

Government in America: People, Politics, and Policy
Thirteenth Edition, and Texas Edition
Edwards/Wattenberg/Lineberry

Chapter 17 **Economic Policymaking**

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Government, Politics, and the Economy

- Introduction

- Capitalism:

- An economic system in which individuals and corporations, not the government, own the principal means of productions and seek profits

- Mixed Economy:

- An economic system in which the government is deeply involved in economic decisions through its role as regulator, consumer, subsidizer, taxpayer, employer and borrower

- Multinational Corporations:

- Businesses with vast holdings in many countries

Government, Politics, and the Economy

- Economic Policy at Work: An Illustration
 - Government Regulation and Business Practices
 - Securities and Exchange Commission regulates stock fraud
 - Minimum wage: the legal minimum hourly wage for large employers
 - Labor union: an organization of workers intended to engage in collective bargaining
 - Collective bargaining: negotiations between labor unions and management to determine pay and working conditions

Government, Politics, and the Economy

– Wal-Mart and the World Economy

- Wal-Mart (the largest company in the world) epitomizes America's imbedding in the world economy.
- The proportion of U.S. GDP accounted for by international trade is 30%.
- Wal-Mart takes full advantage of “comparative advantage.”
- Offshore outsourcing is a key concern of the new global economy.

Government, Politics, and the Economy

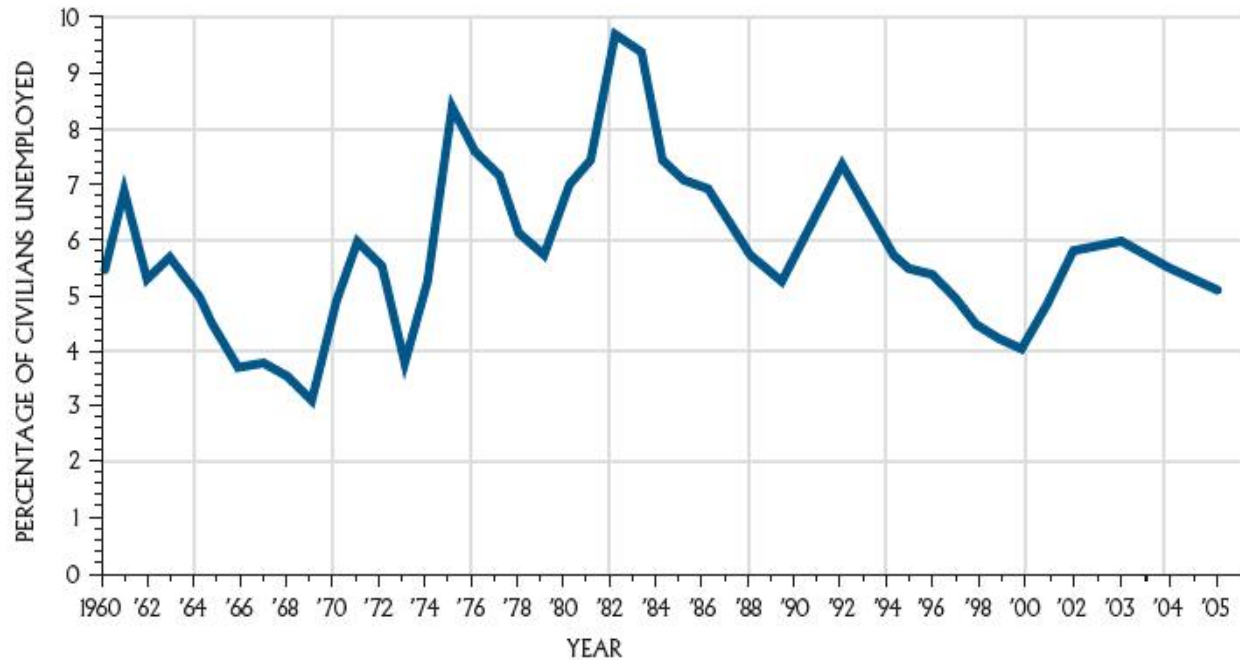
- “It’s the Economy, Stupid”: Voters, Politicians, and Economic Policy
 - Economic trends affect who voters vote for.
 - Economic conditions are the best predictor of voters’ evaluation of the president.
 - Republicans worry about inflation.
 - Democrats stress importance of unemployment.

Government, Politics, and the Economy

- Two Major Worries: Unemployment and Inflation
 - Unemployment Rate: measured by the Bureau of Labor Statistics (BLS), the proportion of the labor force actively seeking work, but unable to find jobs
 - Inflation: the rise in prices for consumer goods
 - Consumer Price Index: the key measure of inflation that relates the rise in prices over time

Government, Politics, and the Economy

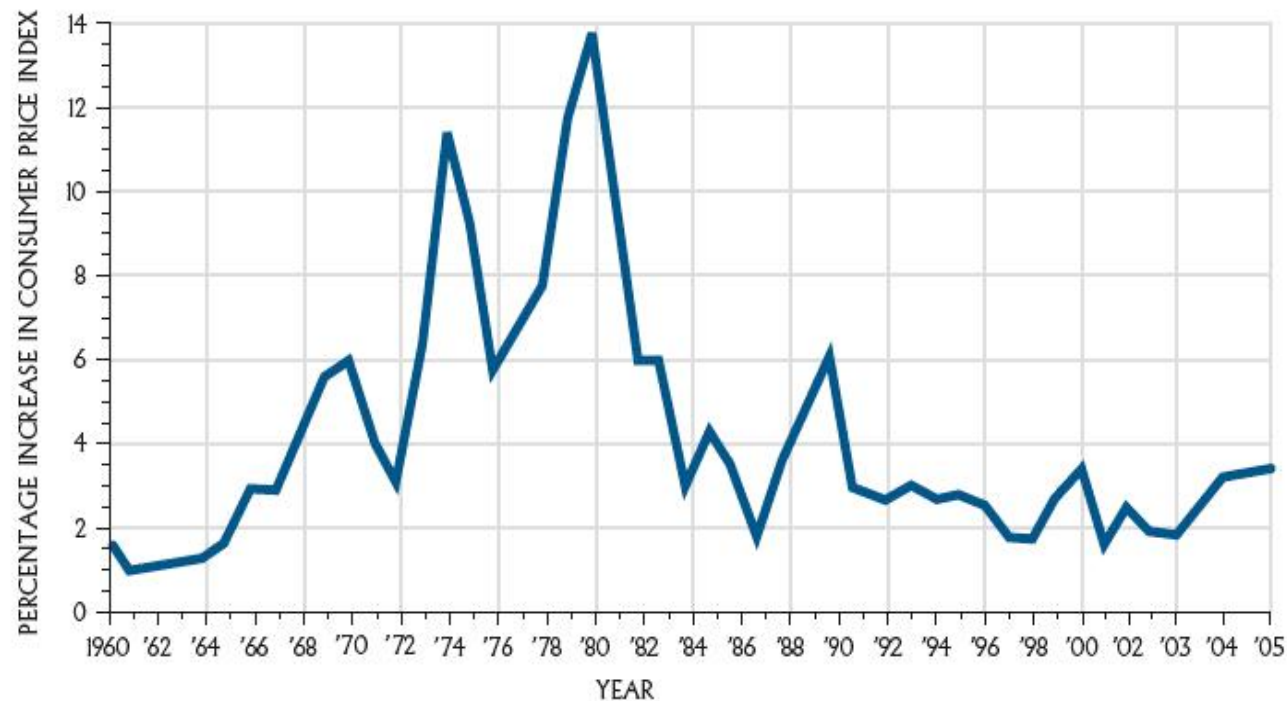
Figure 17.1 Unemployment: Joblessness in America, 1960–2005



Source: *Economic Report of the President, 2006* (Washington, DC: U.S. Government Printing Office, 2006).

Government, Politics, and the Economy

Figure 17.2 Inflation: Increases in the Cost of Living, 1960–2005



Source: *Economic Report of the President, 2006* (Washington, DC: U.S. Government Printing Office, 2006).

Policies for Controlling the Economy

- Monetary Policy and “the Fed”
 - Monetary Policy: the manipulation of the supply of money in private hands—too much cash and credit produces inflation
 - Money supply affects the rate of interest paid.
 - Main policymaker is the Board of Governors of the Federal Reserve System—the “Fed”
 - Created in 1913 to regulate lending practices of banks and thus they money supply

Policies for Controlling the Economy

- Monetary Policy and “the Fed” (continued)
 - The Fed's instruments to influence the supply of money in circulation:
 - Sets the federal funds rate
 - Buys and sells government bonds
 - Through the use of these actions, the Fed can affect the economy.
 - Laissez-faire: principle that government should not meddle in the economy

Policies for Controlling the Economy

- Fiscal Policy of Presidents and Parties
 - Fiscal Policy: the policy that describes the impact of the federal budget on the economy
 - Keynesian Economic Theory: government spending and deficits help the economy weather its normal ups and downs
 - Government's job is to increase demand of goods

Instruments for Controlling the Economy

- Fiscal Policy of Presidents and Parties, (continued)
 - Supply-Side Economics: the policy that says there is too much taxation and not enough money to purchase goods and services
 - Reduce taxation and government regulation then people will work harder, and thus create a greater supply of goods

Why It Is Hard to Control the Economy

- Some think politicians manipulate the economy to win reelection.
- But there are problems with that:
 - Things like the budget are prepared in advance of when they go into effect
 - Government makes economic policy slowly
 - Some benefits are indexed
 - Capitalism can also affect the economy
 - Federal government spends less than 20 percent of GDP

Politics, Politics, and the International Economy

- Protectionism: the economic policy of shielding an economy from imports
- World Trade Organization (WTO): the international organization that regulates international trade
- Free trade is controversial as jobs have increasingly been outsourced.
 - But short-term pain equals long-term gain

Arenas of Economic Policymaking

- Business and Public Policy
 - Corporate Corruption and Concentration
 - Increased incidence of bankruptcy and scandals
 - Increased number of corporate mergers
 - Antitrust policy: a policy designed to ensure competition and prevent monopoly, which is the control of a market by one company

Arenas of Economic Policymaking

- Business and Public Policy (continued)
 - Regulating and Benefiting Business
 - New wave of regulation
 - Congress passed law in 2002 that toughened penalties for stock fraud
 - Creation of Accounting Oversight Board to regulate accounting industry
 - Businesses benefit from regulation, too
 - Copyrights, inventions, and patents
 - Government may loan businesses money.
 - Government collects data that business use.

Arenas of Economic Policymaking

- Consumer Policy: The Rise of the Consumer Lobby
 - Consumers historically have had little government protection.
 - Food and Drug Administration (FDA): created in 1913; approves foods and drugs sold in the U.S
 - Federal Trade Commission (FTC): responsible for regulating false and misleading trade practices, which now includes consumer lending practices

Arenas of Economic Policymaking

- Labor and Government
 - Government historically sided with business over labor unions.
 - National Labor Relations Board (NLRB): regulates labor-management relations; created in 1935 by the Wagner Act
 - The Taft-Hartley Act (1947) continued to guarantee unions the right of collective bargaining, but prohibited various unfair practices by unions.
 - Government now provides unemployment compensation and a minimum wage.

Understanding Economic Policymaking

- Democracy and Economic Policymaking
 - Voters expect more of politicians that they can control
 - Sometimes economic theory and democratic theory may be at cross purposes.
 - It is difficult to make decisions that hurt groups or involve short-term pain for long-term gain.
- Economic Policymaking and the Scope of Government
 - Liberals tend to favor more while conservatives favor less government involvement in the economy.

Summary

- Political and economic sectors are closely intermingled.
- Voters expect a lot from politicians, more than they can deliver on the economy
- Two major instruments available to government for managing the economy—monetary and fiscal policies