



Common Sense Economics and Human Flourishing

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SOCIAL ENTREPRENEUR
NIGERIA

Institutions matter.

- ▶ **Chude Jideonwo** (born 16 March 1985) is a Nigerian TV host, filmmaker and media entrepreneur. He is also a lawyer



CHUDE JIDEONWO
MEDIA
ENTREPRENUER

The science of
decision-
making in a
world of
scarcity.

Incentives matter.

The decisions of
today have
consequence that
lie in the future.

Every decision has
a cost, an
opportunity cost.

Voluntary
exchange creates
wealth and
improves health.

People respond to
changes in
predictable ways.

Institutions matter.

Economics of the Constitution

- ▶ Limited government serves its people.
 - ▶ It defends the natural rights of people, their right to life, liberty, and pursuit of happiness; and prevents aggressions on the people.
 - ▶ In other words, it is the administration of justice.
- ▶ U.S. Constitution and our Founding Fathers based much of what is written in the Constitution on Lockean principles with the role of government clearly outlined.

Articles of Confederation

A perfect storm

Without any element of a central government under the Articles,

- ✓ States erected trade barriers.
- ✓ Free-riding occurred where some states paid taxes to cover war debt and administrative costs while others did not.
- ✓ Conflict between states over internal affairs and between the U.S. and foreign countries became increasingly difficult to resolve.
- ✓ Inflation ran rampant in a country buried in debt.

From the Articles to the Constitution

- By correcting the deficiencies of the Articles, the U.S. Constitution and Bill of Rights (Amendments 1-10) set the stage for economic growth and prosperity.
- The Constitution established the rules within which the people across the U.S. economy would break from the world's impoverished past and successfully lift themselves and their trading partners around the world to new standards of living.

U.S. Government

- The powers delegated to the federal government are explicitly listed and all others are left to the state or the people.
- Specifically, of interest are the economic incentives in the following clauses of Article I:
 - Spending Clause (Article I, Section 8, Clause 1)
 - Commerce Clause* (Article I, Section 8, Clause 3)
 - Coinage or Mint Clause* (Article I, Section 8, Clause 5)
 - Patent and Copyright Clause (Article I, Section 8, Clause 8)
 - Contract Clause (Article I, Section 10, Clause 1)
- The Bill of Rights protects the basic principles of human liberty and explicitly limits government interference in private lives.

Sherman Anti-trust Act of 1890

- ▶ Movement in the direction of using government to tamper industry.
- ▶ The boundaries of government expanded.
- ▶ This expansion endangered liberty.

Not-So-Roaring 20s and Great Depression

- ▶ Installment credit
- ▶ Margin trading in the stock market
- ▶ Smoot-Hawley Tariff bill
 - ▶ What history books don't tell you:
 - ▶ Smoot-Hawley Tariff went from majority Senate opposition to majority Senate support
 - ▶ 30 governments warned Congress that they would retaliate in Sept 1929
 - ▶ Stock market crashes in Oct 1929, moderately recovers, and drops again after it passes in Jun 1930
 - ▶ *The Midas Paradox* (2015), by Scott Sumner

Solutions of the Era

- ▶ Government policies, interventions, and regulations emerge to correct failures in markets
 - ▶ Tariffs
 - ▶ Taxes (high)
 - ▶ Subsidies
 - ▶ Other interventions
- ▶ Central bank intervenes
 - ▶ Restrictive monetary policy

Markets fail: This we know

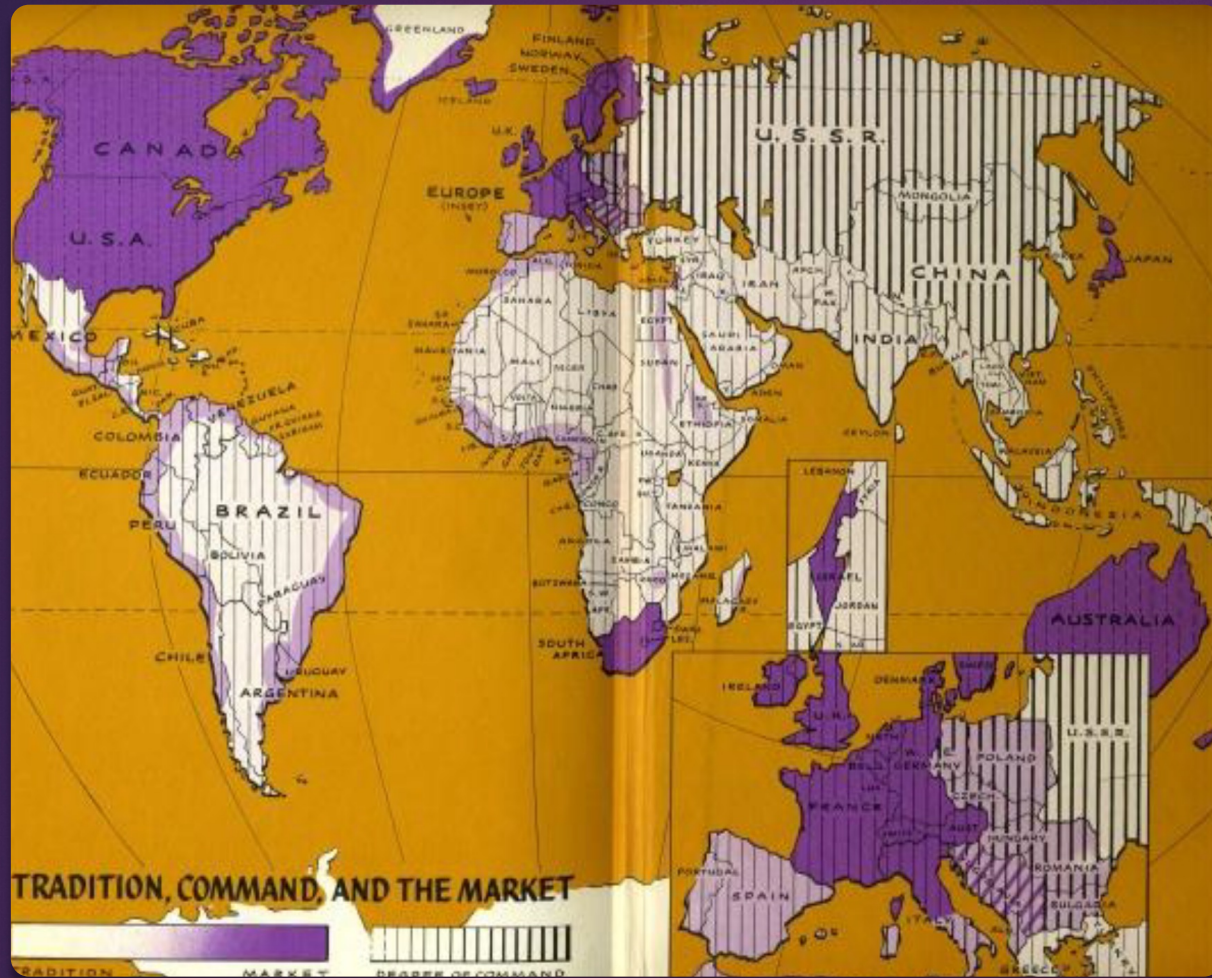
Market Failure is a concept in economic theory where in the allocation of goods and resources by a *free market* is not efficient.

- Public Goods
- Externalities
- Lack of Property Rights
- Asymmetric Information



GOVERNMENT FAILS!

But so does
government!



Resources:
Allocate them
strategically for
growth and
prosperity

Textbook confessions

- ▶ Levy, David M. and Peart, Sandra J., Soviet Growth & American Textbooks (December 3, 2009). Available at SSRN: <https://ssrn.com/abstract=1517983> or <http://dx.doi.org/10.2139/ssrn.1517983>

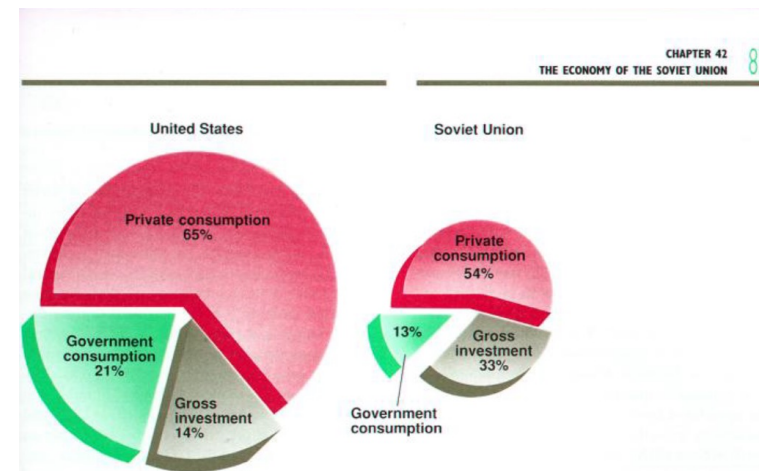
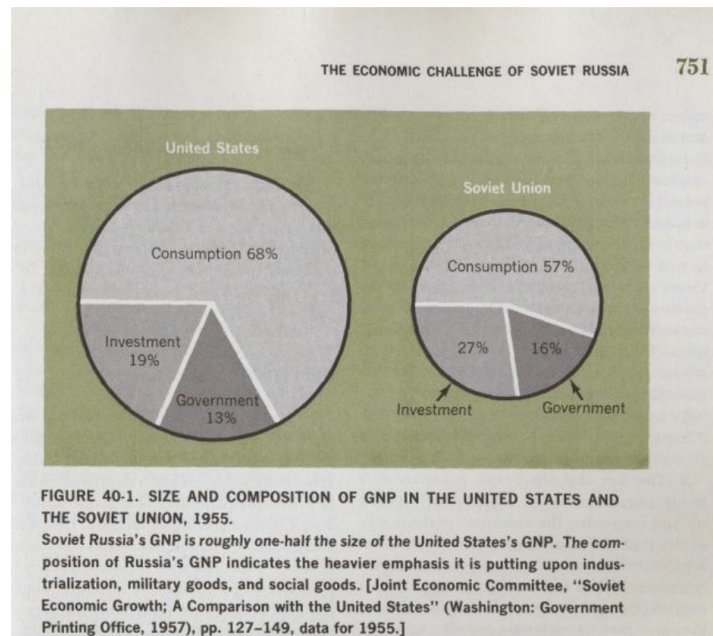


FIGURE 42-1

Size and composition of GNP in the United States and the Soviet Union

The Soviet Union's GNP is about 50 percent the size of the United States' GNP. As compared with the United States, the Soviet Union puts relatively greater emphasis on investment goods than on consumer goods. [Joint Economic Committee, *USSR: Measures of Economic Growth and Development, 1950-1980* (Washington, 1982), p. 67, and *Economic Report of the President*.]

USSR vs US

- ▶ USSR growth rates projected to be greater than US, leading to higher real GDP and income in the future.

TABLE VI · 1-1 *Relative Size and Growth Rates*

	U.S.S.R. GNP as Per Cent of U.S. GNP (1958)	Growth Rates (1950-1958)	
		U.S.	U.S.S.R.
Weights correspond to U.S. prices	65	2.9	6.0
Weights correspond to U.S.S.R. prices	33	2.9	7.5

Source: M. Bornstein, "A Comparison of Soviet and United States National Product" in Bornstein and Fusfield, *The Soviet Economy: A Book of Readings*, 1962.

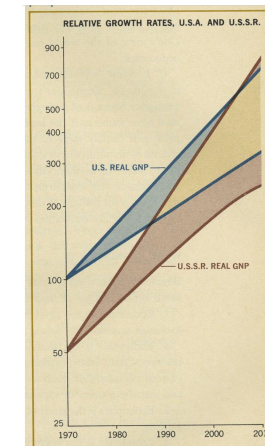


FIG. 1-1. The art of judgment, as well as scientific analysis, is involved in determining reasonable projections of growth rates free of either wishful or paranoid thinking. Not only are Americans and Russians concerned with the outcome of this economic sweepstakes, but so are Asians and Africans interested in choosing that form of economic organization which will move them most rapidly along the road of development. (Source: Fig. 42-1.)

Resources vs institutions

- ▶ Institutions are the rules and regulations that guide behaviors in a variety of settings.
- ▶ Investigate how different institutions lead to different outcomes.

Inspired by the Levy and Peart study






- ▶ Eyzaguirre, H., Ferrarini, T.H., O'Roark, J.B. (2019). "Textbook Confessions: Government Policies and Market Outcomes." Eds. Hall, Joshua and Lawson, Kerianne (Eds.) in Teaching Economics.
- ▶ Eyzaguirre, H., Ferrarini, T.H., O'Roark, J.B. (2016). "Textbook Confessions: Of Failures, Markets, and Government. Journal of Economics and Finance Education. 15(2): 60-71.
- ▶ Eyzaguirre, H., Ferrarini, T.H. and O'Roark, J.B. (2014). "Textbook Confessions: Government Failure." The Journal of Private Enterprise 29(3): 159-175.

POLITICAL VS MARKET
ALLOCATION
EXPERIMENT

INTO YOUR
LIVES

You now have \$75!








Spending \$\$ on item generates which emotion??				
-10 Upset	-5 Dissatisfied	0 Neutral	+5 Happy	+10 Ecstatic
				


Cart 1

	Cart 1	Price	Value
1.	Pantene Pro-V shampoo - 13 oz.	\$3	-10*-5*0*+5*+10
2.	Avatar on DVD	\$15	-10*-5*0*+5*+10
3.	Any laundry detergent - 24 oz.	\$5	-10*-5*0*+5*+10
4.	Johnson's baby formula - 26 oz.	\$8	-10*-5*0*+5*+10
5.	Fixodent denture cleanser	\$6	-10*-5*0*+5*+10
6.	Skittles candy - king size	\$1	-10*-5*0*+5*+10
7.	Tampax tampons - 1 box (24 ct)	\$7	-10*-5*0*+5*+10
8.	Electric beard trimmer	\$24	-10*-5*0*+5*+10
9.	Kellogg's Frosted Flakes cereal - 1 box	\$3	-10*-5*0*+5*+10
10.	Almonds (6 oz. can)	\$3	-10*-5*0*+5*+10
	TOTALS:	\$75	

Spending \$\$ on item generates which emotion??

-10 Upset	-5 Dissatisfied	0 Neutral	+5 Happy	+10 Ecstatic
				

Cart 2

	Cart 2	Price	Value
1.	Crest Toothpaste - 3 oz.	\$2	-10*-5*0*+5*+10
2.	<i>Titanic</i> on DVD	\$14	-10*-5*0*+5*+10
3.	Downy fabric softener - 20 oz.	\$3	-10*-5*0*+5*+10
4.	Huggies diapers - jumbo pack (31 ct.)	\$13	-10*-5*0*+5*+10
5.	Adjustable heating pad	\$26	-10*-5*0*+5*+10
6.	Snickers candy bar - king size	\$1	-10*-5*0*+5*+10
7.	Revlon lipstick - one tube	\$6	-10*-5*0*+5*+10
8.	Protein bars - 1 box (6 ct.)	\$6	-10*-5*0*+5*+10
9.	Kellogg's Strawberry Pop- Tarts - 1 box	\$3	-10*-5*0*+5*+10
10.	Gum 1 regular pack (15 ct.)	\$1	-10*-5*0*+5*+10
	TOTALS:	\$75	

How can
we choose
between
cart 1 and
cart 2?

Tradition

Contest

Drawing

Equal share

Command and control

Voting

Voting by a simple majority

- ▶ Based on the highest positive value (+) or lowest negative value (-), let's have a show of hands for Cart 1.
- ▶ Now, Cart 2.
- ▶ The winner is ??????????
- ▶ CART 2!!!!

Anyone have two carts, both with negative values?

- ▶ Many active, registered voters cast their ballots for the lesser of two evils in 2016.



Thomas Sowell



- ▶ “The first lesson of economics is scarcity: there is never enough of anything to fully satisfy all those who want it. The first lesson of politics is to disregard the first lesson of economics.”

Responsible

and

accountable individual and decision- making

Personal value > price → purchase or pass
Personal value < price → pass



SPEND UP TO \$75 OF YOUR OWN WAGES AND SALARIES

Y/N?		Price (in \$)	Value (0, 5, 10)
	Pantene Pro-V shampoo – 13 oz.	\$3	
	<i>Avatar</i> on DVD	\$15	
	Any laundry detergent – 24 oz.	\$5	
	Johnson's baby formula – 26 oz.	\$8	
	Fixodent denture cleanser	\$6	
	Skittles candy – king size	\$1	
	<u>Tampax</u> tampons – 1 box (24 ct)	\$7	
	Electric beard trimmer	\$24	
	Kellogg's Frosted Flakes cereal – 1 box	\$3	
	Almonds – 6 oz. can	\$3	

Cart 2		Price (in \$)	Value (0, 5, 10)
Y/N?			
	Crest Toothpaste – 3 oz.	\$2	
	<i>Titanic</i> on DVD	\$14	
	Downy fabric softener – 20 oz.	\$3	
	Huggies diapers – jumbo pack (31 ct.)	\$13	
	Adjustable heating pad	\$26	
	Snickers candy bar – king size	\$1	
	Revlon lipstick – one tube	\$6	
	Protein bars – 1 box (6 ct.)	\$6	
	Kellogg's Strawberry Pop-Tarts – 1 box	\$3	
	Extra sugar free gum – 1 pack (15 ct.)	\$1	

Total invoice for all purchased goods: _____

Total value: _____

Total amount "saved": _____

When individuals spend their earned income, they are:



MORE PURPOSEFUL IN SPENDING;



MORE LIKELY TO SAVE (AND
INVEST);



ACTIVELY PARTICIPANTS IN
GROWING THEIR ECONOMIES
AND HELPING OTHERS PROSPER.

Initially, limited *popular* attention is drawn to the soundness of government intervention but it grows in Public Choice economics

John Maynard Keynes

J. Buchanan, G. Tullock, M. Olson...

Others

Key issues

- ▶ Special interests
- ▶ Short-sightedness
- ▶ Rational ignorance or low information

Why this
topic
matters to
you and
your future

CSE 3.5 Guide to
American Federal

Debt: *From Debt limit-A
guide to American federal
debt made easy (2011).*

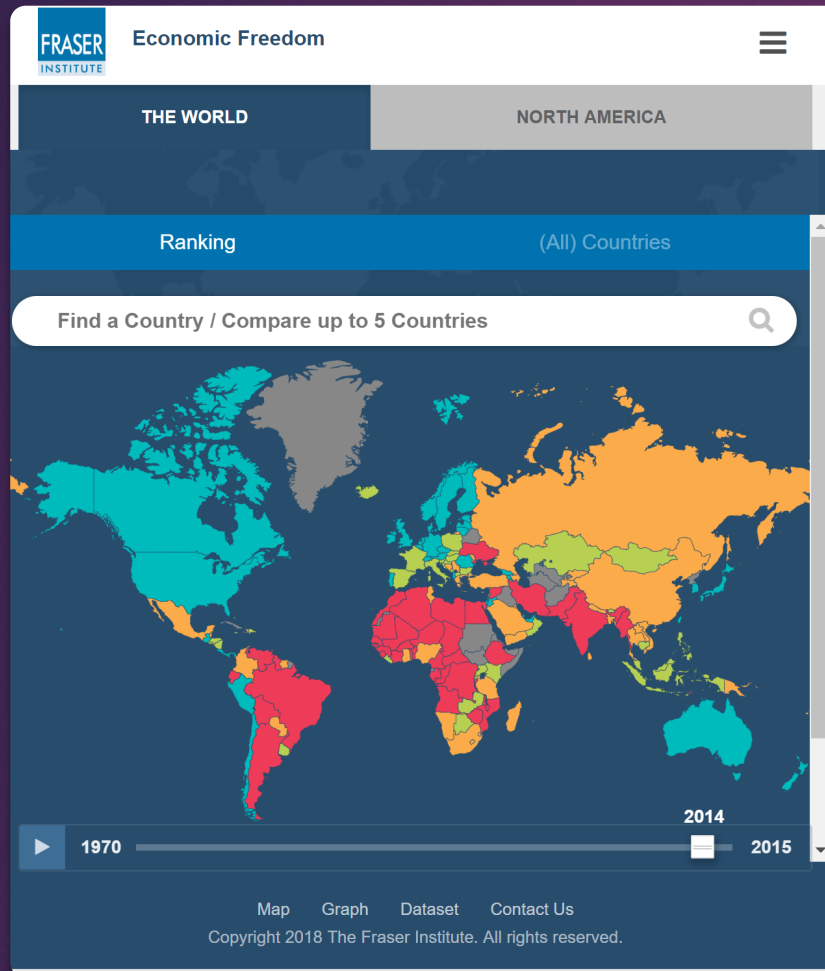
U.S. National
Debt Clock:
Real Time

Action items

- ▶ Earn a badge [Common Sense: The Economics of Government versus Markets](#) at Canvas.net. See the differences between the way in which the political process and markets made up of free and responsible individuals allocate resources and associate differences with different opportunities to live financially secure and rewarding lives.
- ▶ Share this with others.
- ▶ Make 2018-19 plans to advance your understanding of this topic.
- ▶ Identify ways to excite others with these ideas and better understand them, especially your legislators.
- ▶ Stay in touch! [Tawni.org](#)

Economic freedom

- ▶ Responsible and accountable personal choice
- ▶ Rule of law
- ▶ Easy access to markets
- ▶ Low taxation
- ▶ Limited government regulation and stable money



Fraser Institute Economic Freedom Map and Report, 2022

GDP per capita and Income per capita

- ▶ Real GDP and income per capita are closely intertwined, reflecting the economic well-being of a nation. Real GDP measures the total value of goods and services produced within a country's borders, while income per capita represents the average income per person. As real GDP increases over time, it generally indicates a growing economy, leading to higher income per capita. This relationship suggests that a rise in real GDP can contribute to improved living standards and increased individual purchasing power.
- ▶ Two other macro indicators that are often linked to changes in real GDP per capita are unemployment rate and inflation rate. When real GDP per capita experiences significant growth, it tends to correspond with a decrease in the unemployment rate, as more job opportunities are created. However, rapid growth in real GDP per capita can also lead to inflationary pressures, causing the inflation rate to rise. Therefore, monitoring and managing these indicators is crucial for maintaining a balanced and sustainable economic environment.

Economic Freedom and Income Per Person

- ▶ Assessing the degree of individual choice and voluntary transaction within an economy is a frequent way to gauge economic freedom. It takes into account variables like how simple it is to start and run a firm, how much government control there is, how well property rights are protected, and how easy it is to reach markets with strong competition. Greater economic opportunity, innovation, and general prosperity are all correlated with higher levels of economic freedom.

- ▶ (1) Lower potential to earn income per person:

Countries with lower real GDP per capita often lack the necessary resources, infrastructure, and technology to support high-income earning opportunities for their population.

Limited economic freedom in certain countries restricts entrepreneurship, stifles competition, and hampers innovation, leading to fewer income-generating opportunities for individuals.

- ▶ (2) Higher potential to earn income per person:

Higher real GDP per capita implies that a country has a larger economic output, leading to a greater availability of resources, infrastructure, and investment, which in turn can generate higher income opportunities for individuals.

Greater economic freedom fosters entrepreneurial activity, encourages innovation, and promotes competition, which can result in a more dynamic economy with a wider range of income-generating possibilities for individuals.

Market Failures

- ▶ Market failure: When the allocation of goods and services by the free market is inefficient, resulting in an undesirable outcome or the failure to achieve optimal welfare.
- ▶ Role in helping people prosper: By identifying market inefficiencies and failures, interventions can be implemented to correct them, leading to improved allocation of resources, increased competition, and enhanced opportunities for individuals to prosper economically.
- ▶ Government addressing market failure: Governments can intervene through regulations, subsidies, taxation, and public provision of goods and services to address market failures and ensure more efficient outcomes.
- ▶ Country-specific examples:
 - ▶ Nigeria: The government can address market failure in the agricultural sector by providing subsidies and infrastructure development to enhance productivity and reduce post-harvest losses.
 - ▶ Nigeria: Government regulation and oversight can be employed to address market failure in the financial sector, ensuring consumer protection, promoting stability, and reducing the risk of fraudulent practices.

Government Failures

- ▶ Government failure: When government intervention or actions result in inefficient or undesirable outcomes compared to the desired objectives or outcomes.
- ▶ Three sources of government failure according to Common Sense Economics (2016: Part 3);
- ▶ Inadequate information: In Nigeria, the government implemented fuel subsidies that ended up benefiting the wealthy more than the poor, contrary to the intended objective of poverty alleviation.
- ▶ Rent-seeking and special interest influence: In Nigeria, certain sectors have received preferential treatment through import bans or high tariffs, limiting competition and benefiting a few powerful interest groups.
- ▶ and Bureaucratic inefficiency: In Nigeria, bureaucratic inefficiencies and corruption have been identified as obstacles to the effective implementation of infrastructure projects, leading to delays and cost overruns.

Economic Freedom and Income Earned by the Poor

- ▶ Research on "Economic Freedom and Income Earned by the Poor" indicates that nations with higher levels of economic freedom typically have better income growth and poverty reduction among the poor.
- ▶ Economic freedom is ranked in two extremes:

Hong Kong: Hong Kong constantly places first on the Index of Economic Freedom due to its high level of economic freedom. Low taxes, open trade, little government interference, and a competitive business climate all contribute to its healthy economic growth and prosperity.

On the other end of the spectrum, North Korea ranks among the least free in terms of economic freedom. It demonstrates tight government control, restricted trade, and limited market activities, which results in widespread poverty and few chances for the inhabitants to earn money.

(1) Property rights: According to Common Sense Economics (2016: Part 3), individuals must have clearly defined and secure property rights in order to use resources efficiently, engage in worthwhile activities, and reap the rewards of their labor and investments.

(2) The function of the government in markets: According to Common Sense Economics (2016: Part 3), the government's function in markets should be restricted to providing a legal and institutional framework that safeguards property rights, upholds contracts, ensures fair competition, and corrects market failures when necessary, while avoiding excessive regulation that impedes economic expansion and individual freedom.

Economic Freedom and Income Earned by the Poor

- ▶ When the free market is unable to distribute resources effectively, it leads to undesirable consequences like monopolies, externalities, or knowledge asymmetry. Government intervention in the economy fails when it results in inefficiencies, improper resource allocation, or unanticipated repercussions that affect the state of the economy as a whole.
- ▶ Market Failure in Nigeria:
- ▶ Lack of infrastructure investment: Insufficient private investment in critical infrastructure such as roads, power supply, and telecommunications can hinder economic growth and limit market efficiency. (Source: The World Bank, "Infrastructure Finance in Nigeria")
- ▶ Government Failure in Nigeria:
- ▶ Corruption and mismanagement: Widespread corruption and mismanagement of public funds have hindered effective governance and economic development, diverting resources away from public services and infrastructure projects. (Source: Transparency International, "Corruption Perceptions Index 2020")

Economic Freedom and Life Expectancy

- ▶ The relationship between economic freedom and life expectancy across countries shows that higher economic freedom is generally associated with longer life expectancy.
- ▶ For example, countries with high economic freedom rankings, such as Singapore, have longer life expectancies compared to countries with low economic freedom rankings, like North Korea. As a country partner, promoting economic freedom can contribute to improved quality of life and increased life expectancy for the people of Nigeria.

Economic Freedom and Civil Liberties

- ▶ The relationship between economic freedom and civil liberties is intertwined, as high degrees of economic freedom often correlate positively with diverse and inclusive civil liberties.
- ▶ High levels of economic freedom are positively correlated with a variety of civil liberties that are inclusive and diverse because they empower individuals, promote competition, and foster innovation. These factors in turn promote greater pluralism, open discourse, and respect for individual rights, which in turn promotes a culture of inclusive civil liberties.
- ▶ Through economic reforms and advancements in civil rights, Nigeria may demonstrate the relationship between economic freedom and civil liberties. Improvements in civil liberties and political rights have corresponded with the government's economic reform strategy, which includes privatization and market liberalization (source: Freedom House's "Nigeria Country Report").
- ▶ North Korea, in comparison, serves as an illustration of a nation with significant limitations on civil liberties and restricted economic independence. According to the "Index of Economic Freedom" published by The Heritage Foundation, the government strictly regulates the economy, stifles free-market activities, and suppresses political dissent, leaving its population with few civil liberties and few freedoms.

Communism, Socialism, and Capitalism

- ▶ Communism: An economic system that prioritizes shared ownership and equitable distribution while allocating limited resources on behalf of the state. Possibility of lowering economic disparity and advancing social welfare are strengths. Lack of individual motivation and innovation, authoritarian tendencies (source: Encyclopedia Britannica).
- ▶ Socialism: An economic system that seeks equitable distribution and public ownership through the allocation of limited resources by the state or community. Focus on social welfare and lowering income disparity are its strong points. Potential for fewer personal motivations and slower economic growth are weaknesses (source: Investopedia).
- ▶ Capitalism: An economic system wherein limited resources are distributed through the actions of the market and private ownership, motivated by financial gain. Promotes individual motivation, creativity, and economic expansion. Lack of social safety nets, income disparity, and the possibility for exploitation are its weaknesses. (World Economic Forum, source).
- ▶ Which system has a better track record of fostering human flourishing on numerous fronts depends on various metrics and is subjective. Research, however, indicates that mixed economies—those having aspects of both capitalism and socialism—that also have robust social and governance policies tend to perform better in terms of social, environmental, and governance results (source: Journal of Business Ethics).

Thomas
Sowell

“Socialism in general has a record of failure so blatant that only an intellectual could ignore or evade it.”

F.A. Hayek

“The tragedy of collectivist thought is that, while it starts, out to make reason supreme, it ends by destroying reason because it misconceives the process on which the growth of reason depends.” ~ p180