

The background of the slide is a blurred image of the United States flag, showing the stars and stripes in soft focus.

**ECONOMIC POLICY**

**and**

**PUBLIC POLICY**

# The Roots of Government Participation in the Economy

- For the first 100 years of our nation, most economic issues were controlled by the states not the national government.
- The national government's roles were limited to
  - public lands policies
  - public works projects
  - and the encouragement of business through the use of taxes and tariffs.
- The states were quite active in promoting and regulating private business activities.
  - They built the Erie Canal, roads, and railroads. States licensed, regulated, and inspected many factories and businesses.

# Industrialization

- Following the Civil War, the US moved from an agrarian to and manufacturing based economy as the US industrialized many large-scale factories were created.
- This shift lead to many national economic problems.

# Industrialization

National problems such as...

- fluctuations between periods of economic prosperity and economic downturn
- Industrial accidents
- Disease outbreaks
- Labor conflict
- Unemployment and the exploitation of workers

were too large and complex for state governments alone.

# *Laissez-Faire Doctrine*

- A French term meaning “to allow to do, to leave alone.”
- It is a *hands-off* governmental policy that is based on the belief that governmental regulation of the economy is wrong.

# The Progressive Era (1901-1917)

- The Progressive Movement was a middle class reform movement designed to change the political, economic, and social system of the United States.
- In general, Progressive reformers like Mother Jones wanted to rein in corporate power and make it more responsive to society and the democratically elected government.

# The Great Depression / New Deal

- The Great Depression (a catastrophic worldwide economic downturn) began with
  - a stock market collapse
  - followed by rising unemployment
  - dropping prices
  - falling production
  - and financial panic.
- President Hoover announced that there was nothing wrong and the economy was fundamentally sound. *Panic ensued.*
- FDR called for and Congress enacted a "New Deal" for Americans. This legislation allowed for strong government participation in the economy to relieve the nation's economic distress.

# The Post-World War II Era

- As WWII came to an end, many policymakers worried that the conversion from a wartime to a peacetime economy might trigger yet another great depression.
- With the passing of
  - The Employment Act and the
  - The Taft-Hartley Act(to deal with unemployment) the US government became deeply involved in maintaining high levels of employment.

# Economic Policy

## U.S. Economic Goals (1946) -

- full employment
- economic growth
- wage and price stability

# Stabilizing the Economy

- Since FDR and the Great Depression, the government has taken a participatory approach to macroeconomic problems.
- The US government primarily uses two instruments to effect the economy...
  - Monetary policy
  - Fiscal policy

# Business Cycle

1830's - depression

1890's - depression

1930's - depression

1980's - recession

# Causes:

- Psychological
- Monetary (supply of money)
- Innovative theory
- Fiscal policy (taxing and spending)

# Fiscal Policy

- John Maynard Keynes (1883-1946)
- Fiscal Policy - manipulating the federal revenues (taxes) and federal spending to achieve economic goals.
- Exercised by Congress and President
- Tools: taxing and spending
- Total production = total income = total expenditures

# Fiscal Policy

- Following the economist John Maynard Keynes government spending has been used to offset a decline in private spending and help maintain
  - levels of spending
  - production
  - employment.
- Fiscal policy involves taxation and government spending policies to influence the overall operation of the economy.
- John Kennedy was the first president to actively use fiscal policy. He deliberately ran a deficit in order to fuel economic growth.

# Review - Fiscal Policy

- Our economy passes thru 4 distinct phases and gov't action can modify these.
- Inflationary pressures are always strong during prosperity and full employment and a reduction in spending will relieve these pressures.
- Recessions are the result of lower demand and measures to increase spending will help.

# Taxes

## Base:

Income- based on ability to pay

Expenditures - everyone pays the  
same

Wealth - property, estate,  
inheritance

# Taxes cont.

## Impact:

Progressive - taxed on ability to pay  
(income tax)

Regressive - tax in which all people  
pay the same percentage, regardless of  
their income (sales tax property tax)

# Taxes cont.

Level:

Income - federal

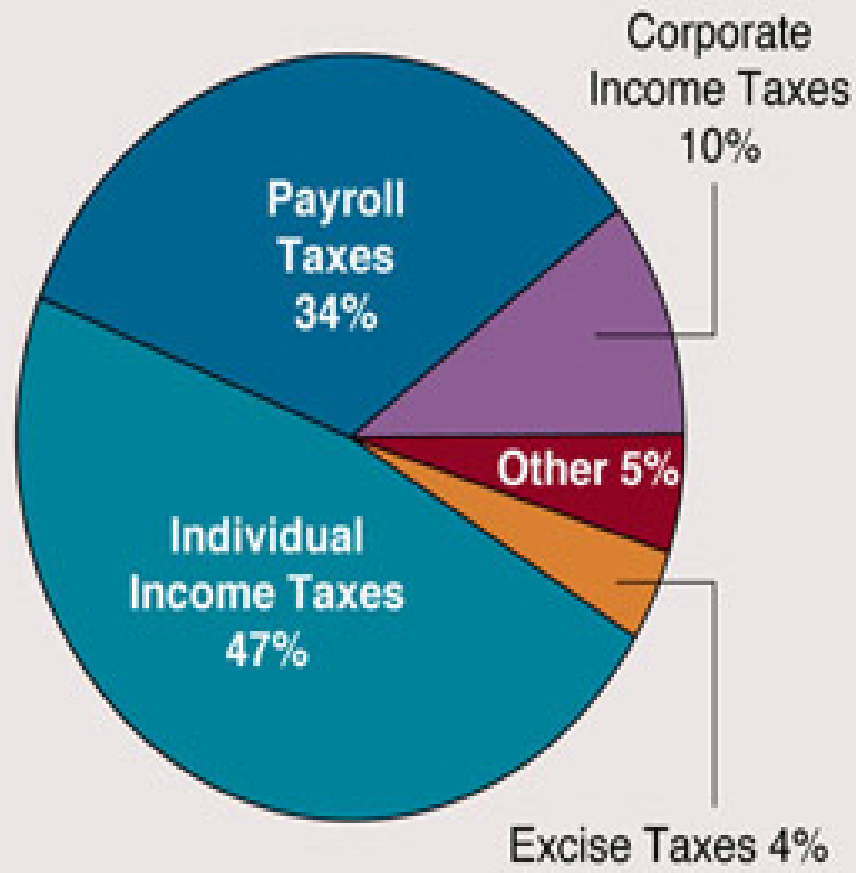
Sales - state

Property - local

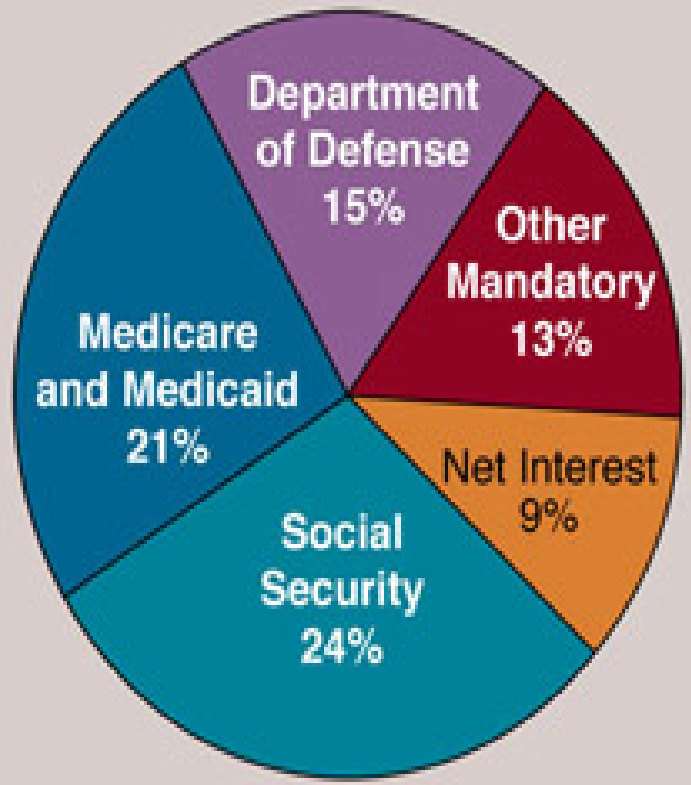
# Figure 18.3 Receipts and Outlays of the Federal Government

A quick look at how the feds get their money and what the national spending priorities are.

## Where it Comes From



## Where it Goes



NOTE: Because of rounding, estimates do not total 100%.

SOURCE: *Budget of the United States Government, Fiscal Year 2000* (Washington D.C.: Government Printing Office, 1999), Table 2-1, Table 2-2.

# Monetary Policy

- Monetary policy involves the regulation of the country's money supply and interest rates.
- The primary responsibility for monetary policy rests with the Federal Reserve Board (Fed).
- The Federal Reserve System was created in 1913 consists of:
  - the Federal Reserve Board
  - the Federal Open Market Committee
  - 12 Federal Reserve Banks

# The Federal Reserve System

- The Fed is made up of seven members appointed by the president for 14 year overlapping terms with approval of the Senate.
- Chairman - Alan Greenspan

# Tools of the Fed:

- Set the Reserve Requirement
- Set the Discount Rate
- Exercise Moral Suasion
- Set Margin Requirements
- Conduct Open Market Operations

# Review - Monetary Policy

- Money is an economic tool.
- Borrowing through the banking system expands the money supply.
- Raising and lowering interest rates also affects the money supply.
- Too much money encourages inflation and too little restricts economic growth.

# The Social Regulation Era

- In the 1960s and 1970s our government turned to social regulations.
- Social regulations deal with the quality and safety of products.
- Agencies such as the
  - Consumer Product Safety Commission
  - Occupational Safety and Health Administration
  - Environmental Protection Agency
  - National Transportation Safety Administrationwere created to protect consumers and citizens from a variety of threats.

# The Economics of Regulating Environmental Activity

- Environmental policy has many economic trade-offs.
- If we want clean air we must pay more for cars that have emission controls.
- If we want clean rivers and lakes we have to pay more for plastics and manufactured products because it is more expensive to get rid of wastes in environmentally friendly ways.

# Public Policy -

action by government designed to address public problems.

- domestic
- foreign

# Stages in policy making:

- problem recognition
- policy formulation
- policy implementation
- evaluation

# Politics of policy making

- \* slow (incrementalism)
- fast - when?

Crisis

Strong President

Unified government (Congress and  
President)

# Domestic policy

- Education
- Health
- Welfare
- Housing
- Environment
- Energy

# Foreign and Defense policy

- terrorism
- economic interdependence
- environmental issues
- break up large nations
- U.S. world police

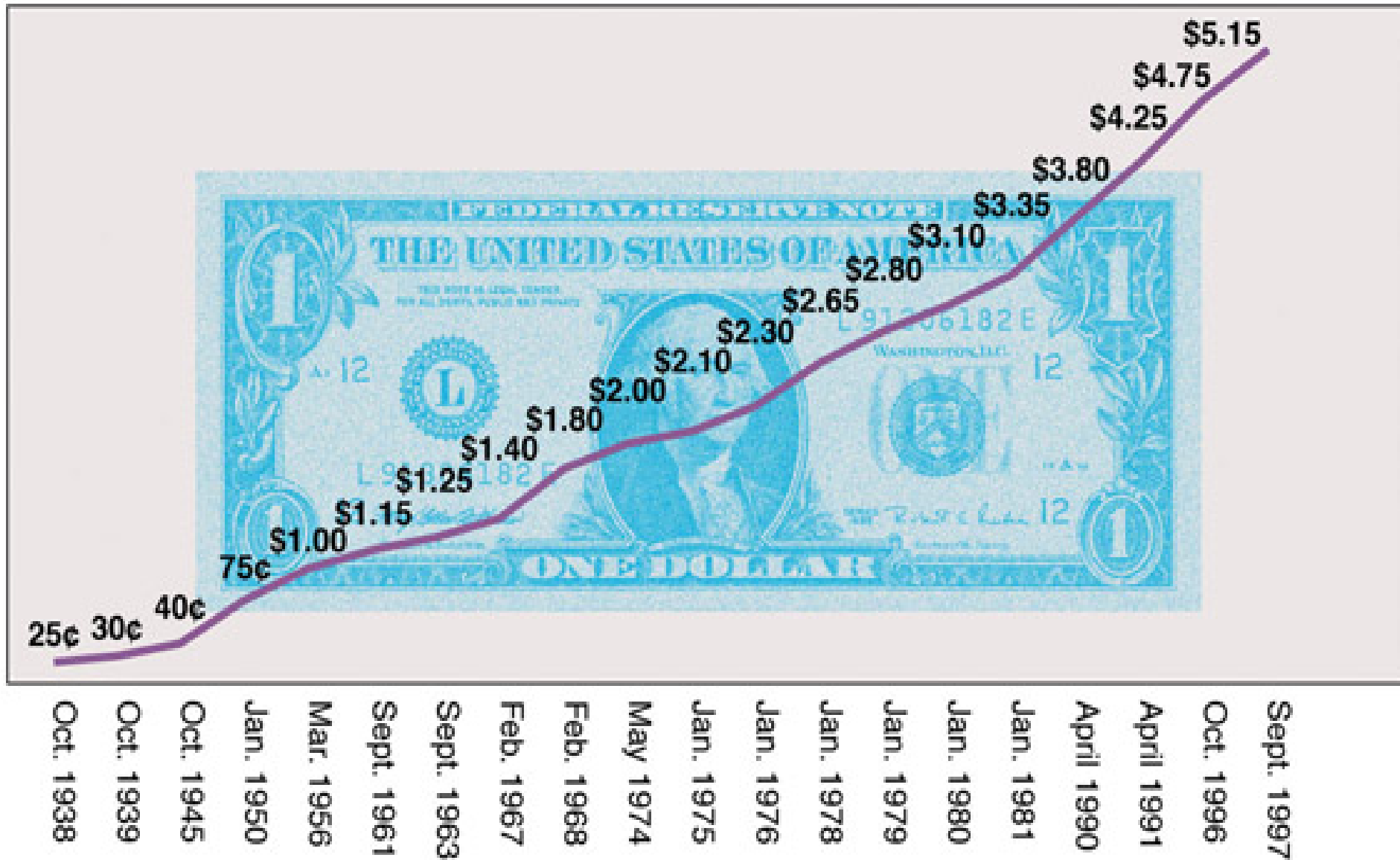
# The Global Economy

- While we are moving into a truly global economy industrialized trading blocks – regional free-trade areas – have developed in
  - Asia
  - Europe
  - North America
- Free trade and globalization have been beneficial to many Americans and to some foreign economies but they are not supported by all.
  - For example, labor unions have been highly critical of free trade initiatives.

# Global Trade

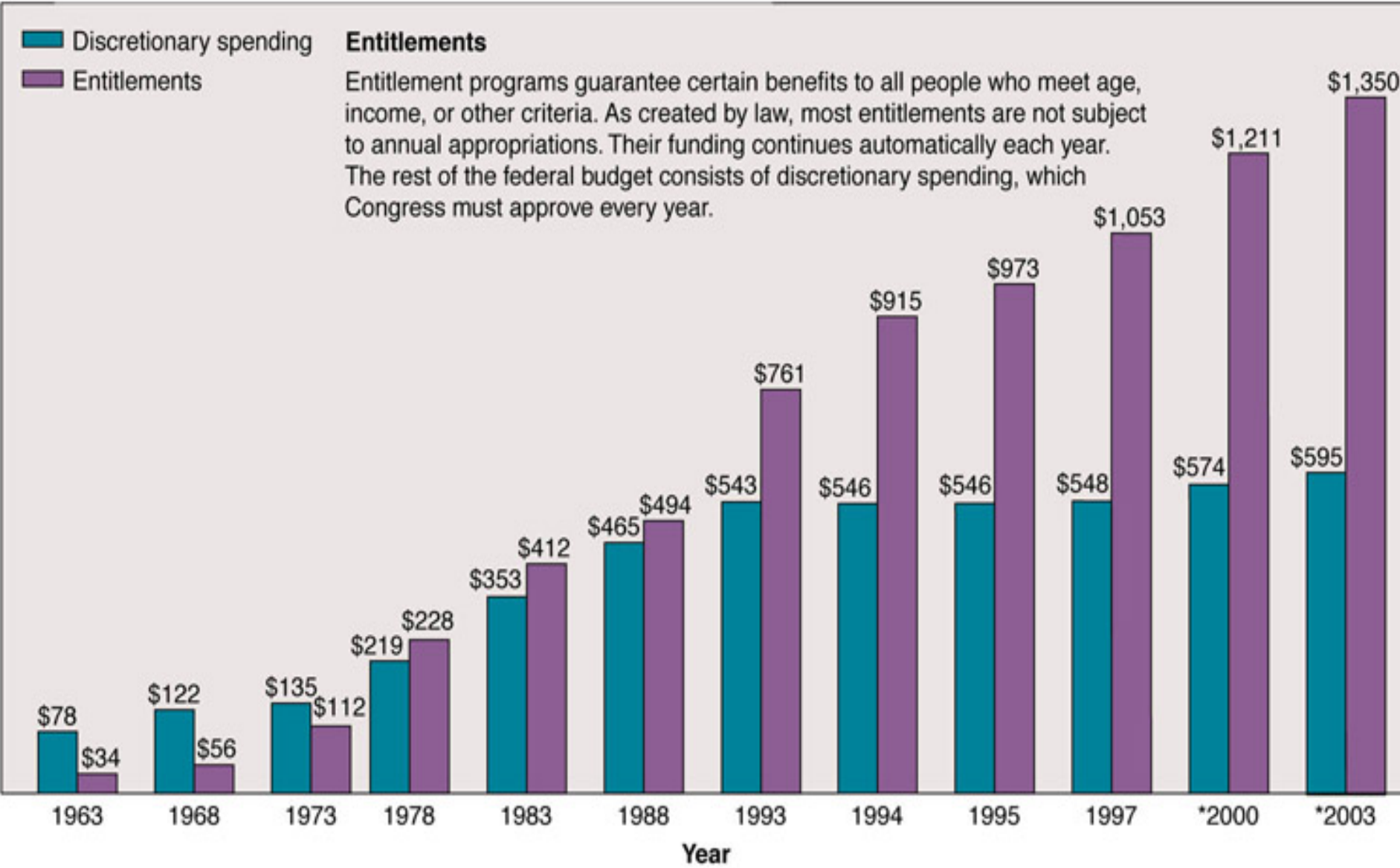
- Around \$5 TRILLION worth of trade crosses international borders each year.
- Expectations are that foreign direct investment flows for 2000 exceeded \$1 trillion.
- Only 20 years ago that number stood at \$60 billion and 10 years ago at \$210 billion.
- The global system of production is both deepening and broadening.
- There are now 63,000 transnational companies with about 700,000 affiliates.

Figure 18.1 Growth in the Minimum Wage Over Time.



SOURCE: Associated Press.

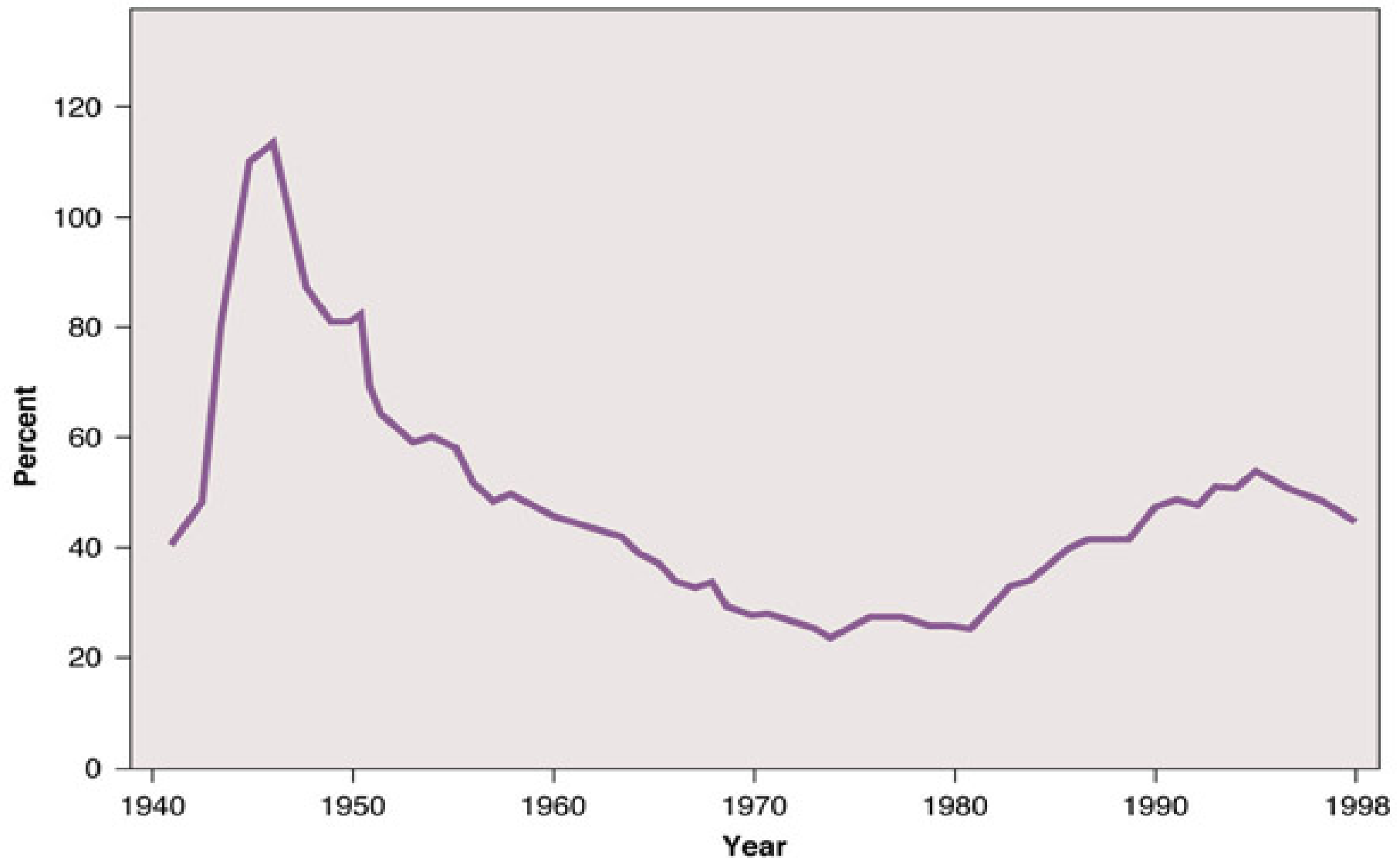
Figure 18.4 Entitlements and Discretionary Spending (in billions of dollars)



\*Projections

SOURCE: United States Budget for Fiscal Year (Washington D.C.: Government Printing Office, various years).

Figure 18.5 The National Debt as a Percentage of GDP, 1940-1998



NOTE: Figures reflect debt held by the public and do not include debt held by federal government accounts.

SOURCES: 1940–1992: Office of Management and Budget, *Budget Baselines, Historical Data, and Alternatives for the Future* (Washington D.C.: U.S. Government Printing Office, 1993), 1346. 1993–1998: Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2000* (Washington D.C.: U.S. Government Printing Office, 1999), 110. Statistical Abstracts of the United States (Washington D.C.: U.S. Government Printing Office, 1995), 333.