924–

Economics of social issues / Ansel M. Sharp, Charles A. Register,
Paul W. Grimes.—13th ed.

p. cm.

Includes bibliographical references and index.

ISBN 0-256-17206-4

1. Economics. 2. Social problems. I. Register, Charles A.
II. Grimes, Paul W. III. Title.

HB171.5.S5498 1997

330—dc21

97-17798

CIP

<http://www.mhhe.com>

Preface

Welcome to the thirteenth edition of *Economics of Social Issues*. Users familiar with the previous twelve editions will discover that more than just the publisher's imprint has been revised. Our choice of topics and our presentation style have evolved and changed over time to match the dynamics of the economics discipline, but our basic teaching objectives have remained unchanged. These objectives are to (1) create student interest in the study of economics and (2) provide a framework of basic analytical tools useful in the understanding of social issues. To reach these objectives, we first introduce and discuss the important aspects of a contemporary social issue. Next, we develop the economic concepts and principles germane to the issue. Finally, we apply these principles to the issue in order to discover if there are ways that can help us resolve the issue. The issues throughout the text are arranged so that basic economic concepts are logically developed and an understanding of these concepts is reinforced through repeated use and application. However, enough flexibility is built in to give instructors the ability to experiment with different sequences of topics and chapters. As always, we carefully choose relevant social issues that not only stimulate classroom discussion but also lend themselves to helping students learn the important basic principles of economics.

New Features

A significant number of changes were incorporated into this edition of *Economics of Social Issues*. Our primary goal throughout the revision process was to enhance the uniqueness of our pedagogical approach to teaching basic economic concepts while continuing to improve the overall quality of our final product. We feel we succeeded in doing this and hope that both our new and long-time users will agree.

The most noticeable difference between this edition and earlier editions is the addition of a new chapter on the economics of growth, Chapter 16. In recent years, economic growth has become a popular topic of

social discourse due to its influence on our personal standard of living. We use economic growth to introduce students to concepts such as productivity and the business cycle. Although Chapter 16 is at the end of the book, some instructors may find it useful to draw material from it substantially earlier. For example, much of Chapter 16 could be used after completion of Chapter 2 in order to include long-run concepts of market functioning in your presentations. To make room for Chapter 16, we eliminated the chapter on airline deregulation found in earlier editions. However, we maintained significant portions of the material on the economics of regulation, integrating them into Chapter 9, on big business. We believe that these changes have resulted in a positive net gain in our coverage of basic economic principles.

In this edition, we approach the issue of achieving maximum social well-being from the marginal social benefits and costs perspective. This convention lets us more formally address the virtues of the market and consider in more depth the impact of social spillovers on well-being. Although this new approach is woven into several chapters, it is most obvious in Chapter 5, where pollution is shown to create a divergence between marginal private and marginal social costs of production.

Chapter 6, on health care, was extensively rewritten to include the latest statistics and topics relative to the on-going debate concerning national health care reform. Two new sections of this chapter explore the British and Canadian experience with nationalized medicine. This chapter remains current by evaluating the failed Clinton health care reform measures of the mid-1990s.

To improve the flow of material, the chapter on discrimination (Chapter 7) now appears immediately before the chapter on poverty (Chapter 8). The 1996 welfare reform measures have been thoroughly incorporated into the discussion of Chapter 8, along with an evaluation of how the new programs differ from the old welfare system. Possible future problems with the new programs are also discussed and evaluated.

Chapter 10, which covers the economics of professional sports, has been enhanced with the addition of material concerning the effect of sports teams on local economic development. The location of professional teams and issues concerning local government support for stadiums and arenas are major controversies in many communities across the country. This new material helps students understand the economic issues involved in these debates.

Chapter 11, concerning international trade, has been greatly expanded to include a detailed description and analysis of various trade restriction practices. Specifically, basic economic tools are applied to illustrate the effects of international tariffs and quotas. Additionally, we added material to Chapter 11 to highlight the growing importance of the World Trade Organization and the advent of customs unions and free trade blocks.

The end of each chapter now includes a list of recommended World Wide Web sites relevant to the particular social issues discussed in that chapter. These cyberspace sites were chosen based on their content and ability to provide students with additional information or alternative points of view. We added an additional, albeit lowtech, feature to the end of each chapter: a short set of discussion questions that stimulate classroom debate and serve as a student study aide.

Many other minor changes and revisions, too numerous to list here, are found throughout the book. Of course, all the economic statistics and data were thoroughly updated and revised with the latest figures available at press time.

The Social Issues Pedagogy

To those instructors who are contemplating the adoption of a social issues approach to teaching economic principles, we would like to call your attention to the following research article: "The Social Issues Pedagogy vs. the Traditional Principles of Economics: An Empirical Examination," *The American Economist*, vol. 41, no. 2, Fall 1997. This paper was written by Paul along with Professor Paul S. Nelson of Northeast Louisiana University (NLU). It presents the results of a controlled experiment comparing the learning of NLU students enrolled in a social issues-oriented course that used the twelfth edition of this book with students who took traditional principles of economics courses and used a standard encyclopedic text. The results are encouraging in that no significant difference was found between students in the social issues course and students enrolled in the traditional macroeconomics principles course, after controlling for student demographic characteristics, prior experiences, and academic aptitude. Furthermore, the results strongly indicate that students in the social issues course had a higher probability of course completion relative to those in the control group. In this era, in which student retention is becoming more important, we strongly believe that this result suggests an important positive spillover benefit of our pedagogical approach that those who design economics courses and curriculum should consider.

Acknowledgments

First, we would like to thank former author Richard H. Leftwich for his contributions to past editions of this book. Much of the credit for the success of the social issues pedagogy belongs to him. We also wish to thank Devon Yoho, former author of the *Study Guide* that accompanies this text, for his valuable contributions in that effort. The author team also

extends its appreciation to the current author of the *Study Guide*, Margaret A. Ray of Mary Washington College, for her diligent work in revising and updating this important companion to our book. Margaret also gave insightful comments and suggestions throughout the textbook revision process.

Many of the features included in this edition are based on suggestions made to us in conversation or in writing by the following users or previous reviewers of our book:

Ugur Aker, *Hiram College*; John Altazen, *University of New Orleans*; Michael W. Babcock, *Kansas State University*; Walter Baumgartner, *SUNY-Oneonta State College*; David Blanchard, *University of Wisconsin-Oshkosh*; Edward Cearny, *Coastal Carolina University*; Heather Campbell, *Arizona State University*; Basil Cooil, *Tompkins Cortland Community College*; Harry L. Cook, *Southern Oregon State College*; Edward J. Deak, *Fairfield University*; James H. Dukes, *University of West Florida*; Allen Early, *West Texas State College*; James Gapinski, *Florida State University*; David E. R. Gay, *University of Arkansas*; Steven A. Greenlaw, *Mary Washington College*; George H. Hand, *Southern Illinois University*; Sydney Hicks, *Interfirst Bank of Dallas*; Doug Hodo, *University of Texas-San Antonio*; William W. Howard, *Phoenix College*; John Jambura, *Eastern Oregon State College*; Barry Krissoff, *Western Michigan University*; Howard D. Leftwich, *Oklahoma Christian College*; E. Victor Maafo, *North Carolina Central University*; Thomas McCann, *Northeastern Louisiana University*; James McClain, *University of New Orleans*; Douglas McNeil, *McNeese State University*; Jim Mangum, *Louisiana Tech University*; James Marsden, *University of Kentucky*; Charles Meyerding, *Inver Hills Community College*; Thomas M. Mitchell, *Southern Illinois University at Carbondale*; Jeff Moore, *University of Houston*; Clair E. Morris, *United States Naval Academy*; Roland Mullins, *Arkansas State University*; Dave Nagao, *Sacramento City College*; Ken Nair, *West Virginia Wesleyan University*; John Neal, *Lake-Sumter Community College*; Paul S. Nelson, John L. Scott, and Robert C. Eisenstadt, *Northeast Louisiana University*; Thomas Parsons, *Massachusetts Bay Community College*; Wayne Plumly, *Valdosa State University*; Rose Rubin, *University of Memphis*; Michael Sattinger, *SUNY at Albany*; Harold M. Seeburger, *Heidelberg College*; Robert Smith, *Louisiana State University*; John Somers, *Portland Community College*; Gary L. Stone, *Winthrop College*; Philip F. Warnken, *University of Missouri*; and Shiu-fang Yu, *Texas State University*.

In addition, our work significantly benefited from the comments and suggestions supplied to us by the following reviewers during the writing of the thirteenth edition:

Basil Cooil, *Tompkins Cortland Community College*; Ed Ford, *University of South Florida*; Dan Fuller, *Weber State University*; Dan Gallagher, *St. Cloud State University*; Robert B. Harris, *IUPUI*; William Kern, *Western Michigan University*; Thomas Mitchell, *Southern Illinois University at Carbondale*; Terry

P. Sutton, *Southeast Missouri State University*; and Millicent Taylor, *Carson-Newman College*.

Furthermore, a special appreciation is extended to Marybeth F. Charters, Reference Librarian at Mississippi State University, for her expert help in identifying and compiling our lists of World Wide Web sites for each chapter. Thanks are also extended for her help in locating various economic data sources and updating our lists of recommended readings and citations.

We also wish to thank the current and former employees of Irwin/McGraw-Hill for their expert help in preparing this edition: Wendi Sweetland, Eve Strock, Marilea Fried, and of course, Gary Nelson. Finally, thanks are extended to Patty Moran and Malinda Sutherland for editorial advice and assistance. We, however, are responsible for all errors of fact and theory.

Ansel M. Sharp

Charles A. Register

Paul W. Grimes

Contents

1 Human Misery: The Most Important Issue of Them All 1

World Poverty and Economics	3
Our Insatiable Wants	4
Our Limited Means	4
The Capacity of the Economy to Produce	5
Assessing Well-Being Using GDP	11

Causes of Poverty and the Requisites of Economic Growth 19

Can Governments Help?	21
Governments of LDCs	21
Governments of DCs	23

Summary 23

2 Economic Systems, Resource Allocation, and Social Well-Being: Lessons from the Fall of the Soviet Union 28

Economic Systems	30
Pure Market Economy	30
Pure Command Economy	31
Mixed Systems	31
Resource Allocation in a Market	32
Market Structure	32
Market Forces	34
Competitive Market Equilibrium and Social Well-Being	43

Resource Allocation in a Command Economy	47
The Soviet Model	47

Social Well-Being: Market Versus Command	49
Market Economy Reaction to Changing Demand	49
Command Economy Reaction to Changing Demand	51

The Problems and Promise of Transition 54

Summary 55

3 Economics of Higher Education: Who Benefits and Who Pays the Bills? 60

Problems in Higher Education	61
What Kinds of Services?	62
How Much Service?	62
What Institutional Structure?	62
Who Should Pay?	63
The Economic Basis of the Problems	63

The "Product" of Higher Education	63
Investment in Human Capital	64
Direct Consumption	64
Social Spillovers	65
The Incidence of the Benefits	66

Economic Concept of Costs	67
The Opportunity Cost Principle Revisited	67
Explicit and Implicit Costs	69

The Costs of Higher Educational Services	70
The Explicit Costs	70
The Implicit Costs	71
Sources of Support	71
The Incidence of the Costs	72

Economic Evaluation of the Problems	74
What Kinds of Services?	74
How Much Service?	80
Who Should Pay?	82
An Alternative Institutional Structure	85

Summary 87

4 Economics of Crime and Its Prevention: How Much Is Too Much? 92

What Is Crime? 94

Immorality?	94
Illegality?	94
Classification of Criminal Acts	95

The Costs of Crime 95

Individually and Collectively

Consumed Goods	98
Individually Consumed Goods	98
Collectively Consumed Goods	98
Semicollectively Consumed Goods	99
The "Free Rider" Problem	99
Government Production of	
Collectively Consumed Items	100

The Economics of Crime Prevention

Activities	100
The "Optimal" Level	100
Allocation of the Crime Prevention Budget	104
Changing the Legal Status of	
Goods and Services	105
Causes of Criminal Activity	108

Summary 111

5 Pollution Problems: Must We Foul Our Own Nests? 116

What Is Pollution?	118
The Environment and Its Services	118
Recycling of Wastes and the	
Concept of Pollution	118
Common Forms of Pollution	119

Markets, Resource Allocation, and Social	
Well-Being: A Recap and Extension	122
Demand, Marginal Private Benefit, and Marginal	
Social Benefit	123
Supply, Marginal Profit Cost, and Marginal	
Social Cost	124
The Market and Social Well-Being	125

Economics of Pollution	126
Why Polluters Pollute	126
Pollution and Resource Allocation	127
The Appropriate Level of Pollution Control	131

What Can Be Done about Pollution?	134
Direct Controls	134
Indirect Controls	135

Creation of Pollution Rights Markets	138
--------------------------------------	-----

Summary 139

6 Economics of Health Care: Is It Worth What It Costs? 142

Growth and National Health Expenditures 143

National Health Care Dollars—Where They Came From and Where They Went 146

Factors Explaining the Growth in Expenditures for	
Hospital Care and Physician Services	147

How Competitive Are Medical Markets? 148

Asymmetric Information	149
Third-Party Payments	149
Adverse Selection and the Moral Hazard of	
Health Insurance	151
Malpractice Insurance	152
Cross-Subsidization	152
Absence of Price Competition	153
Barriers to Entry	153
Conclusions	154

The U.S. Health Care System 154

The Growth and Direction of Managed Care	
Organizations	155

Major Government Health Care Programs 157

Medicare	158
Medicaid	159
Health Insurance Gap	160
Health Insurance Portability and	
Accountability Act	161

Fundamental Health Care

Reform Alternatives	161
Great Britain's Health Care System	161
The Canadian Single-Payer System	163
Revisiting the Clinton Health Care	
Reform Plan	164

Summary 165

7 Discrimination: The High Cost of Prejudice 168

What Is Discrimination?	170
The Public View	170
A Working Definition	170

Economic Analysis of Discrimination	170
Sources of Market Discrimination	170
Labor Market Discrimination	171
Product Market Discrimination	182
Economic Costs of Discrimination	184
Nonmarket Discrimination	186
Social Discrimination	186
Educational Discrimination	186
What Can Be Done About Discrimination?	187
Reduce Tastes for Discrimination?	187
Reduce Market Imperfections	188
Reduce Discrimination in Development of Human Capital	189
Reduce Occupational Segregation	189
Continuing Controversies	190
Affirmative Action Programs	190
Comparable Worth	192
Summary	193

8 Poverty Problems: Is Poverty Necessary? 198

Poverty in Terms of Absolute Income Levels	200
What is Poverty?	200
Who Are the Poor?	201
The Upward Struggle of the Poor	202
Poverty in Terms of Income Distribution	204
Income Equality	204
Income Inequality	204
The Economic Causes of Poverty	206
Determinants of Resource Prices and Employment	206
Determination of Individual or Family Income	208
Determinants of Income Distribution	208
Causes of Differences in Labor Resource Ownership	208
Causes of Differences in Capital Resource Ownership	209
Summary of the Causes of Poverty	209
Government Attempts to Alleviate Poverty	210
The Old Welfare System	210
Problems with the Old Welfare System	213
Welfare Reform and the New System	214

Price Floors and Ceilings	219
Minimum Wages	220
Rent Controls	223
Negative Income Tax Proposals	228
The Negative Income Tax	228
Evaluation of the Negative Income Tax Scheme	229
Summary	230

9 The Economics of Big Business: Who Does What to Whom? 234

The Public View of Big Businesses	235
The Economics of Monopoly Power	236
What Is Monopoly Power?	236
Outputs and Prices	238
Entry Restrictions	248
Nonprice Competition	250
Should We Fear Bigness?	251
Bigness and Monopoly Power	252
Outputs and Prices	252
Entry Restrictions and Resource Allocation	253
Nonprice Competition	254
The Peculiar Case of Natural Monopoly	254
When Should Government Regulate Business?	257
Summary	260

10 The Economics of Professional Sports: What Is the Real Score? 264

The Professional Sports Business	265
Organizational Structure	266
Teams and Players	267
Economic Analysis and Professional Sports	268
The Product Market	268
Cooperation Among Teams	268
Cartels	269
Coordinated Behavior	271
Pricing and Output for Broadcast Rights	272
The Number and Location of Teams	275

The Resource Market	277
The Employment of Players	277
Monopsony	278
Wages and Employment in a Monopsony	279
Free Agency	282
Labor Disputes	284
Do Professional Athletes Earn Their Pay?	285
Summary	285

11 Protectionism versus Free Trade: Can We Restrict Ourselves into Prosperity? 289

The Controversy over International Trade	291
The Protectionist Viewpoint	291
The Free Trade Viewpoint	292
The Economics of Free Trade	292
How Trade Takes Place	293
Production and Consumption Possibilities	293
The Principle of Comparative Advantage	297
How International Trade Is Financed	298
International Trade Restrictions	302
Analysis of the Controversy	306
Protection from Cheap Foreign Goods	306
Payments Problems	308
Protection of Key and Infant Industries	310
Today's International Trade Environment	310
The World Trade Organization	310
Common Markets	311
Summary	313

12 Unemployment Issues: Why Do We Waste Our Labor Resources? 317

Costs of Unemployment	318
Economic Costs	318
Noneconomic Costs	319
What Is Unemployment?	319
The Labor Force	320
Unemployment in a Market Economy	321
Analysis of the Unemployment Problem	321

Types of Unemployment	321
Further Dimensions of the Unemployment Problem	323
What Causes People to Lose Their Jobs?	325
Circular Flow of Economic Activity	325
Aggregate Demand	327
Aggregate Supply	331
Aggregate Demand and Supply	331
Reasons for Deficient Aggregate Demand	332
Reasons for Weak Aggregate Supply	335
Combating Unemployment	336
Aggregate Demand Policies	336
Aggregate Supply Policies and the Economy in the 1980s	337
The Decade of the 90s: Recession, Recovery, and Expansion	339
Summary	340

13 Inflation: How to Gain and Lose at the Same Time 344

Meaning and Measurement of Inflation	346
Inflation Defined	346
Further Aspects of Inflation	346
Measurement of Inflation	346
Rate of Inflation	348
Economic Effects of Inflation	349
Equity Effects	350
Efficiency Effects	351
Output Effects	351
What Is Money?	352
Functions of Money	352
The Money Supply (M1 and M2)	353
The Process of Creating Money	355
Commercial Banks	355
Other Depository Institutions	355
Balance Sheet of a Bank	355
The Fractional Reserve Banking System	357
Demand Deposit Creation	357
The Issue of Control	359
The Federal Reserve System	359

Federal Reserve Controls 360

Federal Reserve Targets 361

Inflationary Causes and Cures 362

Quantity Theory of Money 362

Demand-Pull Inflation 364

Cures for Demand-Pull Inflation 365

Cost-Push Inflation 366

Demand-Pull and then Cost-Push
Inflation 367Is There a Cure for Cost-Push
Inflation? 368**Summary** 369

14

 Government Expenditure and
Tax Issues: Who Wins and
Who Loses? 373**What Are People Afraid Of?** 374

Size of Government 374

Tax Inequities 375

The Problem of Size 376

Government Expenditures 376

Government Receipts 378

Economic Analysis of the Problem of Size 378

An Efficient Level of Government

Expenditures 379

Pure Public Goods 379

External Benefits and Costs 380

Income Distribution 382

Summary 383

Tax Principles and Analysis 383

Tax Equity 383

Tax Efficiency 384

Principles of Shifting Incidence 385

The American Tax System 386

Federal Tax System 388

Recent Federal Tax Changes 389

The 1986 Tax Reform Act 390

Tax Increases in 1991 391

The 1993 Federal Budget Reduction Act 392

The 1998 Fiscal Year Budget Plan 394

Expenditure Plans 394

Tax Changes Proposed 394

Summary 395

15

 The Big National Debt:
Is It Bad? 400**The Course of the National Debt** 401**The Growth in the Federal Debt****Held by the Public** 402The Absolute Growth in the Federal Debt Held by
the Public 402Public-Held Federal Debt as a Percent of
the GDP 403Federal Debt Held by the Public as a Percent of
Total Credit Market Debt 404**What Is the National Debt?** 406

Types of Federal Securities 406

Who Owns the National Debt? 407

Problems with a Large National Debt 407

The Views of the Public 407

The Concern of Economists 408

Summary in Regard to National Debt
Problems 410**Economic Analysis of National Debt****Financing** 410

Methods of Finance 411

Economic Effects of Government Debt
Financing 413Differing Effects of Tax and
Debt Financing 414**Managing a Large National Debt** 414

Debt Management Policy 415

Debt Management Principles 415

When Should the Government Borrow? 417

Public Investments 417

Economic Instability 417

Is Government Debt Accumulation Necessary
During Wartime? 418

A Budget Proposal 418

A Final Comment on the Budget**Deficit Issue** 419**Summary** 420

16 Economic Growth: Why Is It So Important? 424

The Concept of Economic Growth 426

What Is Economic Growth 426

The Rate of Growth 428

Short-Run Fluctuations in Economic Growth 431

What Are Business Cycles? 431

Theories of the Business Cycle 433

The Determinants of Economic Growth 436

Availability of Economic Resources 437

Productivity Factors 440

The Recent Slowdown in Growth 442

Contributing Factors 442

Where Do We Go from Here? 445

Summary 448

Glossary 452

Index 467

ECONOMICS *of Social Issues*

Human Misery

The Most Important Issue of Them All

Chapter Outline

World Poverty and Economics

Our Insatiable Wants

Our Limited Means

The Capacity of the Economy to Produce

Assessing Well-Being Using GDP

Causes of Poverty and Requisites of Economic Growth

Can Governments Help?

Governments of LDCs

Governments of DCs

Summary

Checklist of Economic Concepts

Labor resources

Capital resources

Technology

Production possibilities curve

Opportunity costs

Opportunity cost principle

Increasing opportunity costs

Gross domestic product,
current dollar

Gross domestic product, real

Gross domestic product, real
per capita

Gross domestic product,
per capita

Price index numbers

Marginal social cost

Marginal social benefit

Cost-benefit analysis

Efficiency

Lesser developed countries

Developed countries

Social overhead capital

"I can't stand up," mutters Yussef Sheik Hussein, ignoring the swirl of flies attracted to a half-dozen dying Somalis nearby. "Do you have some medicine?" Hussein's emaciated body seems disconnected from his chiseled, intelligent face. But his eyes and memories are clear: His 75-acre farm was overrun by marauding gunmen a year ago; six sons and one daughter are all dead now. "Some were killed in fighting, and the smallest died of hunger." Without the needed medicine, his own fate is painfully clear. Beyond his hospital window, one of the morning's many dead is loaded on a donkey cart and led away.

Outsiders peer into such tortured lives feeling like ghoulish voyeurs. The initial impulse is to turn away. What, after all, can be done for people living in hell? Skeletal figures wander the thorny landscape in search of food, sometimes taking shelter in abandoned government buildings stripped bare by looters. Starvation has already claimed 100,000 lives and more than a million others could follow.¹

¹Jeffrey Bartholet, "The Road to Hell," *Newsweek*, September 21, 1992, pp. 53-57. © 1992, Newsweek, Inc. All rights reserved. Reprinted by permission.

World Poverty and Economics

Some two-thirds of the world's population go to sleep hungry at night. The World Bank estimates that perhaps as much as one-quarter of the world survives on no more than \$1 per day. Outright famine regularly occurs in various parts of the world—recent examples being the mass starvation of an estimated 1 million people in Ethiopia during the drought of 1984-1985 and the tragedy of Somalia in the early 1990s. Most of the hungry have no protection from the summer's heat or the winter's cold. They receive little or no medical care and live in unsanitary surroundings. Infant mortality is high and life expectancy is low. Whereas in the United States 9 infants out of each 1,000 live births die before reaching their first birthday, the rate explodes to well over 1 in 10 in places such as Ethiopia, Pakistan, and Tanzania. At the opposite end of life, the typical Ethiopian can expect to die about 30 years earlier than his or her contemporary in the United States. Recognition that the misery of poverty is the lot of the largest part of the world's population leads us to ask the questions: Why is it so? What are the causes? How can it be alleviated? This in turn leads us directly into the province of economics. An assessment and an analysis of poverty problems require an explicit understanding of the