

# LESSON 4

## Economic Freedom, Inequality, and Poverty

### INTRODUCTION

In this lesson students review the differences between income inequality and poverty as well as the concept of economic freedom. Students then analyze data on nations related to their levels of economic freedom, inequality and poverty comparing those nations that are most free with those that are least free. Finally, students complete a worksheet related to a data visualization website that allows them to investigate issues of inequality and poverty over time and across countries.

### ECONOMIC CONCEPTS

- Economic Freedom
- Extreme Poverty
- Gini Coefficient
- Income Inequality

### TIME

45 minutes

### LEARNING OBJECTIVES

Students will be able to:

- Understand the difference between income inequality and poverty.
- Understand the concept of economic freedom.
- Contrast how countries with different levels of economic freedom compare in income inequality and extreme poverty.
- Investigate how nations fare over time in terms of income inequality and poverty.

## VISUALS

- Visual 4.1 - Poverty and Income Inequality
- Visual 4.2 - Economic Freedom
- Visual 4.3 - Economic Freedom, Gini Coefficient and Extreme Poverty – Most Economically Free
- Visual 4.4 - Economic Freedom, Gini Coefficient and Extreme Poverty – Least Economically Free

## HANDOUTS

- Handout 4-1 (student's)
- Handout 4-1 (answer guide)

## MATERIALS

- 1 copy per student of handout 4-1

## Backgrounder

### Economic Freedom Basics

The cornerstones of economic freedom are (1) personal choice, (2) voluntary exchange coordinated by markets, (3) freedom to enter and compete in markets, and (4) protection of persons and their property from aggression by others. Individuals have economic freedom when property they acquire without the use of force, fraud, or theft is protected from physical invasions by others and they are free to use, exchange, or give their property as long as their actions do not violate the identical rights of others. Individuals are free to choose, trade, and cooperate with others, and compete as they see fit.

**Explore more at**

<https://www.fraserinstitute.org/economic-freedom/economic-freedom-basics>

## TEACHER'S GUIDE: PROCEDURE

1. Remind students that **income inequality** and poverty are very different issues. Income inequality is a measure of one group of people's income to another. Poverty refers to a situation in which incomes do not meet people's basic needs. You may use **Visual 4-1** (and Lessons 1 and 2) to review the definitions of the two terms. Remind students that everyone would agree that poverty is a problem that we should work to minimize. Income inequality is more complicated, exists in every society and is not necessarily good or bad.
2. Tell students that the Fraser Institute publishes a yearly ranking of how countries fare in terms of their **economic freedom**. Review **Visual 4-2** as a summary of what the economic freedom index measures. Explain that some of these concepts can be challenging for Canadian students to relate to as they are used to high levels of freedom for such things as: rule of law, property rights and free trade. Explain that many nations in the world do not have such benefits.
3. Many lessons and studies have emphasized the benefits of economic freedom. More free economic countries tend to be wealthier than non-free nations. People tend to live longer and have more political and civil rights. However, what about income inequality and poverty? Ask students if they think economically free nations will have more or less income inequality? What about poverty? *Answers are likely to vary.*
4. As Lesson 2 revealed, the most unequal (highest **Gini Coefficient**) country measured in the rich world was South Africa at around 0.67. An estimate of the Gini Coefficient for the Central African Republic is 0.56 and for Haiti and Namibia it is 0.61. While hard to verify, estimates for North Korea's Gini Coefficient are as high as 0.85 (Peterson Institute for International Economics). It turns out that many of these countries are among the least economically free (and unequal) in the world.
5. Display the tables in **Visuals 4-3 & 4-4**. Ask students what trends they see in the data (note that data on some of the undeveloped and economically unfree nations can be difficult to verify). *Students will observe that the unfree nations appear to be slightly more unequal than the free countries. They will also notice that extreme poverty (less than \$1.90 per day of consumption) is nearly non-existent in the free world but very common in the unfree nations.*
6. It is worth pointing out that these data suggest that Singapore and the United States have relatively high income inequality but virtually no **extreme poverty**. The Sudan and Egypt are quite the opposite. They are more equal in terms of incomes but large segments of their populations live in extreme poverty. Ask students if they would prefer

to live in the U.S. or the Sudan? Why? *Most are likely to choose the U.S. given the much higher standard of living and lack of extreme poverty if this comes at the cost of some inequality.*

#### ACTIVITY – OUR WORLD IN DATA – GINI COEFFICIENTS

7. In order to investigate issues of income equality around the world, have students complete the Our World in Data: Gini Coefficient worksheet (**Handout 4-1**). Students are instructed to visit the website Our World in Data, which uses the Gini Coefficient (Gini Index) to make many comparisons between countries and over time.
8. Students can click on each graph in the article to enlarge it. Students are required to answer questions on the worksheet. Open the Our World in Data: Gini Coefficient Answer Key for the teacher guide.

## DEBRIEF

Debrief the lesson with the following questions:

- How are poverty and income inequality different?
- What is economic freedom? How is it measured?
- Do countries with high levels of economic freedom experience more or less poverty? Why do you think that is?
- What parts of the world have the highest levels of income inequality? Lowest levels?
- How does Canada compare to other countries in North America related to income inequality?

### **Bonus Activity**

Watch YouTube video *John Stossel – Economic Freedom and Prosperity* with your class and discuss:

<https://www.youtube.com/watch?v=U5C0p9HWCmE>

## CONCLUSION

In this short lesson students investigate the differences between poverty and income inequality and then determine how levels of economic freedom are related. Students find that nations with high levels of economic freedom are significantly lower levels of poverty. Students then work through a data visualization website where they look at cross-country and historical data on poverty and income inequality.

VISUAL 4-1: Poverty and Income Inequality

**Poverty** – Income at which basic necessities, such as food, clothing, and shelter are unattainable.

Also referred to as *Absolute Poverty*.

**Income Inequality** – A measure of one group's income compared to another group's income.

Sometimes referred to as *Relative Poverty*.

**The cornerstones of economic freedom:**

- **personal choice**
- **voluntary exchange**
- **freedom to enter markets and compete in markets**
- **protection of persons and their property from aggression of others**

**The index measures the degree of economic freedom in five major areas, comprised of 42 distinct variables.** The index is on a 0 to 10 scale, where a higher EFW score indicates more economic freedom.

**The five broad areas of the index are:**

- 1. Size of government**  
(government spending and taxes)
- 2. Legal System & Security of Property Rights**
- 3. Sound Money**
- 4. Freedom to Trade Internationally**
- 5. Regulation**  
(regulations of credit markets, labour markets, and businesses)

### VISUAL 4-3: Economic Freedom, Gini Coefficient and Extreme Poverty

Data for the 10 <u>most economically free</u> nations			
Country	Economic Freedom Ranking	Gini Coefficient	Percent Living in Extreme Poverty
<i>Source</i>	Fraser Institute <sup>1</sup>	CIA World Factbook & World Bank <sup>2</sup>	World Bank, 2017 <sup>3</sup>
Singapore	2	0.46	0%
New Zealand	3	0.36	0%
Switzerland	4	0.30	0%
United States	5	0.45	1.2%
Ireland	6	0.31	0.2%
United Kingdom	7	0.32	0.2%
Canada	8	0.32	0.5%
Australia	9	0.30	0.7%
Mauritius	9	0.36	0.5%
Malta	11	0.28	0%
<b>Average for 10 most free nations</b>		0.35	0.33%

<sup>1</sup> Removed Hong Kong from list due to it not being a country. Data based on Fraser Institute EFW 2019 report

<sup>2</sup> Year not consistent; chose latest year data was provided for.

<sup>3</sup> Measured as less than \$1.90 in consumption per day.



VISUAL 4-4: Economic Freedom, Gini Coefficient and Extreme Poverty

Data for 10 <u>least economically free</u> nations			
Country	Economic Freedom Ranking	Gini Coefficient	Percent Living in Extreme Poverty
<i>Source</i>	Fraser Institute	CIA World Factbook and World Bank <sup>4</sup>	World Bank, 2017 <sup>5</sup>
Iraq	153	No data	2.5%
Republic of Congo	154	0.49	37.0%
Egypt	155	0.32	65.1%
Syria	155	0.36	No data
Dem. Rep of Congo	157	0.42	76.6%
Angola	158	0.43	54.2%
Algeria	159	0.35	0.5%
Sudan	160	0.34	15.0%
Libya	161	No data	No data
Venezuela	162	0.47	10%
<b>Average for 10 least free nations</b>		<b>0.40</b>	<b>32.61%</b>

<sup>4</sup> Year not consistent; chose latest year data was provided for.

<sup>5</sup> Measured as less than \$1.90 in consumption per day.

## RESOURCES

*Our World in Data* website: <https://ourworldindata.org/income-inequality>

*CIA World Fact Book*: <https://www.cia.gov/library/publications/the-world-factbook/>

World Bank data:

<https://databank.worldbank.org/reports.aspx?source=world-development-indicators>

The Fraser Institute's Economic Freedom website:

<https://www.fraserinstitute.org/economic-freedom/map>

Economic Freedom of the World Lesson Plans:

<https://www.fraserinstitute.org/education-programs/west/teachers/classroom-resources/lesson-plans>

You Tube video—John Stossel investigates economic freedom and prosperity:

<https://www.youtube.com/watch?v=U5C0p9HWCmE>