

# The Economics of Poverty: How Investments to Eliminate Poverty Benefit All Americans

Developed for Entergy by

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# THE ECONOMICS OF POVERTY: HOW INVESTMENTS TO ELIMINATE POVERTY BENEFIT ALL AMERICANS

Investing in the eradication of poverty in America would increase the resources of American households by an average of more than \$18,000 a year, equivalent to a wage increase of more than 30 percent.

Middle-income supports—such as Medicare, social security, and income tax breaks—cost the average family about four times as much as do low-income supports such as homeless shelters and food. What makes poverty expensive to the rest of us is not those social supports but rather its large but indirect costs, especially in health care, crime, and lost productivity. Poor people who become more productive members of the economy spend all their income, which multiplies through the economy to become savings and thus capital for the rest of us. The new capital generated by eradicating poverty creates more jobs, which multiply even further through the economy to create more capital which creates still more jobs, and so on throughout the economy.

Eliminating the indirect costs of poverty in the simplest way – directly raising incomes to a low but decent level (60% of current median income)—would return almost four times the investment. In other words, the annual cost of eliminating poverty would be no more than about a quarter of the annual savings for the average non-low-income family (households with more than \$60,000 annual income).

These calculations are conservative and leave out many benefits of eradicating poverty, such as the savings of increased preventive health care and the productivity lost due to underemployment (employment below skill level).

So the payoff from eliminating poverty is actually even larger than four-to-one. Earlier studies done by Oppenheim and MacGregor show that targeted

investments in high-quality pre-school education and energy efficiency return nine and seven times their investments, respectively.

## Avoidable Costs of Poverty per Non-Low-Income Household

Avoidable Cost of Poverty \$000,000	\$ 1,489,178
Non-Low-Income Households	82,026,714
Avoidable Cost per Non-Low-Income Household	\$ 18,155
Median Income of Non-Low-Income Household	\$ 60,262
Avoidable Cost of Poverty as %	30.1%

While some direct assistance to the poor such as grants of cash, food, and medicine will remain important during a transition period, other targeted investments to eradicate poverty might have similarly high payoffs. The following areas are rife with investment opportunities.

## HEALTH

Studies show the effects of wealth disparities on the health of a population. The health of individuals in society is strongly and inversely correlated with inequality of income. The US is the wealthiest nation on earth—ever—but people live longer in Sweden and Japan, where incomes are more equal although per capita health expenditures are less than half. About a third of Americans under age 65 do not have year-round health insurance. When uninsured people get sick, they are less likely to seek medical attention until they are really sick and it is more expensive to treat them. Then, if they were not poor already, medical bills can push them into poverty. So poverty helps make people sick, and being sick helps make people poor.

## CRIME

The cost of judicial, correctional, and security systems could be substantially reduced by removing the desperation that causes a large fraction of crime. In societies where inequality of income prevails, violence is more prevalent than in more equal societies. Half of male prisoners are unemployed when they are arrested, and up to 70 percent are functionally illiterate. Saving one child from a life of crime can save society around \$2 million.

## EDUCATION

Educating all our people so that all can take jobs at high skill levels would increase the income circulating through the economy. High school graduates earn more than 40% more than high school dropouts. This benefits everyone as the resulting additional savings (America's savings rate is now negative) creates investment capital to create more jobs; the additional income creates economic demand to support businesses that create jobs; and the additional income also spreads the tax burden more broadly to support needed infrastructure maintenance such as for our failing roads and bridges. Education is the primary means by which people can lift themselves out of poverty, yet the amount spent on education targeting low-income children falls far short of the need.

## EMPLOYMENT

Joblessness is a primary cause of both absolute and relative poverty in otherwise wealthy societies. About a quarter of Americans try to live on \$26,640 or less while the rest live on incomes averaging more than \$60,000. For the lower quarter, there is not enough income to heat and/or cool their homes, feed their children, and afford medical care. Providing good jobs at living wages permeates through the economy. A healthy economy means more new cars, air conditioners, home theatres

and all the good things that money can buy—which supports automobile manufacturers, department stores, dry cleaners, and grocers.

## HOMELESSNESS

Each year, more than 3.5 million Americans are affected by homelessness. Homelessness contributes to interrupted educations, lack of adequate health care, persistent hunger, and higher crime rates. Yet federal spending on housing is less than half what it was in 1976. If all American families could afford decent housing, it would save the economy nearly \$70 billion a year.

## HUNGER

An estimated 14 million American children live in homes where there is not enough food. In fact, 28 percent of Americans had to choose between medical care and food in the first half of 2004, and even more had to choose between food and rent. Hungry children can't learn, and hungry people are not healthy. Making sure every American has enough nutritious food to eat will benefit the economy through healthier, better educated, more fully employed citizens.

### The Costs of Poverty



Direct government costs and hidden economic costs bring an incredible burden to American taxpayers and wage-earners.

## CONCLUSION

Investments in low-income Americans are among the most cost-effective investments we can make. It is time for America to invest in eliminating poverty for the benefit of all Americans.

## About the authors:

This is the third research study produced for Entergy by **Jerrold Oppenheim** and **Theo MacGregor**. Their comprehensive examination of the benefits of early childhood education has been used extensively to inform policy makers about the needs and values of investments made in Pre-K and other early childhood programs. Earlier, Oppenheim and MacGregor provided an analysis of the economic benefits of investments in weatherizing low-income homes. This study has been relied on to develop energy efficiency programs in several states.

A graduate of Harvard College and Boston College Law School, Jerrold Oppenheim directed energy and utility litigation for the Attorneys General of New York and Massachusetts. He also directed consumer and utility legal assistance programs in New York, Boston, and Chicago. Theo MacGregor, founder of MacGregor

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Together, Oppenheim and MacGregor, co-authors with Greg Palast of *Democracy And Regulation*, won the American Civil Liberties Union Upton Sinclair Freedom of Expression Award. Much of their recent work is posted on [www.DemocracyAndRegulation.com](http://www.DemocracyAndRegulation.com).



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