

Economics of Social Issues



Richard H. Leftwich

Ansel M. Sharp

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**Richard H. Leftwich
Ansel M. Sharp**

*both of the
Department of Economics
Oklahoma State University*

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Preface

In this sixth edition of *Economics of Social Issues*, we have added one new chapter, completely reoriented another and changed its title, made major revisions in three more, and revised and updated the rest. We believe these changes extend and strengthen both the economic analysis and the timeliness of the book.

The new chapter, Protectionism versus Free Trade, addresses an important and topical issue. The opening chapter, Human Misery, takes a deeper look at the basis of economic problems than did its predecessor on population issues by focusing on world poverty and the requisites for economic growth. Developments of the last few years dictate that we make major changes in the chapters on energy, unemployment, and inflation. The remainder of the chapters has been thoroughly updated.

The objectives and the orientation of the book remain the same. From the many comments we have received from the users of the book and from our own experience, we remain committed to the "issues approach" in teaching economics to students. Our objectives are to (1) create student interest in the study of economics and (2) provide a framework of basic analytical tools useful in the analysis of social problems. To reach these objectives, we first introduce and discuss an issue. Next, we develop the economic concepts and principles germane to the issue. Then we apply the principles to the issue to discover if there are ways in which they can help us resolve it. The arrangement of the issues in the book is planned to provide a logical development of basic economic concepts and to reinforce understanding of those concepts through repeated use and application of them.

We would like to express our thanks to the many users who have taken the time to send us their comments and to the reviewers who provided us with detailed comments and suggestions to improve this edition. We are especially grateful to Paula A. Smith and Robert B. Stapp of Oklahoma State University, who assisted us in the preparation of this edition as well as previous additions.

We reluctantly take the responsibility for the mistakes in the book.

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Human Misery

1

The biggest issue of them all

A poor man in a least developed country—and his number runs into millions—suffers from poor nutrition. He is vulnerable to diseases. His average life span is short. He lives in huts where squalor perpetually surrounds him. He is illiterate both in letter and skills. He does not get his meals regularly but when he does he is haunted with the fear of where his next meal will come from. He is clad in rags, if at all. He walks without a pair of shoes. Lack of hygiene, minimal food, or contagious diseases have inflicted some scars on his body. He lives mostly in villages—remote and inaccessible to the rest of the world—or in slums or shanty towns. The water he drinks is neither safe nor clean. He is either unemployed or underemployed. But when he is employed he is overworked and underpaid.

He suffers from apathy and igominy. From birth to death he remains a destitute. Usually he dies an infant, but if he does survive, dearth and want haunt him to his end. Flood, famine, drought, and other natural disasters continually plague him. If he is a villager, he may be landless; if he is a town-dweller, he rarely has a roof over his head. When the price goes up, the quality and quantity of his food goes down, because his income can no longer buy him the food he needs. His wife, if she is pregnant, can only have a worse fate.

He cannot buy books for his children, nor pay fees for the school, let alone the tool-box he would love to buy for them to make their ends meet. When he falls ill, he cannot pay fees to a doctor, nor can he buy the medicine for himself let alone getting better amenities of life on these crises. He can neither read nor afford to buy a newspaper. A radio-transistor is a luxury to him. Many of his kin never see a bicycle. Starvation and death stare him at his face as in medieval times. Indeed, for him, times have not changed since the Dark Ages. And as though these afflictions were not enough, it is he—and this is the greatest irony of all—

who gives birth to the largest number of children, thus spreading and multiplying misery to a dark universe of destitution. When death comes to him finally, he seems to be happier than those he has left behind him.

I speak of a destitute at such length not merely because this occasion places on me the special obligation to speak for him, but even more, because his story is perpetrated on a scale and dimension that indeed is tragic in view of what man can do for man and yet is not done. . . .

Let us resolve to work together, to work with the people and governments of the less-developed world, to help the poor man out of his poverty.¹

THE WORLD POVERTY PROBLEM

Some two-thirds of the world's population go to sleep hungry at night. Famine occurs periodically in parts of Asia and Africa. Most of the hungry have no protection from the summer's heat nor 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. They are unable to read or write. Although poverty is as old as the human race itself, the concern that most of us feel for its victims is of fairly recent origin, dating roughly from World War II.

Factors generating concern

Never before in the history of the world were so many people transported to so many different countries and exposed to so many different cultures as was the case during World War II. Military personnel from advanced countries stationed in some of the Pacific Islands, Asia, and Africa saw first hand and for the first time the grinding subhuman poverty that engulfs a large part of the world's population. Similarly, soldiers from lesser developed areas found themselves in countries where living standards exceeded their wildest dreams. Civilian populations of poverty areas were exposed to "lavish" spending habits of troops from advanced countries. Out of the exchange, knowledge of the economic conditions of the rest of the world received great forward impetus.

¹ Keynote address of Nepal's King Birendra Bir Bikram to the Least Developed Countries Conference, Paris, France, September 1981.

More recently, growing awareness of poverty problems has been nurtured by peacetime travel and by advancing technology in transportation and communications networks. Travel abroad has become commonplace. Firms from advanced countries have made increasing commitments abroad, inducing a flow of technical personnel and their families to countries where the commitments were made. Aid programs, along with student and teacher exchanges among countries, have grown steadily. All of these have been facilitated by the advent of jet aircraft. Radio and television technology have made all parts of the world more and more aware of what is happening in the rest of the world.

The dismantling of colonial empires since World War II and the creation of new independent countries has generated growing interest in world poverty problems and economic development. Rivalry between the United States and the Soviet Union for the allegiance of new and usually very poor countries of Asia and Africa has sparked much concern over the economic well-being of the latter. Revolutions, counter revolutions, and dissipation of resources in civil wars in Asia, Africa, and Latin America may leave us wondering whether or not there is any chance for impoverished miserable people to better their lots.

Population aspects of poverty

It is commonly believed that world poverty is rooted in high rates of population growth and/or population densities. High birth rates of countries like Mexico, Kenya, and Thailand are thought to be a major economic problem in those countries, holding their living standards down. High population densities in countries like India, Korea, and the Phillipines are believed to impede their economic growth. Much concern over population growth has been evidenced in recent years,² but the classic statement of that concern was made in the late 1700s by a British clergyman-sociologist-economist, Thomas Robert Malthus.³ He presented the issues logically and systematically, and his analysis is well known today as the Malthusian theory.

² See Paul R. Ehrlich, *The Population Bomb*, revised edition, (New York: Ballantine Books, 1978).

³ Thomas Robert Malthus, *On Population*, ed. Gertrude Himmelfarb (New York: Modern Library, 1960). Originally published in 1778.

Malthus believed that the world's population tends to increase faster than its food supply, keeping the bulk of the population at the verge of starvation or subsistence. He argued that an unrestrained population tends to increase in *geometric* progression; that is, in the series 2-4-8-16-32. . . . The food supply increases in *arithmetic* progression 2-4-6-8-10. . . . This being the case, living standards can never rise far above subsistence levels because of constant population pressure on the food supply.

Malthus pointed to two sets of checks or restraints that operate on the total population. The first consists of *positive* checks—starvation, disease or pestilence, and war. All of these are the natural outgrowth of population pressure on the food supply and serve to limit the size of the total population. The second is made up of *preventive* restraints that humans can use to limit population growth. Chief among them are celibacy, late marriage, and birth control. Do these ideas have a familiar, modern ring?

WORLD POVERTY AND ECONOMICS

Recognition that the misery of poverty is the lot of the largest part of the world's population leads us to the question: Why is it so? What are the causes? How can it be alleviated? And this in turn leads us directly into the province of economics. An assessment of and an analysis of poverty problems requires an explicit understanding of the very foundations of economic activity. In this section, we sketch out the fundamental aspects of economic activity.

Our insatiable wants

Economic activity springs from human wants and desires. Human beings want the things necessary to keep them alive—food and protection from the elements of nature. We usually want a great many other things, too, and the fulfillment of these wants and desires is the end toward which economic activity is directed.

As nearly as we can tell, human wants in the aggregate are unlimited or insatiable. Why? Because once our basic needs are met, we desire variety in the way they are met—variety in foods, in housing, in clothing, and in entertainment. Additionally, as we look around, we see other people enjoying things that we do not have (video games, for example) and we think that our level of

well-being would be higher if we had those things, too. But most important, want-satisfying activity itself generates new wants. A new house generates wants for new furnishings—the old ones look shabby in the new setting. A college or university education opens the doors to wants that would never have existed if we had stayed on the farm or in the machine shop. To be sure, any one of us can saturate ourselves—temporarily, at least—with any one kind of good or service like ice cream or beer, but almost all of us would like to have more of almost everything than we now have and higher qualities in our purchases than we now can obtain.

Our limited means

The fundamental economic problem is that the means available for satisfying wants are *scarce* or limited relative to the extent of the wants. The amounts and qualities of goods and services per year that an economic system can produce are limited because (1) the resources available to produce them cannot be increased by any great amount in any given year and (2) the technology available for production is subject to a limited degree of annual improvement.

An economy's *resources* are the ingredients that go into the making of goods (like automobiles) and services (like physical examinations). Production is a bit like cooking. Resources (ingredients) are brought together; technology is used to process these resources in certain ways (stir and cook them) and then out comes a good or service (a cake, perhaps). Some outputs of production processes are used directly to satisfy wants. Others become inputs for additional production processes. The resources available in an economy are usually divided into two broad classifications: (1) labor and (2) capital.

Labor resources consist of all the efforts of mind and muscle that can be used in production processes. The ditch digger's output along with that of the heart surgeon and the university professor are included. There are many kinds and grades of labor resources; their main common characteristic is that they are human.

Capital resources consist of all the nonhuman ingredients that go into the production of goods and services. They include land which provides space for production facilities, elements that enable it to grow crops, and many useful mineral deposits. They also include buildings and equipment that have been built up over time,