

# Economic Policymaking

# Government, Politics, and the Economy

- Introduction

- Capitalism:

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

- Mixed Economy:

- An economic system in which the government is deeply involved in economic decisions through it 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
  - Wal-Mart is the world's largest company.
  - 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 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

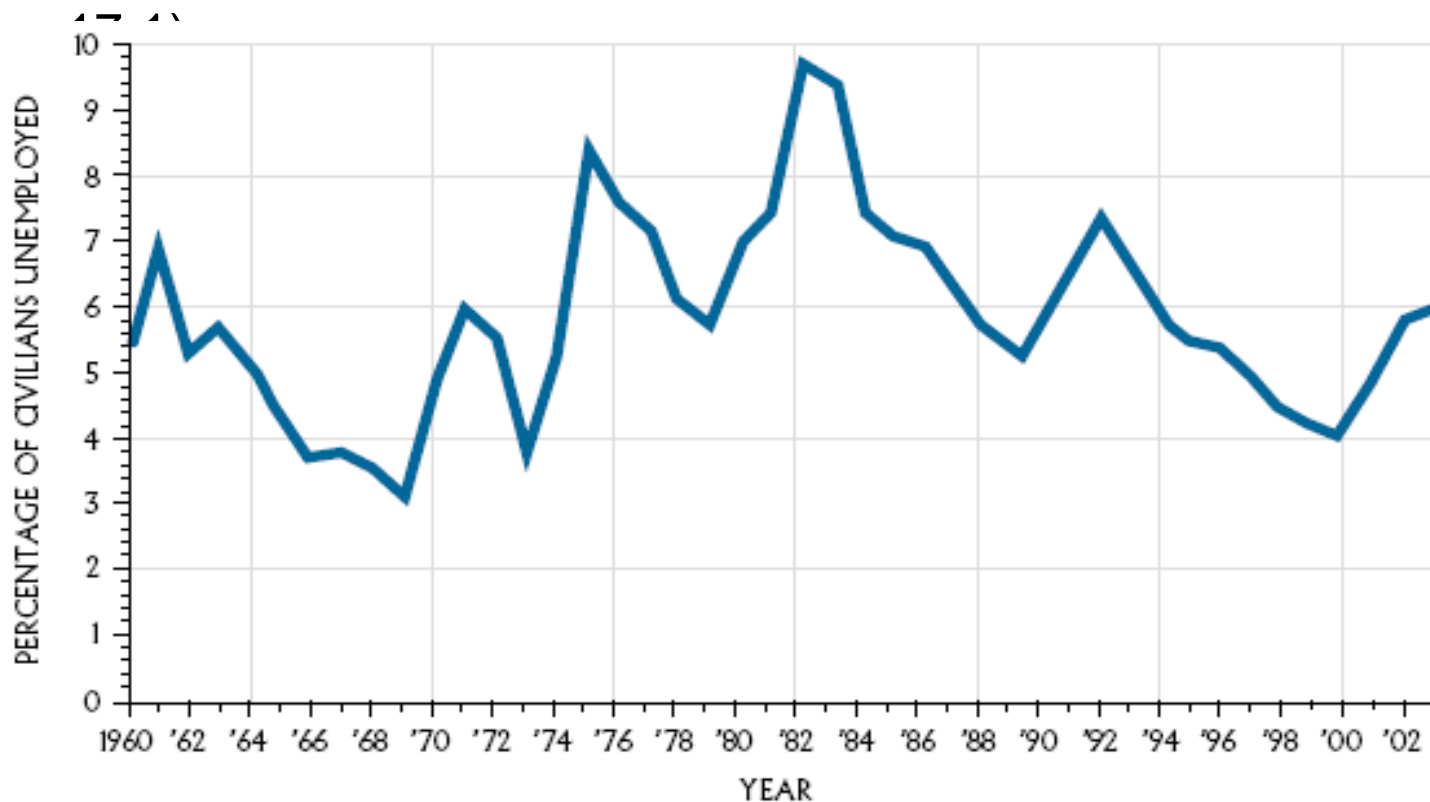
- “It’s the Economy, Stupid”: Voters, Politicians, and Economic Policy
  - Economic trends affect who the voters vote for.
  - Economic conditions are the best predictor of voters’ evaluation of the president.
  - Republicans worry about inflation.
  - Democrats stress importance of unemployment.

# Government, Politics, and the Economy

- Two Major Worries: Unemployment and Inflation
  - Unemployment rate: Measured by the 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

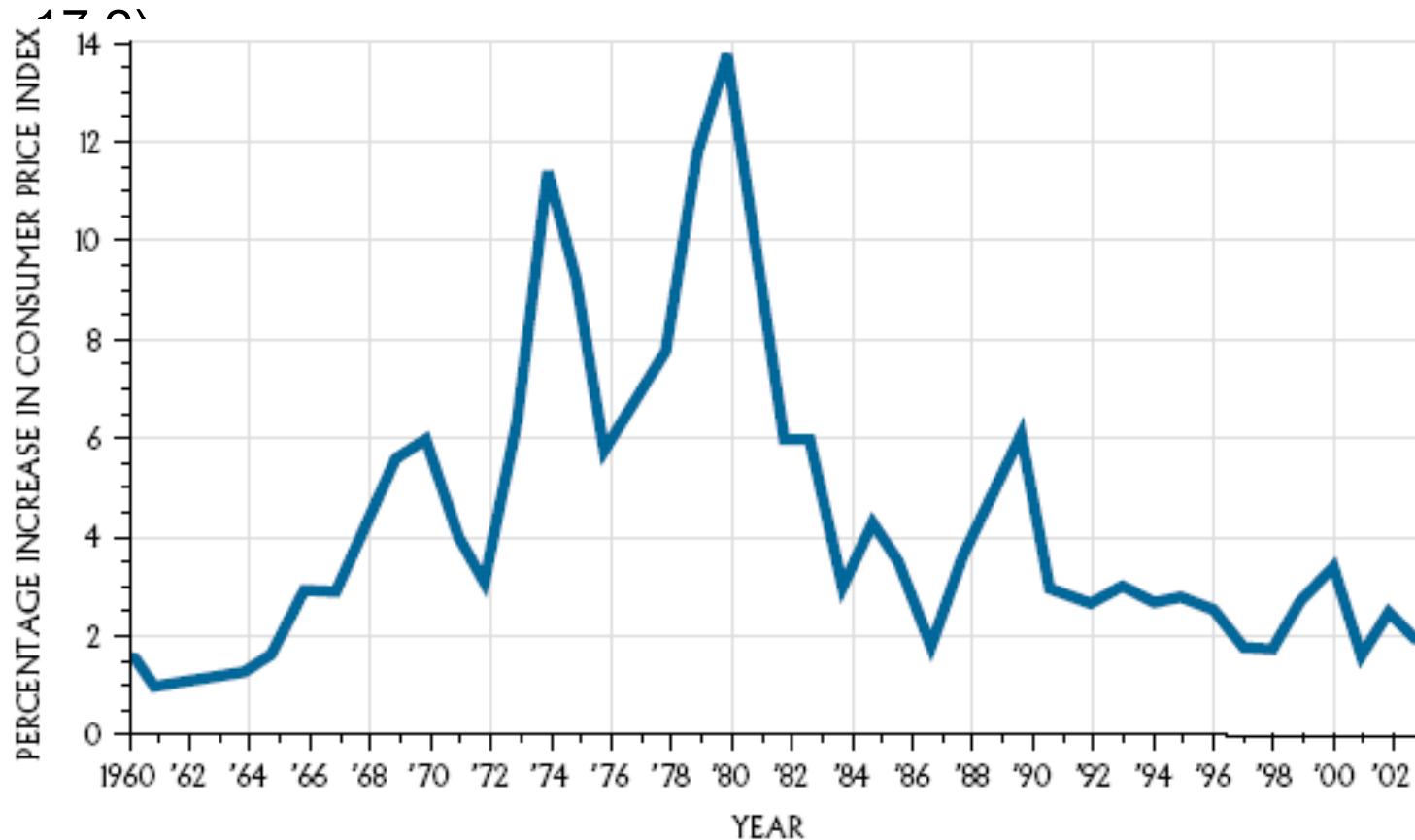
- Unemployment: Joblessness in America, 1960-2002 (Figure 17.1)



Source: *Economic Report of the President, 2004* (Washington, D.C.: U.S. Government Printing Office, 2004).

# Government, Politics, and the Economy

- Inflation: Increases in the Cost of Living, 1960-2002 (Figure



Source: *Economic Report of the President, 2004* (Washington, D.C.: U.S. Government Printing Office, 2004).



# Policies for Controlling the Economy

- Monetary Policy and “the Fed”
  - 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.”

# 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.

# 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.
  - Some benefits are indexed.
  - Capitalism can also affect the economy.
- Government is more important in setting the rules of the game.

# 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.

# 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.

# Arenas of Economic Policymaking

- Business and Public Policy, continued
  - Regulating and Benefiting Business
    - Congress has taken steps to regulate accounting industry practices.
    - The Securities and Exchange Commission regulates stock fraud
    - 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.
  - FDA: Created in 1913; approves foods and drugs sold in the U.S.
  - 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.
  - NLRB: regulates labor-management relations
  - 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 government involvement in the economy.
  - Conservatives tend to favor less government involvement in the economy.