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 its role as regulator, consumer, subsidizer, taxer, 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)

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- Inflation: Increases in the Cost of Living, 1960-2002 (Figure 17.2)

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 Feds 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.