



STUDY GUIDE

THE MARKET WILL SET YOU FREE

KEY TERMS: free market Capitalism
GDP

conservative
Industrial Revolution

evidence
Socialism

NOTE-TAKING COLUMN: Complete this section during the video. Include definitions and key terms.

What is considered the best measurement of a country's standard of living?

What did Adam Smith's book *The Wealth of Nations* explain?

What had the number of people living in extreme poverty declined to by 2015, in terms of a percentage?

CUE COLUMN: Complete this section after the video.

What is the relationship between Capitalism and poverty?

Why is Capitalism so much better for everyone than Socialism is?

DISCUSSION & REVIEW QUESTIONS:

- Towards the beginning of the video, Mr. Puzder contends that Mr. Maddison's research "... reveals a simple, inescapable fact: there is no substitute for free market capitalism as a promoter of human prosperity." Why do you think that this is the case? Explain. What makes this fact 'inescapable'? Explain.
- After Mr. Puzder shares with us that the Founders of the United States were familiar with Adam Smith's ideas on a free market economy, Mr. Puzder notes that, "America's wise founders took Smith's principles to heart and, within a mere 100 years, the blink of an eye historically, Capitalism turned the United States from thirteen backwoods colonies into the world's largest economy. And it has held that position ever since." How, specifically, do you think that free market Capitalism was able to be such a successful economic model for the United States? Do you think that any form of Socialism could have worked so well for so many so quickly? Why or why not?
- Later in the video, Mr. Puzder points out that, "Yes, during this period of economic expansion the rich got richer. That always happens when new wealth is created. But the middle class and the poor also greatly benefited. As British writer Daniel Hannan puts it, 'the rich got richer and the poor got richer, too.' ...President John Kennedy, a Democrat, said it best, while making his case for significant tax cuts in 1963. He said, 'A rising tide lifts all boats.'" How, exactly, does wealth creation help the middle class and the poor? Explain. Why do you think that President Kennedy was advocating for significantly cutting taxes? Explain.
- Mr. Puzder goes on to explain, "Unprecedented global prosperity and an unprecedented decline in poverty—across the globe—over the past 200 years. That's capitalism in a nutshell. ... Since 1990, hunger, poverty, illiteracy, and child mortality have all declined significantly with the decline of Socialism. This all happened while we added 2 billion more people to the world. Far more people, far less poverty. Better health outcomes, fewer babies dying. That's what economic freedom, Capitalism, can do." Considering the significant, historical, unquestionable, and unprecedented success of Capitalism in various regions of the world, why do you think that anyone would advocate for any other economic system? Explain. Why do you think that Progressive Socialists value absolute equality, especially economic equality, over freedom and over economic prosperity based on merit? Explain.
- At the end of the video, Mr. Puzder concludes, "This whole capitalism vs. socialism debate is backwards: It's not those who advocate for free market Capitalism who need to justify their actions. Rather, it's those advocating for Socialism or any form of it who have a lot of explaining to do." Why do you think that the Socialists are the ones who should justify their position? Do you agree with Mr. Puzder that it is the Socialists that have it wrong? Why or why not?

EXTEND THE LEARNING:

CASE STUDY: Microlending

INSTRUCTIONS: Read the article “Yes, microlending reduces extreme poverty,” then answer the questions that follow.

- What could lift more than 10.5 million people out of extreme poverty? How many people, at the time of the article being published, were experiencing extreme poverty? How much of the Sub-Saharan African population continues to live on less than US\$1.25 a day? Who is Mohammad Yunus, and what did he do? What do many lenders accompany their financial services with? What does access to credit enable poor people to do? Who is Shobha Vakade, and what business did she start with her microloan? How is poverty officially measured? What did the author of the article find, in terms of the relationship between microfinance participation and poverty? What else did the author learn, in terms of microfinance? What does the author’s study suggest overall?
- Considering that aid from foreign governments, aid from NGOs, and minimal help from Socialistic governments have historically only led to corruption and extreme poverty for any particular nation, do you think that microlending is a better idea to help pull people out of extreme poverty? Why or why not? Do you support the use of the Capitalist mechanism of microlending as a way to help people? Why or why not?
- What is the relationship between free market Capitalism and freedom—i.e. how can Capitalism set one free? Explain.



QUIZ

THE MARKET WILL SET YOU FREE

1. There is no substitute for free market capitalism as a promoter of _____.
 - a. socialism
 - b. poverty
 - c. human prosperity
 - d. indentured servitude

2. What is considered the best measurement of a country's standard of living?
 - a. its census tally
 - b. its GDP
 - c. the size of its trade deficit
 - d. its total percentage of people on government programs

3. Capitalism turned the United States from thirteen backwoods colonies into the world's largest economy.
 - a. True
 - b. False

4. In 1820, 94% of people lived in extreme poverty. Thanks to capitalism, by 2015, that number had declined to _____.
 - a. 39.6%
 - b. 29.6%
 - c. 19.6%
 - d. 9.6%

5. Since 1990, what has declined significantly with the decline of socialism?
 - a. hunger
 - b. poverty
 - c. child mortality
 - d. all of the above



QUIZ - ANSWER KEY

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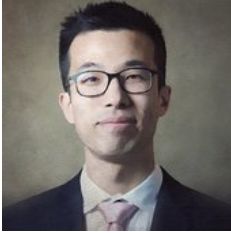
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<http://theconversation.com/yes-microlending-reduces-extreme-poverty-78088>

Yes, microlending reduces extreme poverty

June 26, 2017 12.27am EDT

Author



PhD Candidate and Researcher in Economics, RMIT University



The first microloans were made to women in rural Bangladesh in the 1970s. Banesa Khatun (far left) here in 2006, was still using Grameen Bank 30 years later. Rafiqur Rahman/Reuters

A small boost in microlending to the developing world could lift more than 10.5 million people out of extreme poverty. That's one conclusion of my study, published last month in *The B.E. Journal of Macroeconomics*, which found that microfinance not only reduces how many households live in poverty but also how poor they are.

Currently, 836 million people – or 12% of the world's population – experience extreme poverty, living off less than US\$1.25 a day. Using data from 106 developing countries from between 1998 and 2013 to

examine the efficacy of microlending as a poverty-reduction tool, I found that just a 10% increase in the gross microfinance loan portfolio per client could cut this number by 1.26%.

While the world has seen some progress over the past 15 years in reaching the UN Millennium Development Goals (MDGs), which placed eradicating hunger and poverty on top of the global agenda, extreme poverty remains a pressing challenge. It continues to be a priority in the 2015-2030 Sustainable Development Goals.

**Microcredit Summit**
@MicroCredSummit



K Paul Thomas of @ESAFMicrofin says mission to end extreme poverty remains unchanged as they continue to...
youtu.be/lk7dTAMez5c?a

 **YouTube** @YouTube



 10:30 PM - Apr 28, 2016 

 [See Microcredit Summit's other Tweets](#) 

By 2015, the proportion of the world's population living in extreme poverty had dropped to 14% from 50% in 1990, according to the MDG Monitor. But in Sub-Saharan Africa, more than 40% population continues to live on less than US\$1.25 a day. And extreme poverty appears to have increased in Western Asia.

Poverty may have retreated, but it clearly remains a force in people's lives.

Microfinance and poverty reduction

The practice of giving small loans (as little as US\$10 or as much as \$US500) to the very poor, alongside other financial services such as savings accounts and financial training, was the brainchild of economist Muhammad Yunus.



Muhammad Yunus with his Nobel Prize. Scanpix/Reuters

In the 1970s, he began offering credit to poor women in the village of Jobra, Bangladesh, so that they could launch income-generating projects to help support themselves and their families. In 2006, those experiments won Yunus and his microcredit-focused Grameen Bank a Nobel Peace Prize.

Since then, various forms of microlending programs have been introduced in many countries, from India to the United States. According to a 2015 report from advocacy organisation Microcredit Summit Campaign, by 2013, some 3,098 microfinance institutions had reached over 211 million clients worldwide, just under half of whom were living in extreme poverty.

In 2017, the market for microfinance investments in micro, small and medium enterprises, as well as the provision of financial services to those businesses, is projected to grow by an average of 10% to 15%. Even stronger growth is expected in India and the Asia-Pacific region.

Access to credit enables poor people to become entrepreneurs, increasing their earnings and improving their quality of life. Many lenders accompany their small loans and financial services with peer support, networking opportunities and even health care to improve their clients' odds of building a successful small business.

In doing so, many economists submit, they show that microfinance has a powerful potential to reduce poverty.



Shobha Vakade, here in 2010, used her US\$400 loan to start her own business, strings beads into necklaces outside her house in a Mumbai slum. Danish Siddiqui/Reuters

But evidence that microfinance actually works is mixed. Studies examining its impact in rural Pakistan, urban Kenya and Uganda, among other developing countries, have both confirmed and contradicted the premise of Muhammad Yunus's innovation.

Evidence from around the world

My study aimed to make sense of this inconclusive evidence, taking a macroeconomic approach that pulls information from many countries together to provide a clearer picture.

Officially, poverty is measured using two World Bank indicators: the poverty headcount ratio (which measures the percentage of the population living below the US\$1.25 a day mark) and the poverty gap (which assesses how far below that line people fall, on average, and is expressed as a percentage).



Eritrean microfinance lenders pool their funds. Ed Harris/Reuters

The key variable of significance in my analysis is participation in microfinance programs. I defined this in two ways for each country studied: the proportion of total clients as a share of national population, and the average size of loan (gross loan portfolio over total clients), using microfinance data from the Microcredit Summit Campaign and MIX Market), a microfinance auditing firm.

What I found was a negative relationship between microfinance participation and poverty, meaning that the more people in a given country received small loans, the less poverty it registered. Thus, in the average developing nation, an increase in the gross loan portfolio per client by just 10% could reduce the extreme poverty rate by 0.0126 percentage points.

I also found that microfinance reduces the depth of poverty, shrinking the gap between a person's daily budget for living and the current US\$1.25 per day definition of extreme poverty (the non-poor have a 0% shortfall).

Policy implications

Microfinance is no panacea. Numerous studies have shown that country-specific and cultural factors are determinants in how microfinance will interact with poverty, and there are occasionally devastating tales of failure in which the inability to repay a very small loan has plunged households further into desperate penury.



Overall, however, my study suggests that more microcredit would benefit poor countries. National governments and international development agencies can continue to promote microfinance as a tool for reducing poverty, while bearing in mind the limitations of any single strategy in tackling an entrenched global problem.