cost of poverty economics

Cost of poverty economics, a multifaceted field, delves into the profound and often staggering economic burdens imposed by poverty on individuals, communities, and nations. It moves beyond mere statistics of income and delves into the intricate web of costs associated with lack of resources, exploring their impact on healthcare, education, crime, and overall societal productivity. This article will unpack the true economic toll of poverty, examining its direct and indirect expenses, the long-term consequences, and the compelling economic rationale for investing in poverty reduction strategies. We will explore how poverty erodes human capital, strains public services, and stifles economic growth, painting a clear picture of why addressing poverty isn't just a moral imperative but also a sound economic investment.

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Understanding the Scope of Poverty's Economic Impact

When we talk about the cost of poverty economics, we're not just talking about the immediate financial hardship experienced by those living in poverty. It's a far broader economic phenomenon that touches every corner of society. Think of it like a leaky roof; the initial drip might seem minor, but over time, it can cause extensive structural damage, leading to much larger repair bills. Poverty operates similarly, creating a cascade of negative economic consequences that ripple outwards, affecting not only individuals but also businesses, governments, and the overall health of the economy. Understanding this scope is crucial to appreciating the true price tag of persistent poverty.

The economic impact of poverty is multifaceted, encompassing both the immediate expenses incurred by individuals and families and the broader societal costs borne by taxpayers and the economy at large. It's a complex interplay of lost opportunities, strained resources, and reduced potential. This economic burden is not static; it evolves and perpetuates itself, creating cycles that are difficult to break without significant intervention. Recognizing the pervasiveness of these costs is the first step toward developing effective strategies for mitigation and eradication.

Direct Economic Costs of Poverty

The direct economic costs of poverty are the most tangible and often the most readily apparent. These are the immediate expenses and financial burdens directly attributable to a lack of sufficient income and resources. For individuals and families experiencing poverty, this can manifest as a constant struggle for basic necessities like food, housing, and healthcare. When these fundamental needs go unmet or are met only partially, it creates a deficit that has immediate financial implications, often requiring individuals to make difficult trade-offs.

One of the most significant direct costs is the increased reliance on social safety net programs. Governments at all levels expend substantial resources on welfare, food stamps, housing assistance, and unemployment benefits to support those living in poverty. While these programs are vital for providing a basic standard of living and preventing destitution, they represent a direct financial outlay that could otherwise be invested in economic development, infrastructure, or other public goods. The more people who are in poverty, the greater the strain on these programs and, consequently, on public finances.

Increased Healthcare Expenditures

Individuals living in poverty often experience poorer health outcomes due to a variety of factors, including limited access to quality healthcare, inadequate nutrition, stressful living conditions, and higher exposure to environmental hazards. This leads to a greater need for medical services, both preventive and acute. Consequently, public healthcare systems, which often serve as a primary source of care for low-income populations, face increased demands and costs. This includes higher rates of chronic diseases, more frequent hospitalizations, and a greater need for emergency room visits, all of which are significantly more expensive than preventative care.

Furthermore, the long-term health consequences of untreated or poorly managed chronic conditions in low-income populations can translate into lifelong disabilities and reduced earning potential, creating a perpetual cycle of poverty and ill health. This not only impacts the individuals but also places a sustained burden on healthcare providers and insurers. The cost of managing these exacerbated health issues, from medication to ongoing treatment, represents a substantial direct economic drain.

Higher Crime Rates and Criminal Justice Costs

While not always a direct cause-and-effect relationship, poverty is frequently correlated with higher crime rates. When individuals lack legitimate opportunities for economic advancement, they may turn to illicit activities to survive. This leads to increased costs for law enforcement, the judicial system, and correctional facilities. The resources dedicated to apprehending, prosecuting, and incarcerating individuals, many of whom may be trapped in a cycle of poverty, are substantial. These costs include personnel, infrastructure, and the societal impact of crime itself, such as lost productivity and the erosion of community safety.

Beyond the direct costs of the criminal justice system, there are also indirect costs associated with crime, such as property damage, reduced investment in affected communities, and the psychological toll on victims. The economic argument here is clear: investing in programs that reduce poverty and create economic opportunities can potentially lead to a significant decrease in crime and its associated financial burdens.

Increased Demand for Social Services

Beyond income support, poverty necessitates significant investment in a range of social services. These can include child protective services, public housing programs, mental health services, and addiction treatment facilities. These services are essential for addressing the complex needs that often arise in environments of deprivation and instability. However, they represent a considerable expenditure for governments and non-profit organizations. The greater the prevalence of poverty, the higher the demand for these services, stretching budgets and resources thin.

The provision of these services, while crucial for alleviating immediate suffering and providing support, also highlights the economic cost of not addressing the root causes of poverty. Each dollar spent on crisis intervention and emergency support could, in theory, be a dollar invested in preventative measures that foster self-sufficiency and economic empowerment.

Indirect Economic Costs of Poverty

The indirect economic costs of poverty are more subtle but arguably more damaging in the long run. These are the opportunity costs and the broader societal inefficiencies that arise from widespread poverty. They are the economic potential that is left unrealized, the innovations that never occur, and the reduced overall productivity that plagues an economy where a significant portion of its population is struggling to meet basic needs.

These costs are harder to quantify precisely but are undeniable in their impact on national prosperity.

Think of an economy as a complex machine. Poverty acts like a widespread system of friction, slowing down all the moving parts and reducing overall efficiency. It's not just about the immediate repair bills; it's about the lost energy, the reduced output, and the potential for catastrophic breakdown if the friction is left unaddressed. These indirect costs represent the economic power that poverty saps from the system.

Lost Productivity and Reduced Economic Growth

When individuals are struggling with poverty, their ability to fully participate in the economy is often diminished. Poor nutrition, lack of access to education and training, and chronic stress can lead to reduced cognitive function, lower work capacity, and higher rates of absenteeism. This directly translates into lost productivity for businesses and a drag on overall economic growth. A society where a significant portion of its workforce is operating at a reduced capacity cannot achieve its full economic potential. The aggregate effect of millions of individuals experiencing poverty is a significant reduction in the nation's overall economic output.

Moreover, poverty often hinders entrepreneurship and innovation. Individuals facing immediate survival needs have little time, energy, or capital to invest in new ventures or to pursue higher education and skill development that could lead to more productive employment. This stifles the creation of new businesses and the development of new technologies, further limiting economic growth and the creation of wealth.

Intergenerational Cycles of Poverty

One of the most insidious indirect costs of poverty is its tendency to perpetuate itself across generations. Children born into poverty are more likely to face challenges in education, health, and nutrition, which can limit their future earning potential. This creates a cycle where poverty becomes entrenched, with each generation experiencing similar economic disadvantages. The cost here is immense, as it represents a continuous drain on human capital and a missed opportunity for societal advancement.

Breaking these cycles requires significant investment in early childhood education, quality schooling, healthcare, and pathways to stable employment. Without such investments, the economic potential of entire segments of the population remains untapped, representing a substantial loss for the economy as a whole. It’s like inheriting a broken tool; without repair, it can never be used to its full capability.

Reduced Tax Revenue

Individuals and households living in poverty generally have lower incomes, which means they contribute less in tax revenue. This reduction in tax contributions can put a strain on government budgets, limiting their ability to fund public services and investments that could, in turn, help alleviate poverty. Furthermore, businesses operating in areas with high poverty rates may also experience lower demand for their products and services, leading to lower profits and, consequently, lower corporate tax revenues.

The economic principle at play here is straightforward: a larger, more prosperous population with higher incomes generates more tax revenue. Conversely, a population struggling with poverty contributes less, creating a double burden of reduced income and increased demand for social services. This creates a challenging fiscal environment for governments trying to balance their budgets and invest in the future.

The Cost of Lost Human Capital

Human capital, essentially the collective skills, knowledge, health, and experience of a population, is a crucial driver of economic prosperity. Poverty acts as a potent force that erodes and underutilizes this vital resource. When individuals are deprived of adequate nutrition, education, and healthcare, their potential to contribute to the economy is significantly hampered. The cost of this lost human capital is immeasurable in its long-term impact, representing a squandered opportunity for individual well-being and national advancement.

Imagine a farmer with fertile land but no seeds or tools. That land, no matter how promising, will yield very little. Similarly, individuals living in poverty, despite their inherent potential, often lack the "seeds" of education and the "tools" of good health and resources necessary to flourish economically. The cost is the unharvested bounty, the unrealized potential that could have enriched both their lives and the broader economy.

Underinvestment in Education and Skills Development

Poverty often forces individuals and families to prioritize immediate survival needs over long-term investments in education and skills development. Children from low-income households may attend underfunded schools, have fewer educational resources at home, and face pressures to drop out to contribute to family income. This leads to a less skilled and less adaptable workforce. The economic cost is a reduced capacity for innovation, lower productivity, and a diminished ability to compete in a globalized economy that increasingly demands specialized knowledge and advanced technical skills.

Businesses also suffer when they cannot find workers with the necessary qualifications. This can lead to higher training costs, slower production, and missed market opportunities. The economic argument is compelling: investing in universal access to quality education and vocational training for all, regardless of socioeconomic background, is an investment in future economic growth and competitiveness.

Health Disparities and Reduced Lifespans

As discussed earlier, poverty is strongly linked to poorer health outcomes. Chronic stress, inadequate nutrition, exposure to environmental toxins, and limited access to healthcare all contribute to a higher prevalence of illness and disease among low-income populations. This not only reduces an individual's quality of life but also impacts their ability to work and contribute economically. Reduced lifespans also mean a shorter period of potential economic contribution and increased healthcare costs throughout life.

The economic toll of these health disparities is substantial. It manifests as increased healthcare spending, lost workdays due to illness, and reduced overall productivity. Investing in public health initiatives, preventative care, and access to affordable healthcare for all can mitigate these costs and unlock the economic potential of a healthier population. A healthy workforce is a productive workforce.

Limited Social Mobility and Opportunity Hoarding

Poverty often creates barriers to social mobility, trapping individuals and families in a cycle of disadvantage. When opportunities for advancement are concentrated among those with existing wealth and privilege, it leads to a less dynamic and less equitable economy. This "opportunity hoarding" means that talent and potential are overlooked simply because individuals lack the right connections or financial resources. The economic cost is the loss of valuable contributions from those who could have excelled if given the chance.

A society that allows for greater social mobility benefits from a wider pool of talent contributing to innovation, entrepreneurship, and economic development. When poverty hinders this, the entire economy suffers from a lack of diverse perspectives and untapped potential. The economic rationale for investing in programs that promote upward mobility is clear: it expands the base of contributors and fosters a more robust and resilient economy.

Poverty's Impact on Public Services and Infrastructure

The pervasive nature of poverty places an undeniable strain on public services and infrastructure. When a significant portion of the population requires a greater level of support, public resources are diverted from other potentially productive investments. This not only impacts the quality and availability of services for everyone but also can lead to the deterioration of essential infrastructure in impoverished areas, further exacerbating economic disadvantages.

Think of a city's budget like a family's household budget. If a family has to spend a disproportionately large amount on unexpected emergency repairs or ongoing assistance for one member, there's less money left for improvements like education, home renovations, or savings. Poverty creates similar pressures on government budgets, forcing difficult choices about resource allocation.

Increased Burden on Social Welfare Programs

As previously detailed, the direct costs of poverty include the substantial financial burden placed on social welfare programs. These programs, designed to provide a safety net for the vulnerable, can become overwhelmed when poverty rates are high. This increased demand strains government budgets, often requiring higher taxes or leading to cuts in other public services. The economic argument is that significant investment in poverty reduction can, over time, decrease the reliance on these costly welfare programs.

The efficiency and effectiveness of these programs are also challenged by the sheer volume of need. Managing large-scale assistance programs requires significant administrative overhead, which itself represents a cost. The ideal scenario, from an economic perspective, is to reduce the need for these programs through sustainable economic growth and opportunity creation.

Strain on the Healthcare System

The link between poverty and poor health translates directly into increased demand and costs for the healthcare system. Public hospitals and clinics, often serving a higher proportion of uninsured or underinsured patients from low-income backgrounds, face greater financial pressures. Preventable illnesses that become chronic due to lack of early intervention lead to more expensive treatments and hospitalizations. This not only impacts individual health outcomes but also diverts resources that could be used for broader public health initiatives or other essential services.

The economic cost of an overburdened healthcare system includes not only direct medical expenses but also lost productivity due to illness and the reduced economic potential of individuals who are chronically unwell. Investing in preventative healthcare and addressing the social determinants of health in impoverished communities can yield significant long-term economic benefits by reducing these burdens.

Underfunded Education Systems in Disadvantaged Areas

Areas with higher concentrations of poverty often have underfunded public school systems. This can be due to a reliance on local property taxes, which are lower in poorer areas, and state funding formulas that don't fully compensate for the challenges faced by disadvantaged students. The consequence is a cycle of underachievement, where students in these areas receive a less adequate education, limiting their future economic opportunities. This represents a significant loss of human capital and a drag on future economic growth.

The economic argument for investing in equitable education funding is powerful. A well-educated populace is more productive, innovative, and adaptable, contributing more to the tax base and driving economic prosperity. Failing to adequately fund education in disadvantaged areas is an economic decision with long-lasting negative consequences.

The Economic Case for Poverty Alleviation

Beyond the moral and ethical imperatives, there is a compelling economic argument for investing in poverty alleviation. When we talk about the cost of poverty economics, we are essentially highlighting the immense economic benefits that can be realized by reducing or eradicating poverty. It's not merely an expenditure; it's a strategic investment that yields significant returns for individuals, communities, and the nation as a whole. Viewing poverty reduction through an economic lens reveals its potential to unlock new markets, boost productivity, and foster greater societal well-being.

Consider the concept of return on investment (ROI). Many studies have shown that programs designed to reduce poverty, such as early childhood education, job training, and affordable housing initiatives, generate a substantial ROI. For every dollar invested in these programs, there are often multiple dollars in savings or increased economic activity generated down the line. This makes poverty alleviation not just a compassionate policy choice, but a financially prudent one.

Increased Consumer Spending and Market Growth

When individuals are lifted out of poverty, their disposable income increases. This leads to greater consumer spending, which in turn fuels economic growth. As more people have the financial capacity to purchase goods and services, businesses thrive, leading to job creation and further economic expansion. A larger, more economically secure population represents a growing market, benefiting businesses and driving innovation. The economic stagnation associated with widespread poverty is replaced by the dynamism of increased demand and opportunity.

This increased demand can create a virtuous cycle, where economic growth leads to more jobs, higher wages, and further reductions in poverty. The economic benefits are amplified as more people participate actively in the marketplace. It's a win-win scenario where enhanced individual prosperity translates into broader economic prosperity.

Boost in Productivity and Innovation

By investing in education, healthcare, and job training for those living in poverty, societies can unlock vast amounts of untapped human potential. A healthier, better-educated population is a more productive and innovative workforce. Individuals who are not burdened by the constant stress of meeting basic needs are better able to focus on their work, develop new skills, and contribute creative solutions to economic challenges. This boost in productivity and innovation directly translates into higher economic output and a more competitive economy.

Furthermore, providing opportunities for individuals from all socioeconomic backgrounds to access higher education and skilled trades can lead to a more diverse and robust pool of talent. This diversity of thought and experience is crucial for fostering innovation and driving economic progress in an increasingly complex world.

Reduced Government Spending on Social Programs and Crisis Management

While poverty alleviation programs require initial investment, they can lead to significant long-term savings in government spending. By addressing the root causes of poverty, such as lack of education and job skills, societies can reduce their reliance on costly social welfare programs, healthcare systems strained by poverty-related illnesses, and the criminal justice system burdened by crimes often linked to economic desperation. Over time, this redirection of resources can lead to more efficient government operations and the ability to invest in other growth-generating areas.

The economic rationale is that prevention is more cost-effective than cure. Investing in programs that prevent people from falling into poverty, or that help them escape it, is a more financially sound approach than continually spending on the consequences of poverty. This frees up public funds for investments in infrastructure, education, and other areas that promote long-term economic prosperity for everyone.

Quantifying the Cost of Poverty

The challenge of precisely quantifying the cost of poverty is significant, yet crucial for understanding its economic implications. Researchers and economists employ various methodologies to estimate the direct and indirect financial burdens associated with poverty. These estimations, while sometimes debated in their specifics, consistently reveal a substantial economic drain that impacts national economies. The goal is to translate the human cost of poverty into tangible economic figures that policymakers and the public can understand and act upon.

It’s like trying to put a price on pollution. While the environmental damage is evident, assigning an exact dollar amount is complex. Similarly, the economic consequences of poverty are far-reaching and interconnected, making a precise calculation difficult but not impossible. The efforts to quantify it are essential for making a strong economic case for intervention.

Methodologies for Estimating Costs

Economists use several approaches to quantify the cost of poverty. One common method involves calculating the direct expenditures on social welfare programs, healthcare for low-income populations, and the criminal justice system. Another approach focuses on estimating lost productivity and forgone economic growth due to low educational attainment, poor health, and limited workforce participation among those in poverty. Input-output models and general equilibrium models are also employed to simulate the broader macroeconomic impacts of poverty and poverty reduction.

These methodologies aim to capture a comprehensive picture, from immediate financial outlays to the long-term opportunity costs. The results, while varying based on the specific parameters used, generally underscore that the economic burden of poverty is immense and multifaceted. It's about looking at the problem from every possible financial angle to understand its true magnitude.

Examples of Cost Estimates and Studies

Numerous studies have attempted to quantify the economic cost of poverty at national and regional levels. For instance, some reports have estimated the annual cost of poverty in the United States to be in the trillions of dollars, accounting for lost productivity, increased healthcare spending, crime, and reduced tax revenues. Similar analyses have been conducted in other countries, consistently demonstrating that poverty is an expensive condition not just for those experiencing it, but for society as a whole. These studies often highlight specific sectors that bear a significant portion of the cost, such as the healthcare and criminal justice systems.

These estimations serve as powerful tools for advocacy and policy development. By putting a price tag on poverty, they make a clear and undeniable economic case for investing in effective solutions. The data provides concrete evidence that addressing poverty is not just a matter of social justice, but a sound economic strategy for long-term prosperity.

Challenges in Measuring the Cost of Poverty

Despite the efforts to quantify the economic impact of poverty, several challenges make precise measurement difficult. The interconnectedness of various economic factors, the difficulty in isolating the specific impact of poverty from other societal issues, and the long-term nature of many of its consequences all contribute to this complexity. Accurately capturing the full economic toll requires sophisticated modeling and a comprehensive understanding of socioeconomic dynamics.

Imagine trying to untangle a ball of yarn where every strand represents a different economic factor influenced by poverty. Pulling on one strand might affect many others in ways that are hard to predict or measure. This inherent complexity is why estimations, while valuable, are often approximations rather than exact figures.

Attributing Causality

One of the primary challenges is establishing clear causal links between poverty and specific economic outcomes. While correlations between poverty and issues like crime or poor health are well-documented, it can be difficult to definitively prove that poverty is the sole or primary cause. Other factors, such as systemic discrimination, lack of access to education, and environmental conditions, can also play significant roles. Isolating the precise economic cost attributable solely to poverty requires careful statistical analysis and robust control variables.

This challenge is why researchers often present a range of estimates, acknowledging the inherent uncertainty in fully attributing every economic burden to poverty alone. However, even the lower-end estimates paint a stark picture of the substantial economic consequences.

Long-Term and Indirect Costs

Many of the most significant economic costs of poverty are indirect and manifest over the long term. For example, the reduced educational attainment of children in poverty may not have a noticeable economic impact until they enter the workforce decades later. Similarly, the cumulative effects of chronic stress on health can lead to increased healthcare costs throughout an individual's life. Quantifying these delayed and diffuse costs is inherently more challenging than measuring immediate expenditures.

These long-term impacts highlight the importance of preventative investments. The economic argument for early intervention is strengthened when we consider the compounding costs of inaction over generations. It underscores that addressing poverty isn't just about immediate relief, but about building a more prosperous future by mitigating these long-term economic drains.

Data Limitations and Comparability

Collecting consistent and comprehensive data on poverty and its economic impacts can be challenging, especially across different regions and over time. Definitions of poverty can vary, and data collection methodologies may differ, making direct comparisons difficult. Furthermore, capturing the full spectrum of informal economic activities, which can be prevalent in low-income communities, adds another layer of complexity to measurement. This can limit the ability to create a universally agreed-upon estimate of the cost of poverty.

Despite these data limitations, ongoing research and improved data collection techniques are continuously refining our understanding. The consistent message from various studies, despite methodological differences, is that poverty imposes a substantial economic cost. This reinforces the need for proactive policy measures and sustained investment in poverty reduction strategies.

The Long-Term Economic Benefits of Poverty Reduction

Ultimately, the most compelling aspect of understanding the cost of poverty economics is realizing that poverty reduction is not just a societal good but a powerful economic engine. Investing in strategies that lift people out of poverty yields significant long-term economic benefits that far outweigh the initial costs. It’s about transforming a drain on resources into a catalyst for growth and prosperity, creating a more robust and dynamic economy for everyone.

Think of it like clearing a clogged artery. While the procedure might have an upfront cost, the long-term benefits of improved health and vitality are immeasurable. Similarly, addressing the economic impediments of poverty leads to a healthier, more productive economy with widespread benefits.

- **Increased GDP:** A reduction in poverty leads to a larger, more engaged workforce, higher consumer spending, and greater overall economic output, directly boosting Gross Domestic Product.
- **Enhanced Tax Revenue:** As more individuals gain stable employment and higher incomes, their contribution to tax revenues increases, providing governments with more resources for public services and investments.
- **Reduced Social Costs:** Lower poverty rates translate into decreased demand for social welfare programs, reduced healthcare expenditures due to improved health outcomes, and lower crime rates, saving public funds.
- **Greater Innovation and Entrepreneurship:** When individuals are not solely focused on survival, they have the capacity to pursue education, develop new skills, and engage in entrepreneurial activities, driving innovation and economic diversification.
- **Improved Social Cohesion and Stability:** Reduced poverty contributes to a more equitable and stable society, fostering greater trust, reducing social unrest, and creating a more attractive environment for investment and economic development.

The economic case for poverty alleviation is clear and undeniable. By understanding the profound economic costs that poverty imposes on individuals and society, we can recognize that investing in solutions is not an expense, but a strategic imperative for building a stronger, more prosperous future. It’s about unlocking the full potential of our human capital and creating a more dynamic and equitable economy for generations to come.

FAQ

Q: What is the primary economic argument for reducing poverty?

A: The primary economic argument for reducing poverty is that it represents a significant investment with a high return. By lifting individuals out of poverty, economies experience increased consumer spending, higher productivity, greater innovation, and enhanced tax revenues, ultimately leading to stronger overall economic growth and reduced societal costs associated with poverty.

Q: How does poverty impact a nation's Gross Domestic Product (GDP)?

A: Poverty negatively impacts GDP by reducing the size and productivity of the workforce, limiting consumer demand, and stifling innovation. When a significant portion of the population is unable to participate fully in the economy, the nation's potential output is diminished. Conversely, poverty reduction can boost GDP by expanding the workforce and increasing economic activity.

Q: Can you provide an example of a direct economic cost of poverty?

A: A direct economic cost of poverty is the increased expenditure on social welfare programs, such as unemployment benefits, food assistance, and housing subsidies. These programs are essential to support those living in poverty but represent a substantial financial outlay for governments.

Q: What are some examples of indirect economic costs of poverty?

A: Indirect economic costs of poverty include lost productivity due to poor health and limited educational attainment, higher crime rates and associated criminal justice expenses, and the long-term economic drag of intergenerational poverty cycles. These are costs that are not immediately apparent but significantly hinder economic progress.

Q: How do healthcare costs relate to the cost of poverty economics?

A: Poverty is strongly linked to poorer health outcomes, leading to increased demand on healthcare systems. This includes higher rates of chronic diseases, more frequent hospitalizations, and greater reliance on emergency care, all of which are more expensive than preventative health measures. This places a significant financial burden on both individuals and public healthcare resources.

Q: Does reducing poverty lead to higher tax revenues?

A: Yes, reducing poverty generally leads to higher tax revenues. As individuals move out of poverty, they typically gain employment, earn higher incomes, and therefore contribute more through income taxes. Businesses also benefit from increased consumer spending, leading to higher corporate tax revenues.

Q: What is meant by "lost human capital" in the context of poverty?

A: Lost human capital refers to the underutilization of the potential skills, knowledge, health, and creativity of individuals who are living in poverty. Limited access to education, healthcare, and economic opportunities prevents these individuals from contributing their full potential to the economy, representing a significant economic loss for the nation.

Q: Are there studies that attempt to quantify the total cost of poverty?

A: Yes, numerous studies have been conducted by economists and research institutions to quantify the total economic cost of poverty. These studies often employ various methodologies to estimate direct expenditures and indirect economic losses, with many concluding that the cost is in the hundreds of billions or even trillions of dollars annually for large economies.

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