

**FEE's** Essential Guide to

# POVERTY & INEQUALITY



**FEE's  
Essential Guide  
to Poverty and  
Inequality**

*Essays from the Foundation  
for Economic Education*

**FEE**

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# Introduction

This guide serves as an introduction to the issues surrounding inequality and poverty, and addresses many of the economic policies that effectively prevent those affected from making progress and escaping the cycle of poverty. Here we cover subjects like the slowing of economic growth, how and why mass schooling is used as a tool for social control, and the controversy regarding raising the minimum wage, as well as other pertinent issues.

It is our hope that this guide will help you better understand the many underlying pieces of this complex puzzle, why poverty and inequality are such important and widely misunderstood problems, and what needs to happen in order for change to take place.

The first step towards growth and progress is to adopt an empathetic posture and a compassionate response, and attempt to truly understand the basic causes of both poverty and prosperity. Poverty has a common set of causes and as many countries have discovered, there are effective solutions for raising the standard of living for the poor.

# Four Questions to Ask When Debating Inequality

Steven Horwitz

**T**he change in the presidency is not going to reduce the amount of time and energy people will be spending debating the question of rising inequality. In fact, I would expect to see such debates become even more frequent and more intense.

I have written a number of articles, and given many talks, on the issues surrounding the claim that inequality is getting worse. Those contain a whole variety of data suggesting that most of the claims about rising income inequality are wrong, overstated, or ignore other evidence.

However, what I want to do in this piece is focus more on the questions that need to be asked in such debates. Specifically, I want to raise four questions that should be at the center of discussions of inequality.

## **Question One: Are we talking about inequality or poverty?**

So often these two issues get confused in discussions about inequality. Those concerned about inequality frequently start talking about how bad things are for the poor. One explanation for this is that they are assuming that rising inequality must mean that the rich are getting richer and the poor are getting poorer. More specifically, some seem to think the poor are poorer because the rich are richer. That is, they assume that economies are zero-sum so that if some are richer, those riches must have come from the poor.

So clear the ground up front. Make sure everyone is talking about the same thing. Because if we're talking about poverty, the **evidence** is

overwhelming that both globally and in the US, absolute poverty has been dramatically reduced in the last 25 years or so.

## **Question Two: Are we talking about income, wealth, or consumption inequality?**

Those concerned about inequality often slide between income and wealth in these discussions. Even this well-known viral [video](#) does so. It starts by presenting data on wealth, but at several places along the way, including one extended discussion of a graphic, it refers to people's salaries. That's income, not wealth.

Wealth refers to the sum of our assets minus liabilities. It's a stock. Income is a net change in our wealth in a particular period, such as when we get paid. It's a flow. One can have high wealth, but low income, such as an older person living off savings but with a fully paid-for home. Conversely, one can have high income and low financial wealth if one has a large salary but spends it all immediately on consumption goods. The data and other issues are different depending on whether we're talking about wealth or income. Be clear which it is.

Consumption inequality is yet a third possibility. Here we are talking about the differences between what the rich and the poor can consume. The available evidence suggests consumption inequality is much lower than income or wealth inequality, especially in the US. The homes of the American poor have most of the same things in them as do those of the rich, even if their quality is lower. And the gap between rich and poor on such measures has [narrowed](#) in the last several decades. Since it is what we can consume that ultimately matters, this is a question worth clarifying.

## **Question Three: What about income mobility?**

Those concerned about inequality often argue as if the rich who are getting richer and the poor who are getting poorer are the same people year to year. They see the claims that the top 20 percent of income earners have a greater share of national income than 30 years ago and

that the bottom 20 percent have less, and they seem to think that means those who were rich are richer and those who were poor are poorer.

But this ignores the question of income mobility. Those static comparisons of two years decades apart are static portrayals of a dynamic process. What those comparisons actually say is that “those who were rich in year  $x$  got  $y\%$  of national income and the different set of people who were rich in year  $x + 25$  got  $z\%$  of national income.” In other words, which households and people comprise “the rich” changes year to year, as is also true of those in bottom 20 percent.

There is a large and contentious debate among economists about exactly how easy it is for people who are poor in one year to have higher incomes in later years. What is clear, however, is that such income mobility exists.

The point is that you cannot talk about inequality without at least discussing the degree of mobility. If what bothers people about inequality is the assumption that the poor are staying poor, or getting poorer, then exploring the degree to which that is really true would seem essential to the discussion.

### **Question Four: What exactly are the problems caused by inequality?**

If you’ve clarified what everyone thinks about the first three questions, it’s worth asking exactly something like: if poverty is falling, and poor people have a decent chance to get out of poverty, what specifically is wrong with (rising) inequality?

In my experience, one common answer to this question is that even if the poor are getting richer, the even greater increase in the wealth of the rich gives them unfair access to the political process. The super-rich will turn their economic power into political power, often in ways that will redistribute resources to themselves and their friends.

That, of course, is a legitimate concern, but notice that the conversation has subtly shifted from inequality per se to the problems of cronyism and a state with enough power to engage in such redistributions. There

are plenty of ways to attack cronyism and to reduce the ability of the rich to turn wealth into political power that are not about forcible redistribution away from the rich or other policy questions that arise from inequality.

Those who raise this concern are really just complaining about cronyism, not inequality *per se*. The source of the problem is the redistributive state, which arguably would get more powerful if many of those concerned about inequality got their favored policies passed.

Finally, even those who are skeptical of the arguments made by those concerned by inequality can agree that there has been some redistribution of wealth from poor to rich in the last few decades, thanks mostly to government policies that do favor the rich over the poor. I include everything from monetary policy and financial regulation that has punished small savers and banks, to occupational licensure and minimum wage laws that have made it hard for the poor to get work, to regulations and bans on Uber, Lyft, AirBnB, and the rest of the so-called “sharing economy.”

These policies are problematic precisely because they increase both inequality and poverty. A far more interesting discussion of inequality would include the role played by such public policies in creating what we might call “negative-sum” increases in inequality compared to the “positive-sum” increases that characterize much of the last few decades.

Again, readers interested in the data should consult the two papers linked at the very start. But even without the data, these are four questions worth asking in conversation about inequality if you really want to get to the heart of what’s really at stake and persuade those concerned about rising inequality to see the issue in a different light.



# What Killed Economic Growth?

Jeffrey Tucker

**D**ebating why the economy is so sluggish is an American pastime. It fills the op-eds, burns up the blogosphere, consumes the TV pundits, and dominates the political debates.

It's a hugely important question because many people are seriously frustrated about the problem. The recent popularity of political cranks and crazies from the left and right — backed by crowds embracing nativist and redistributionist nostrums — testify to that.

Sometimes it's good to look at the big picture. The **Economic Freedom of the World** report does this with incredible expertise. If you believe in gathering data, and looking just at what the evidence shows and drawing conclusions, you will appreciate this report. It sticks to just what we know and what we can measure. The editors of the report have been doing this since 1996, so the persistence of the appearance of cause and effect is undeniable.

The report seeks measures of five key indicators of economic freedom: security of property rights, soundness of money, size of government, freedom to trade globally, and the extent of regulation. All their measures are transparent and heavily scrutinized by experts on an ongoing basis. If you question how a certain measure was arrived at, you are free to do so. It's all there, even the fantastically detailed data sets, free for the download.

The report examines 157 countries with data available for 100 countries back to 1980. A total of 42 distinct variables are used in the index.

The big takeaway from this report: freer economies vastly outperform unfree economies by every measure of wellbeing.

The countries in the top quarter of the freest economies have average incomes more than 7 times higher than those countries listed into the bottom quarter (the least free). This is even true for the poor: the average income of the poor in free economies is 6 times that of the average in unfree economies. The lowest income group in free economies still 50% greater than the overall average is least free economies.

Life expectancy is 80.1 years in the top quarter as versus 63.1 in the bottom quarter.

The report further shows that civil liberties are more protected in freer economies than less free economies.

It's a beautiful thing how this report puts to rest a century of ideological debates. Indeed, these results are not generated by political ideology. They are generated by facts on the ground, the real conditions of law, regulation, institutions, legislation, and policy.

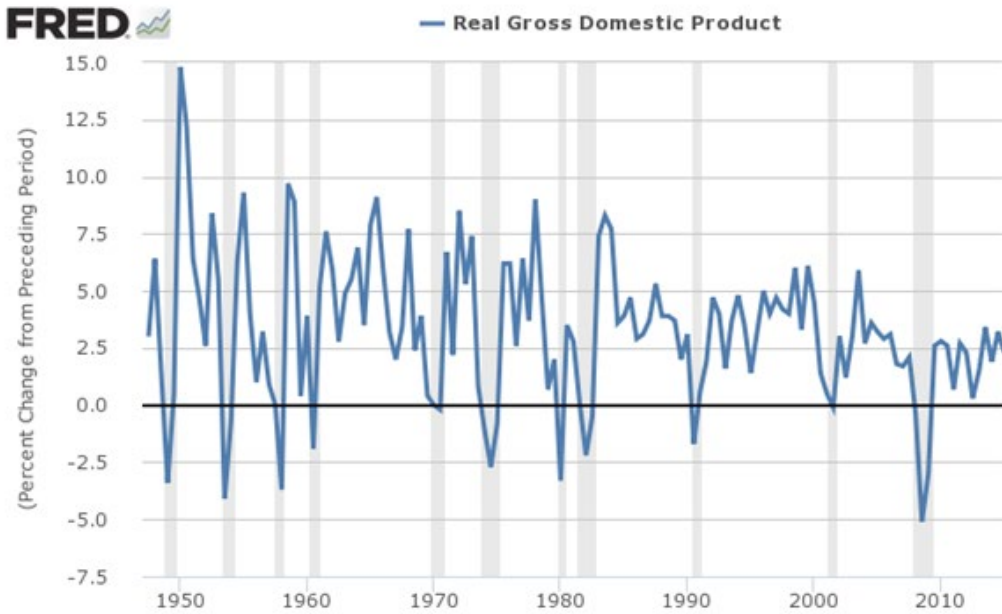
The implications are screamingly obvious. If you want a country to grow richer, you have to embrace freedom in economic life. If you want to drive a country into poverty, there is a way: grow the government, destroy the money, shut down trade, and heavily regulate all production and consumption.

One leaves this report with the question: Why are we still debating this?

## **What about the United States?**

Everyone knows that the US has a problem. Despite living through the greatest explosion of technology and communication in the history of the world, a transformation that should have set off a wonderful economic boom similar to what we saw in the 19th century, we've seen pathetic results in growth and household income.

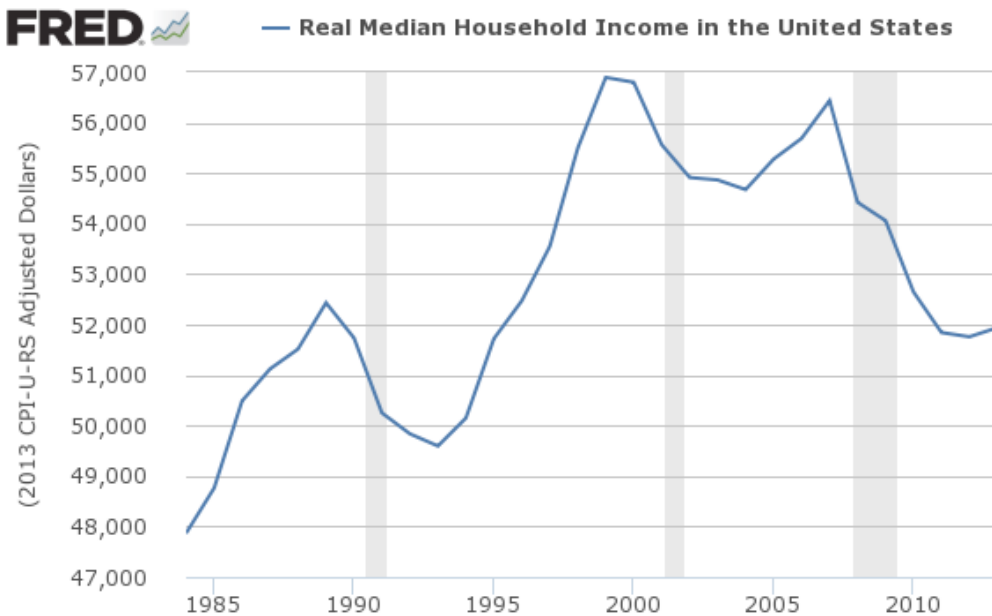
A quick casual look shows what I mean. Here's percent change in GDP from the end of World War II to the present.



Source: US. Bureau of Economic Analysis

Shaded areas indicate US recessions - 2015 research.stlouisfed.org

And here is real median household income from 1984 to 2013:



Source: US. Bureau of the Census

Shaded areas indicate US recessions - 2015 research.stlouisfed.org

From those two pictures alone, you can discern the source of voter frustration, and also the general atmosphere of angst.

People want to know why, and whom to blame. The Economic Freedom Index gives you a strong hint.

From 1970 to 2000, the United States was generally listed as the third freest economy in the world, behind only Singapore and Hong. Starting in 2000, the US began to slip. Over the period between 2000 and today, the summary position in the index slipped 0.9%. This doesn't sound like much, but "a one-point decline in the EFW rating is associated with a reduction in the long-term growth of GDP of between 1.0 and 1.5 percentage points annually," says the report, and this adds up, year after year.

Relative to other countries, listed most free to least free, the US has slipped from the number 3 spot all the way to number 16. Countries that are ahead of the US include Australia, Chile, Ireland, Canada, Jordan, Taiwan, New Zealand, Hong Kong, and Singapore.

And here is a fact that I found incredible: The former Soviet state of Georgia ranks at number 12. And can you guess which country is just behind the US at number 17? The formerly Communist nightmare of Romania. That Romania is only slightly less free than the United States is great progress for Romanians, but should be an embarrassment for Americans.

The fall in economic freedom in this country has been precipitous. The authors of the report further note that this decline is highly unusual. Most all countries in the world are getting freer, which accounts from the [thrilling fall in global poverty](#).

But the US is going the opposite direction, fast: "Nowhere has the reversal of the rising trend in the economic freedom been more evident than in the United States."

What in particular accounts for the largest portion of this slide? It's about the security of property. The drug war, the bailouts, the rise of forced transfers to political elites, eminent domain, and asset forfeiture all contribute. There are other problems with regulation and taxation, but it is the lack of security in what we own that has been decisive. This

is what kills investment, confidence in the future, and the ability to accumulate capital that is so essential to prosperity.

What's strikes me when looking at all this data, and the crystal clear connections here, is the strange silence on the part of the opinion class. People are flailing around for answers. Where's the growth? Who is stealing the future? Maybe it's the immigrants, foreign nations, and the rise of inequality. Maybe technology is taking jobs. Maybe people are just lazy and incompetent.

Or maybe we should look at the data. It's all about freedom.

# How Mass Schooling Perpetuates Inequality

Kerry McDonald

**W**hile visiting a public park out-of-state recently, we met a young boy who shares many interests with my 8-year-old son and is also homeschooled. They hit it off immediately and we met up with Matt, along with his mom and younger brother, several times.

We learned that life is tough for this family. Matt's father isn't around, and his mother struggles as a single mom supporting two young children on her own. She pulled Matt out of public school a couple of years ago feeling that it wasn't working for him. He was labeled as hyperactive, a troublemaker, a slow reader, a kid with a temper.

As I interacted with this engaging, polite, energetic boy, it became obvious to me how mass schooling would be a terrible fit for him — a square peg in a round hole. Mass schooling was designed to crush a child's natural exuberance and make him conform to a static set of norms and expectations.

## **Being Labeled a Deviant**

For kids like Matt, schooling can bring out the worst behaviors. Like a trapped tiger — angry and afraid — they rebel.

Unable to conform properly to mass schooling's mores, they get a label: troubled, slow-learner, poor, at-risk. They will carry these scarlet letters with them throughout their 15,000 hours of mandatory mass schooling, emerging not with real skills and limitless opportunity, but further entrenched in their born disadvantage. A tiny few may

succeed at overcoming these labels — a dangling carrot that sustains the opportunity myth of mass schooling — but the vast majority do not.

Monique Morris writes in her book, *Pushout: The Criminalization of Black Girls in Schools*: “Literature on the structure of dominance and the socially reproductive function of school tells us that schools may reinforce and reproduce social hierarchies that undermine the development of people who occupy lower societal status.”

In reference to the black girls she writes about in her book, Morris concludes that “these socially reproductive structures constitute educational experiences that guide them to, rather than direct them away from, destitution and escalating conflict with the criminal justice system.”<sup>1</sup>

That is why I was heartbroken to hear that Matt is going back to school in the fall.

## What Do You Do With No Real Alternatives?

I understand why his mother feels she has no other choice but to send him there. She’s struggling to support her family on her own, to build a better life for her kids. It’s hard to be a single mom and to homeschool. In fact, a new homeschooling [report](#) issued last week by Boston’s Pioneer Institute for Public Policy Research shows that 90 percent of homeschoolers live in two-parent families, and they are three times more likely to have one be a stay-at-home parent. Homeschooling as a single mom is beyond hard.

But it doesn’t have to be. If Matt’s mom could enroll him in a [self-directed learning center](#), like those scattered across the country, she could support her family and continue to homeschool Matt with a complementary learning environment that encourages freedom and autonomy and pursuit of his passions and gifts. These learning centers, where tuition is typically only a fraction of a standard private school, often rely on donations to offer sliding scale fees or scholarships.

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1. Morris, Monique. *Pushout: The Criminalization of Black Girls in Schools*. New York: The New Press, 2016, p. 188.

Of course, if Matt's mom had a voucher that could help too, not only in defraying some education costs but also in encouraging the innovation and entrepreneurship necessary to launch more of these self-directed learning centers — and other school alternatives — across the country.

Imagine if some of the over \$600 billion that American taxpayers are charged each year to pay for U.S. public schools were re-allocated to create alternatives to the mass schooling monopoly. Imagine what that might do to help families like Matt's.

## Generating a Resistance to Learning

I can see the reel playing before me of Matt's remaining years in school: the endless discipline, the daily detentions, the force-fed academics, the testing that masquerades as learning, the sadness and despair that will only be amplified now that Matt has had a taste of education freedom and autonomy. He knows how learning can be, should be, but for most children is not.

As [Schooling the World](#) documentary filmmaker, Carol Black, writes in her powerful [essay](#):

Children's resistance takes many forms; inattention, irritability, disruption, withdrawal, restlessness, forgetting; in fact, all of the 'symptoms' of ADHD are the behaviors of a child who is actively or passively resisting adult control. Once you start to generate this resistance to learning, if you don't back away quickly, it can solidify into something very disabling.

I hope I'm wrong. I hope school will be ok for Matt this time around. But I am not optimistic. And I am angry: angry that mass schooling is the only other option for Matt, angry because this was how the system was designed to be. Remember: Horace Mann, the proclaimed "father of American public education" who created the nation's first compulsory schooling law in Massachusetts in 1852, homeschooled his own three children with no intention of sending them to the common schools he mandated for others.



**The Pioneer Institute homeschooling report [says](#) of Mann:**

This hypocrisy of maintaining parental choice for himself while advocating a system of public education for others seems eerily similar to the mindset that is so common today: Many people of means who can choose to live in districts with better schools or opt for private schools resist giving educational choices to those less fortunate.

Matt is an important reminder for me of why I advocate so strongly for education choice and parental empowerment. He should be a reminder for all of us that mass schooling was created as a system of social control for those without privilege. If we truly care about equity we should care about choice.

# You Can't End Poverty Without Cutting Taxes

David Weinberger

**D**ecent tax proposals have let loose the dogs of economic war. While debate has raged over the impact of tax cuts on growth and revenue, the moral case for low taxation remains largely neglected.

Critics have predictably launched an all-out assault on the idea that taxpayers should keep more of their own money. One op-ed **bemoans** the “alchemistic belief that huge tax cuts can pay for themselves by unleashing faster economic growth.” Another **decries** the alleged lack of financing to “pay” for tax cuts, while further deriding them as mere “benefits for the wealthy.” Others have abandoned evidence entirely and resorted to personal attack. “When power meets greed, you can bet, the schmucks in the red hats will pay,” **snarks** one such commentator.

Tax reform advocates have rightly refuted these tired and often evidence-free attacks. For instance, **hard facts demolish** the farce that tax cuts uniquely benefit the rich. In percentage terms, tax reductions have historically tilted toward lower earners. As Thomas Sowell has pointed out, the slogan “tax cuts for the rich” should be labeled “tax lies for the gullible.” Furthermore, talk of tax cuts “paying for themselves” is disingenuous.

A lower tax rate may mean lower revenue, but less revenue is not the equivalent of government expenditure. Government spending must be “paid for,” but taking less of a worker’s income “costs” nothing, as the income earner—not Uncle Sam—has the right to the fruit of his labor. To argue otherwise means income first belongs to the state, not the individual. Remarkable that a country whose founding creed

was “no taxation without representation” would lose sight of such an elementary truth.

Moreover, whether lower taxes translate to higher revenue depends on the tax cut in question, but what is clear is that heaps of evidence—including a study by former Obama administration economist Christina Romer—show that lower taxes boost economic growth.

## **The Case for Lower Taxes**

Important as these matters are, however, the case for reduced taxation is also compelled by moral considerations.

Every generation of Americans has understood that taxation is a fact of life. Ben Franklin famously remarked that in life “nothing can be said to be certain, except death and taxes.” However, our founders worked to keep taxes limited and uniform. “[A]ll duties, imposts and excises shall be uniform throughout the United States,” reads the U.S. Constitution. [emphasis added] That is why they not only rejected progressive income taxation, but income taxation entirely. The early republic instead applied taxes primarily to goods, which provided maximum personal choice (to avoid the tax one could avoid purchasing the product).

This vision generally held until the early 20th century, although there were two brief experiments with an income tax prior to that period. The first involved income taxation as high as ten percent during the civil war, which was repealed shortly thereafter.

The second was in 1894 when Congress passed an income tax that applied to the top two percent of wealth holders. However, it was quickly struck down by the Supreme Court as unconstitutional. As historian Burt Folsom notes, “At age 77, [Stephen] Field,” who was a Supreme Court justice at the time, “not only repudiated Congress’s actions, he also penned a prophecy. A small progressive tax, he predicted, ‘will be but the stepping stone to others, larger and more sweeping, till our political contests will become a war of the poor against the rich.’”

That prophecy became reality in 1913, when a constitutional amendment cleared the way for progressive income taxation. Beginning

at a modest 7 percent, the top rate didn't remain there for long. It quickly rose to 24 percent, before jumping to 63 percent under Herbert Hoover. It reached 90 percent under FDR, who proposed raising it to a breathtaking 99.5 percent in 1941. Thankfully, his proposal was rejected and the top rate declined in subsequent decades. Today it stands at 39.6 percent.

But there are at least three moral reasons for lower taxation.

## The Morality of Tax Cuts

First, bigger government means less individual generosity. The more of our money government consumes, the less we give to private charities and local community members in need. Jonathan Gruber, an economist from MIT, [conducted a study](#) of the New Deal government in the 1930s, and concluded that private charity spending “fell by 30% in response to the New Deal, and that government relief spending can explain virtually all of the decline in charitable church activity observed between 1933 and 1939.” Another [study](#) of charitable giving from 1965 to 2005 “showed that increases in state and local government welfare and education spending do reduce charitable giving.”

Second, benevolence with other people's money is no virtue. Advocating higher taxes on others to pay for government programs may make us feel good, but virtue requires self-sacrifice and personal generosity. Relying on the state gives us the luxury of feeling good about ourselves without having to do good.

Third, government aid is often less effective at lifting the destitute. Private charities make distinctions between people who truly need help and those who do not, as well as between those who need material assistance and those who need moral refocus, personal counseling, relationship repair or spiritual commitment. Government, no matter how well-intentioned, does not and cannot make such distinctions.

## **The State Perpetuates Poverty**

In his ground-breaking book, *Losing Ground*, Charles Murray documents poverty steadily declining through the 1940s, 50s and 60s, before government's "War on Poverty." Afterward, however, the trend reversed. According to government's own figures, the poverty rate has failed to drop after 50 years and \$22 trillion in anti-poverty spending.

As social scientist Marvin Olasky notes, the failure is attributable to government's emphasis on "entitlement rather than need." As the state swelled, even "small efforts at categorization and discernment were seen as plots to blame the poor rather than the socioeconomic system that trapped them," Olasky notes. "'Freedom' came to mean governmental support rather than the opportunity to work and move up the employment ladder."

Our founders would be unsurprised. Reflecting on poverty, Ben Franklin remarked:

"I am for doing good to the poor, but...I think the best way of doing good to the poor, is not making them easy in poverty, but leading or driving them out of it. In my youth I traveled much, and I observed in different countries, that the more public provisions were made for the poor, the less they provided for themselves, and of course became poorer. And, on the contrary, the less was done for them, the more they did for themselves, and became richer."

There is no compassion in keeping the downtrodden impoverished, nor is it good for the economy. These realizations led Milton Friedman to proudly proclaim: "I am in favor of cutting taxes under any circumstances and for any excuse, for any reason, whenever it's possible." Reasons abound and the possibility exists. We simply need to make the case.

# Three Reasons Why the \$15 Minimum Wage Is a Bad Way to Help the Poor

Matt Zwolinski

Today, **California governor Jerry Brown will sign** a law raising the state's the minimum wage (currently \$10/hr — tied with Massachusetts for the **highest of any state**) to \$15/hr by 2022. This is a big deal. Although a **number of cities** such as Los Angeles and Seattle have passed \$15 minimum wage laws in the past few years, California's law will affect both a much larger number of people, and a much more diverse population of workers, than any other measure to date.

California's minimum wage law is the latest and largest victory in a **powerful movement** pushing for higher minimum wages across the United States. Supporters of this movement argue that the current minimum wage is too low to allow workers to make ends meet.

But the minimum wage is a bad tool for those whose goal is to ease the burdens of poverty. And the California law — which mandates a very high wage across a very large population — is an especially bad idea.

Here are just a few reasons why:

1. Minimum Wages Target Workers, Not the Poor — Minimum wage policies affect people with traditional, wage-paying jobs. The problem with this is that the class of low-wage workers and the class of poor people only partially overlap. There are large segments of the poor that receive no direct benefit at all from the minimum wage — the unemployed, stay-at-home parents, Uber drivers and other “gig” employees, etc. And there are a large

number of low-wage workers — think teenagers living at home with their parents — who aren't poor. If the goal of minimum wage policies is to fight poverty, then targeting low-wage workers is a relatively ineffective way of achieving that goal.

2. Minimum Wages Hurt Marginalized Groups — Let's put aside for the moment the question of whether minimum wage laws **create unemployment** or **not**. Because even if they don't affect overall levels of unemployment, minimum wage laws almost certainly change the composition of unemployment. Minimum wage laws create a barrier to getting a job that the privileged are better able to overcome than the underprivileged. When jobs are scarce, then immigrants, workers with few skills or little education, and those with limited English proficiency are going to have a harder time convincing employers that their labor is worth \$15 an hour than their better-skilled, native, English-speaking competitors. As **Thomas Leonard has recently shown**, unemploying such marginalized groups was regarded as part of the point of minimum wage laws by early 20th century "progressives" who saw the minimum wage as a useful tool for keeping immigrants, blacks, and women out of the labor market. But the effect hasn't changed in the last 100 years, even if our moral evaluation of it has. (Well, for most of us anyway. Ron Unz **still regards** the unemployment of immigrants as a positive effect of minimum wage laws.)
3. Some Minimum Wages Cause Unemployment — The standard economist's argument against minimum wage laws is that, by increasing the cost of labor, they reduce the demand for it. In other words, they create unemployment. Ever since **Card and Krueger's 1997 study**, economists have been somewhat mixed on whether minimum wage laws actually have this effect in practice. But — here's the important thing — the studies that have caused economists to doubt the unemployment effects of a minimum wage have focused on minimum wages much lower than \$15/

hour. Obviously, there's some point at which a minimum wage is going to start causing unemployment — otherwise, why not set it at \$100 an hour? And a lot of economists — **even those who support a minimum wage in principle** — believe that \$15 crosses the line. Maybe not in a city like Los Angeles, where most workers are earning more than \$15 already, but California's law affects not just cities like Los Angeles but **cities like Fresno and El Centro**, where average wages (and costs of living) are considerably lower.

My point here isn't that government should do nothing to help the poor. It's that minimum wage laws are a bad way of going about trying to provide that help. That's why even **John Rawls thought that the minimum wage was a bad idea**. Of course he thought we should have income redistribution. But the best way to do that is to let the labor market do what markets are generally quite good at — efficiently allocating resources and creating a social surplus — and then use the power of government to ensure that everybody gets an equitable (or, on my view, sufficient) share of the wealth the market creates.

Rawls thought that something like **Milton Friedman's Negative Income Tax** could be an efficient way of achieving that redistribution. **I think** he's right, and **many others** have made the same point. Unlike the minimum wage, a Negative Income Tax or Universal Basic Income (the two are often functionally identical) targets poverty, not employment. And it does so without creating the distortionary and **unemployment** effects of a minimum wage.

California likes to think of itself as a state on the cutting edge. But the minimum wage is a policy which, if it ever had a time at all, that time has past. Raising the minimum wage to \$15 is an ineffective way to fight poverty which could have disastrous unintended consequences for the most vulnerable workers. If California wants to be smart about fighting poverty, it should **follow the lead of the Finns**, and consider a Negative Income Tax.



# Ten Solutions to Intergenerational Poverty

Sean Malone

**F**rom time to time, I see lists on the internet that propose to solve the problems of intergenerational poverty in America.

Unfortunately, most of the time, these lists recommend massive transfers of wealth from rich people to poorer people, or suggest the creation of new “poverty-fighting” government bureaucracies, in spite of the fact that neither of these approaches is likely to solve the underlying problems.

## **The Decline and Flatline of Poverty**

The fact is that in the 25 years before Lyndon Johnson’s “War on Poverty” began, the poverty rate in America was on the decline.

But now, decades after we’ve created numerous Federal bureaucracies formally dedicated to eradicating the problem for good and over \$22 trillion spent, our poverty rates have flat-lined instead. Worse, many of the programs designed to benefit the poorest members of our society have actually created dependency traps that make it nearly impossible for people who grow up in impoverished conditions to escape.

And as for the idea that the problem of poverty could be solved if only rich people were forced to give their wealth to poorer people? That sounds plausible enough until you realize that it wouldn’t make a significant difference to poverty anyway.

For example, if you combine the entire net worth of Forbes’ list of the world’s 400 richest people, you’d come out with about \$2.4 trillion. Yes, it’s an enormous number, but it’s not exactly what you might think.

CHART 1

**Poverty Rate, 1947-2012**

PERCENTAGE OF INDIVIDUALS WHO WERE POOR BY THE OFFICIAL POVERTY STANDARD



**Sources:** Figures for 1947-1958: Gordon Fisher, "Estimates of the Poverty Population Under the Current Official Definition for Years Before 1959," U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, 1986. Figures for 1959-2012: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements, "Historical Poverty Tables—People," Table 2, <https://www.census.gov/hhes/www/poverty/data/historical/people.html> (accessed September 10, 2014).

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This is not money all piled up in a grain silo somewhere, waiting for some rich guy to dive in and roll around. Instead, it's the estimated monetary value of all the assets they own. That means all the office buildings, furniture, computers, telephone lines and other capital infrastructure of their various businesses; the value of their employee salaries, payroll, and pensions; and the on-paper economic value of the businesses themselves.

For example, Amazon reportedly holds \$83.4 billion in assets. That includes all their warehouses, trucks, servers, and the actual stuff they keep in stock for people to purchase. And that money is what's rolled into Jeff Bezos' supposed \$89 billion net worth. Bezos can't just cash out to the tune of tens of billions of dollars without liquidating the inventory his company holds, selling all of his buildings, and divesting himself from Amazon entirely — and he could only do that in a world where there are other rich guys ready to buy.

So, that \$2.4 trillion isn't a real number in any sense that can be converted into a transfer of income.

Poverty is the natural state of the world and the big mystery of human history is not how people become poor, but how people get rich.

But let's imagine that it was, even if we could just magically grab \$2.4 trillion in cash from the world's billionaires, when divided amongst the rest of us 99%ers in the United States (about 319,000,000 people), we'd all walk away with a one-time-payment of just \$7,500.

Even if we just limited the transfer from the richest 1% to the bottom 20%; each person would get \$37,151.70 — or basically a one-time payment of considerably less than the median salary in the US.

Not that we wouldn't all like the extra cash, but let's be honest... After that money is gone and we've sent a clear signal to the most successful businessmen & women in the world that the reward for building a company like Google or Apple is to have all your assets taken from you and your business destroyed, then what?

Neither long-term government dependency or wrecking the economy for a short-term payout is the answer.

So what should we do instead?

First, we should understand that poverty is the natural state of the world and the big mystery of human history is not how people become poor (that's easy, do nothing), but how people get rich. Once we recognize that fact, we have to shift our way of thinking about poverty and start seeing growing wealth as a consequence of people's ability to create and exchange goods and services with each other.

In the end, wealth is not just dollars in a bank account. It's our very standard of living and quality of life. The money is just a measurement tool.

So what we need is to create a world where it's incredibly easy for people from every conceivable starting point to enter the market and create their own success. To that end, I'd like to offer 10 actually effective ways to reduce poverty and inequality in America and around the world.

Here we go:

## **1. Eliminate most occupational licensing restrictions and lower barriers to entry to getting jobs and starting businesses.**

It's an issue that people often know little about, but roughly 1 in 3 occupations in the United States require a government-granted license before people can even begin to earn a living. And while it's common to believe that these licenses are protecting the public from bad doctors, dentists, and lawyers, the truth is that most of these licenses are for barbers & hairdressers, florists, landscapers, and gym class instructors. The Institute for Justice maintains an annual report on the [state of occupational licensing](#) in America.

According to IJ:

The report documents the license requirements for 102 low- and moderate-income occupations—such as barber, massage therapist and preschool teacher—across all 50 states and the District of Columbia. It finds that occupational licensing is not only widespread, but also overly burdensome and frequently irrational.

On average, these licenses force aspiring workers to spend nine months in education or training, pass one exam and pay more than \$200 in fees. One-third of the licenses take more than a year to earn. At least one exam is required for 79 of the occupations.

These licenses are often insurmountable barriers to entry for low-income people not only to finding employment but also to starting their own businesses. In 2014, I made [a documentary](#) chronicling the story of one such entrepreneur, Melony Armstrong, and her battle against occupational licensing in Mississippi.

## **2. Eliminate current zoning rules in most cities, and allow for mixed use residential/commercial occupation (ie. let people run businesses from their**

## **homes and neighborhoods legally).**

Zoning regulations have a long and sometimes shady history of pushing low-income people out of areas where opportunities are widely available, and into areas that concentrate poverty into specific sections of a city. Especially in urban areas like New York City, these regulations can make it impossible for poorer individuals to find employment or start their own businesses where they actually live, and as a result, they're often forced to commute sometimes over two hours per day just to get to and from their place of employment.

The Brookings Institution calls zoning and land-use regulation a form of “**Opportunity Hoarding**”.

With these kinds of restrictions, children who grow up in impoverished conditions are surrounded exclusively by other poor people and often go their whole lives without ever interacting with middle class or even wealthier people. This can mean fewer opportunities to learn about financial literacy, entrepreneurship, the value of education, or to get employment tips from middle class or wealthy role models. That can certainly contribute to a sense of hopelessness and prolong intergenerational poverty.

### **3. End welfare dependency by eliminating most social welfare programs and replace them with more charity and means-tested vouchers for specific services that phase out as people's income increases.**

This suggestion is much more politically challenging, but welfare dependency is an enormous problem in America, largely created by the War on Poverty itself. The way most social welfare programs have been constructed actually punishes people for working and increasing their income, creating a much stronger incentive to continue to collect welfare and avoid working (or at least, avoid legal employment) as long as possible.

For an in-depth look at what creates the Welfare Trap, check out Charles Hughes' article: [The Welfare Trap: Maze of Programs Punishes Work.](#)

Of course, we don't want to leave people in desperate need without any help, so it may be the case that we still need some form of assistance to people who are in genuine need.

However, instead of creating a new government program with the same problems as the older ones, we should look at market-oriented solutions such as vouchers for food, transportation, child services, or health care (ie. WIC, Food Stamps, etc.) that the poorest members of our society can use to buy goods and services from providers of their own choosing. Access to these vouchers would need to be means-tested, and instead of dropping off the minute someone gets a job, the assistance should decrease gradually.

Eventually, along with the other reforms I propose here, we should be able to get to a point where private charity alone would be enough to care for those who were truly unable to earn an income, but in the meantime anything that reduces the Welfare Trap and dependency on the government is a step in the right direction.

#### **4. End minimum wage restrictions that take out the bottom rungs of the economic ladder and prevent younger poor and frequently minority people from getting their first jobs and gaining necessary experience.**

It may seem counter-intuitive to a lot of people, but the minimum wage isn't actually a magic bullet that helps poor people get paid more.

To the contrary, most evidence actually suggests that significant increases in the minimum wage result in fewer hours worked and often higher unemployment rates — particularly among the lowest skilled or experienced parts of our society, which unfortunately tends to mean poor people and minorities. The Foundation for Economic Education has a fairly large archive of supporting articles and evidence for this problem which you can find [HERE](#).

Nobel-prize-winning Economist, Milton Friedman called minimum wage laws the most “anti-black law in the land”:

55% of minimum wage workers are under 25. They are predominantly teenagers and college-aged students **working in their first jobs**, gaining experience that they will use throughout their lives. Minimum wage laws are effectively a barrier to those experiences, because they create incentives for employers to only ever hire people they are fairly certain in advance will be worth more than their wages.

And unfortunately, the labor of people with limited skills, limited education, and limited job experience isn’t likely to be valuable enough.

Allowing people to offer and accept jobs at whatever rates they voluntarily agree to would blow open the doors of opportunity to millions of people looking for employment. Once employed, those workers will gain more experience and skills. And as they become more specialized, more productive, and more valuable to employers, their incomes will go up.

My own story fits this pattern, as I suspect is true for most people.

When I was in college, I charmed my way into my first job in video production by offering to work for a day for free, and to work after that for just \$6.00 an hour, which was below the local minimum wage at the time. It was probably illegal, but I worked for that company for almost a year and in that time developed a ton of skills and experience that I used to get my next job — which was also in video production.

That experience has led me to the position I’m in today, and without those first opportunities, I don’t think I could do what I do now.

## **5. End the drug war, which disproportionately affects impoverished and minority areas and often results in unnecessarily fatherless children and the multi-generational problems that flows from single-parent families.**

This one would be huge. The American Civil Liberties Union calls the Drug War “**The New Jim Crow**”, and it’s easy to understand why.

It's led to a boom in incarceration that has ended with around 2.2 million Americans in prison. It's also eroded protections of property rights and civil liberties throughout the country. It's given enormous powers to prosecutors and police, and that power has been used mainly against the poorest segments of our society.

One of the most soul-crushing stories I've encountered after many years of working with people pushing for reform is that of [Barbra Scrivner](#).

In 1992, Barbra's ex-husband was embroiled in a criminal drug investigation, and prosecutors used Barbra to get to him by accusing her of conspiracy. Barbra had no knowledge of the crime because she'd spent the previous 2 years separated from her ex-husband, getting sober and taking care of her infant daughter. In spite of little evidence, Barbra was sentenced to 30 years in prison.

After 20 years, two suicide attempts, and numerous appeals, she was eventually granted clemency by President Obama. Unfortunately, it was too late, and Barbra's daughter Alannah — who Barbra originally left her husband to protect — grew up without a mother, ultimately continuing the cycle of substance abuse and poverty.

Yahoo [featured Barbra](#) in a video about the struggles she experienced after being released from prison, and I also produced a short video for Families Against Mandatory Minimums with her that gets to the heart of how these incarcerations can affect families.

## **6. Radically overhaul our prison system towards restorative justice as opposed to punishment, and end mandatory minimum sentencing.**

Not only are we sending too many people to prison for offenses that shouldn't be crimes, we're also failing to create opportunities and incentives for people to turn their lives around once they're in prison.

As a result, poor people go into prison with few opportunities and leave prison with even fewer, often leaving them with the options of either becoming homeless or turning back towards a life of crime. It's



no surprise that the recidivism rate for inmates within 5 years of release from state prisons are an average of 76.6%. This doesn't help anyone.

Sending people to jail and building our prison system around punishing them for their crimes may be cathartic for some segments of the population, but it does little to improve the lives of the victims of those crimes. And evidence suggests that it may often make the perpetrators more likely to commit crimes in the future. Most of our criminal justice system should be focused on making sure that victims of crime are compensated for their losses, and prisons should mainly be reserved for people we're actually afraid of — violent and dangerous criminals. Their focus should be on helping those people turn their lives around and become flourishing and productive members of society.

A couple years ago, I spent some time in a prison in Texas shooting a documentary on a program that does just that:

## **7. Radically overhaul our criminal code and eliminate any laws that create crimes where there are no actual victims.**

Admittedly, this one is also going to be a little tricky, but we currently have a criminal code that is so complex and overly broad that even the people who write and enforce the laws have no clue what it says. The most disturbing consequence of overcriminalization is that it enables police and prosecutors to use the law as a weapon — to extract cash from citizens, make headlines, and support their election bids for Sheriff or DA.

No one is actually immune from this problem, but poor people — who lack the resources in money and time to defend themselves or hire competent attorneys — are particularly vulnerable.

**According to noted criminal defense attorney Harvey Silverglate**, because of the massive size and complexity of our criminal code, the average American is likely to commit as many as three felonies a day — often without knowing they're doing anything wrong.

And as **Radley Balko explains**:

...these sorts of laws give police more excuses to make pretext stops when profiling for drug couriers. Once they have you, they can take your cash, car, jewelry or other possessions based only on the flimsiest evidence that it might be connected to drugs. They're opportunities for harassment. The U.S. Supreme Court has ruled that even a crime as petty as a seat belt violation is justification for an arrest — and all of the life disruptions that come with a trip to jail. (Don't forget that no matter what the offense, a trip to jail can also include a strip search.) Heavy enforcement of these sorts of crimes can breed distrust between police and the communities they serve, and creates more interactions that carry the risk of escalation.

But even assuming that all of these stops, fines, and citations are always legitimate, they're always going to have a disproportionate effect on the poor, because the poor are the people who can least afford to pay them.

Solving our overcriminalization problem would go a very long way to reducing burdens on the poor and ending cycles of intergenerational poverty.

**8. Stop subsidizing and encouraging university degrees at the expense of any other kind of education. It makes higher education considerably more expensive (thus taking it farther out of reach for many poor people) and is not a good fit for everyone; whereas many great careers and ways out of poverty do not come from a university program.**

We know that Federal student loan programs have caused an **enormous increase in the cost of higher education**.

Even though most of these subsidies have been created with the idea that they would help low-income people gain access to college degrees, the reality is that they're doing this at the expense of burdening people with extraordinary debts that can't even be escaped through bankruptcy.

Fortunately, there are better alternatives available all over the country right now that offer a range of options for people with diverse interests and needs. Trade-schools, apprenticeships, affordable (or free!) online or distance learning courses, and programs like **Praxis** or **Vocatio** can be a positive way to skip college and succeed in life.

Everybody needs an education, but not everyone needs to get a four-year degree.

Making more options available and reducing the subsidies, incentives to take on unsustainable debts, and constant pressure to push everyone into a single educational box would benefit poor and low-income individuals most of all.

## **9. End corporate welfare across the board, allowing businesses to compete on a level playing field, based on the value they add to their customers not on their ability to benefit from political favoritism.**

If it's important to end the bad incentives created by costly welfare programs for poor people, it is equally, or perhaps even more important to **end welfare for the rich**.

Corporate welfare is a huge problem, and it pervades every city and state. Taxpayers are on the hook for professional football, basketball, or baseball stadiums; new opera houses; theme parks; shopping malls; pharmaceutical companies; and on and on. Poorer people are frequently forced to pay for direct subsidies to giant businesses that promise jobs and long-term tax revenue that never seem to materialize. And all of this happens at the expense of smaller businesses and local entrepreneurs.

I recently made a new documentary for the Beacon Center of Tennessee on this topic

## **10. Allow school choice as the norm. People should never be stuck in a terrible school district just because of their income bracket or because they**

## were born in a certain part of town.

Finally, we must allow school choice.

Currently, low-income people in America — zoned into poorer and more dangerous areas, restricted from economic opportunities, and burdened by a criminal justice system that often treats them as cash machines with little recourse — are also unable to even move their children to better schools where they might have a chance at a decent education and high-quality **educational role models**.

There's a reason why charter school lotteries are flooded with applicants from poor communities every year.

Parents are desperate for options, and an awful lot of the time, those options are **much better** than the existing alternatives.

Antony Davies & James R. Harrigan, hosts of FEE's "Words & Numbers" Podcast recently tackled this issue and note that school choice is always an option to wealthy people who can afford to move to better school districts or even send their kids to private schools, so it shouldn't be such a shocking or politicized struggle to expand those opportunities to the poor through tax-reductions and voucher programs:

## Conclusion

It's clear that there are numerous socio-economic factors that contribute to poverty and inequality in America; it's also clear that a single solution to the problem doesn't exist. In order to decrease the gap between rich and poor, there are measures we can take both as individuals and as a society that will help those stuck in the cycle of poverty to escape.

On the individual level, allowing parents the freedom to choose what form and style of education is best for their children creates a culture where they can grow and thrive at an early age, pursue their passions and eventually become more productive and skilled members of society.

On the corporate level, eliminating the minimum wage restriction allows workers who are just starting out in their careers the opportunity to negotiate with their employers a rate of pay that works for both of

them, and allows them to gain the skills and experience necessary to advance in their career.

When it comes to government, overhauling our approach to welfare, imprisonment, drugs, and other social issues will have an immediate impact on the lives of those who are disproportionately affected by the policies which entrap and keep them in poverty.

These are just a few of the changes that need to be made across all sectors of society; and once this overhaul takes place, our economic situation and the situations of those trapped in the cycle of poverty will begin to dramatically improve.

Henry Hazlitt's *The Conquest of Poverty* explains that whenever government attempts to get involved with caring for the poor, they only ever end up serving themselves and making the problem far worse. Free markets, on the other hand, have done much to alleviate the struggles of the poor, giving them more freedom and opportunity to better their situation. As history has shown time and again, the less the government is involved, the better — for everyone.

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