CHAPTER 17

Economic Policymaking

CHAPTER OUTLINE

I. Introduction (pp. 547–548)
   A. Capitalism is an economic system in which individuals and corporations own the principal means of production.
   B. A mixed economy is a system in which the government, while not commanding the economy, is still deeply involved in economic decisions.
   C. Multinational corporations, businesses with vast holdings in many countries, dominate the world’s economy.

II. Government, Politics, and the Economy (pp. 549–554)
   A. Economic Policy at Work: Wal-Mart
      1. Government Regulation and Business Practices
         a. The main government regulatory agency responsible for the regulation of business practices is the Securities and Exchange Commission (SEC).
         b. Minimum wage is the legal minimum hourly wage for large employers.
         c. A labor union is a workers’ organization for bargaining with an employer.
         d. Collective bargaining consists of negotiations between representatives of labor unions and management to determine pay and acceptable working conditions.
      2. Wal-Mart and the World Economy
   B. "It’s the Economy, Stupid": Voters, Politicians, and Economic Policy
      1. Economic conditions are the best single predictors of voters’ evaluation of the president.
      2. Democrats stress the importance of employment; Republicans stress the importance of inflation.
   C. Two Major Worries: Unemployment and Inflation
      1. The unemployment rate has a direct affect on government and politics.
      2. The Consumer Price Index (CPI) measures inflation (the rise in prices for consumer goods).

III. Policies for Controlling the Economy (pp. 554–557)
   A. Laissez-faire is the principle that government should not meddle with the economy.
   B. Monetary Policy and “The Fed”
      1. Monetary policy is the manipulation of the supply of money and credit in private hands.
2. Monetarism holds that the supply of money is the key to the nation's economic health.
3. The main agency for making monetary policy is the Board of Governors of the Federal Reserve System.

C. Fiscal Policy of Presidents and Parties
1. Fiscal policy describes the impact of the federal budget on the economy.
2. Keynesian economic theory holds that government spending can help the economy weather its normal ups and downs.
3. Supply-side economics argues that the key task for government economic policy is to stimulate the supply of goods, not their demand.

IV. Why it is Hard to Control the Economy (pp. 557–558)
A. Instruments for controlling the economy are difficult to use.
B. Economic policies take a long time to implement.
C. Most of the budget expenditures are uncontrollable.
D. The private sector dominates the economy.

V. Politics, Policy, and the International Economy (pp. 558–560)
A. Most emerging economies want to follow an economic policy of protectionism.
B. The World Trade Organization (WTO) is an international organization that regulates international trade.
C. The loss of American jobs overseas has become an important political issue.

VI. Arenas of Economic Policymaking (pp. 560–562)
A. Business and Public Policy
   1. Corporate Corruption and Concentration
      a. Antitrust policy ensures competition and prevents monopoly.
   2. Regulating and Benefiting Business
B. Consumer Policy: The Rise of the Consumer Lobby
   1. The Food and Drug Administration (FDA) has broad regulatory powers over the manufacturing, contents, marketing, and labeling of food and drugs.
   2. The Federal Trade Commission (FTC) has become a defender of consumer interests in truth in advertising.
C. Labor and Government
   1. The National Labor Relations Act guarantees workers the right of collective bargaining.
   2. The Taft-Hartley Act continued to guarantee collective bargaining, but prohibited unfair practices by unions as well.
   3. Section 14B of Taft-Hartley permitted right-to-work laws that forbid labor contracts from requiring workers to join unions to hold their jobs.

VII. Understanding Economic Policymaking (pp. 563–564)
A. Democracy and Economic Policymaking
B. Economic Policymaking and the Scope of Government

VIII. Summary (p. 564)
LEARNING OBJECTIVES

After studying Chapter 17, you should be able to:

1. Understand the relationship between politics and the economy.
2. Describe the policies and programs that policymakers use to affect the state of the economy.
3. Explain why it is hard to control both the domestic and international economy.
4. Discuss the major issues and policy directions that have been pursued in the areas of business, consumer, and labor policy.
5. Understand the relationship between democracy, the scope of government, and economic policymaking in the United States.

The following exercises will help you meet these objectives:

Objective 1: Understand the relationship between politics and the economy.

1. Briefly explain how Wal-Mart can be used to illustrate each of the following concepts:
   - Inflation:
   - Securities and Exchange Commission:
   - Labor union:
   - Collective bargaining:
   - Occupational Health and Safety Administration:
   - Globalization:
2. Explain the basic difference between the Republican Party and the Democratic Party in terms of their approaches to economic policies.

Republicans:

Democrats:

3. Briefly explain how the unemployment rate is measured.

4. What is the Consumer Price Index (CPI) and why is it important?

Objective 2: Describe the instruments and programs that policymakers use to affect the state of the economy.

1. Explain how the Fed works to affect the supply of money and credit.

2. What is fiscal policy?

3. Explain the basic differences between Keynesian economic theory and supply-side economics.

   Keynesian Theory:

   Supply-Side Economics:
Objective 3: Explain why it is hard to control both the domestic and international economy.

1. What is the “political business cycle”?

2. Explain how the American capitalist system imposes restraints on controlling the economy.

3. What are the major arguments for and against the World Trade Organization?

Objective 4: Discuss the major issues and policy directions that have been pursued in the areas of business, consumer, and labor policy.

1. Complete the following table listing one major congressional act and one major governmental policy for each of the arenas of economic policymaking discussed in the text.

<table>
<thead>
<tr>
<th>Arena</th>
<th>Major Congressional Act</th>
<th>Major Government Policy</th>
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<tbody>
<tr>
<td>Business</td>
<td></td>
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<tr>
<td>Consumers</td>
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<tr>
<td>Labor</td>
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</tbody>
</table>
2. List four ways in which the government benefits business.

1.

2.

3.

4.

3. How do the Food and Drug Administration (FDA) and the Federal Trade Commission (FTC) benefit consumers?

FDA:

FTC:

4. What were the main provisions of the National Labor Relations Act and the Taft-Hartley Act?

National Labor Relations Act:

Taft-Hartley Act:

Objective 5: Understand the relationship between democracy, the scope of government, and economic policymaking in the United States.

1. What does the conflict about free trade in 2008 tell us about democracy and economic policymaking?
2. What is the main difference between liberal and conservative views of the scope of government in economic policymaking?

Liberals:

Conservatives:

KEY TERMS

Identify and describe:

capitalism

mixed economy

multinational corporations

Securities and Exchange Commission

minimum wage

labor union

collective bargaining

unemployment rate

inflation
Consumer Price Index (CPI)

Laissez-faire

monetary policy

monetarism

Federal Reserve System

fiscal policy

Keynesian economic theory

supply-side economics

protectionism

World Trade Organization (WTO)

antitrust policy
Food and Drug Administration (FDA)

National Labor Relations Act

*Compare and contrast:*

- capitalism and mixed economy
- labor union and collective bargaining
- inflation and Consumer Price Index (CPI)
- laissez-faire, monetarism, and Keynesian economic theory
- monetary policy and fiscal policy
- Keynesian economic theory and supply-side economics
- protectionism and World Trade Organization (WTO)
- National Labor Relations Act and collective bargaining
Name that term:

1. Some of these have annual budgets exceeding those of foreign countries.
   __________________________

2. This agency was created during the New Deal to regulate stock fraud.
   __________________________

3. Today this amounts to $6.55 per hour.
   __________________________

4. This is the percentage of Americans actively seeking employment but unable to find work.
   __________________________

5. It regulates the lending practices of banks.
   __________________________

6. This economic theory was popularized by President Reagan.
   __________________________

7. This is used to ensure competition and prevent monopoly.
   __________________________

8. This agency is responsible for ascertaining the safety and effectiveness of new drugs before approving them for marketing in the United States.
   __________________________

USING YOUR UNDERSTANDING

1. Find copies of the government's objective indicators of economic conditions—the unemployment and inflation rates—for some recent years. Government Internet sources would be a good place to start. Try your hand at plotting these indicators on a graph. Then try to locate an indicator of the importance of these issues on the public agenda, as measured by public opinion about the seriousness of these economic problems. Plot this indicator along with the objective indicators you
found. If a national election occurred during the time frame you are considering, draw a line representing when the election occurred. Briefly describe what you found in terms of the relationship between the government's measurement of economic problems and their place on the public's agenda. If applicable, describe the apparent impact of the election on the indicators you plotted.

2. Using newspapers, newsmagazines and/or the Internet, collect some current examples of economic policymaking in the United States. Try to find items that illustrate the different tools that policymakers use to try to control the economy and the different sectors of the economy that they seek to control. Consider the impact of the political party in power on current economic policymaking and whether or not it is consistent with what would be expected. Describe what you found in terms of the direction and impact of contemporary policies in the economic arena.

MULTIPLE CHOICE QUESTIONS

Circle the correct answer:

1. One of the responsibilities of the National Bureau of Economic Research is
   a. To set the exchange rate for U.S. currency.
   b. To regulate trade.
   c. To oversee the implementation of tax policy.
   d. To declare the U.S. economy is in recession.
   e. All of these are responsibilities of the National Bureau of Economic Research.

2. When the economy experiences two consecutive quarters of negative growth, it is said to be in
   a. A hard time.
   b. A great depression.
   c. A modest downturn.
   d. A cycle of decline.
   e. A recession.

3. Thomas Jefferson’s economic ideas ultimately lost out to Alexander Hamilton’s because Jefferson
   a. Supported slavery.
   b. Favored farmers and small towns.
   c. Advocated five-year plans to promote industrial growth.
   d. Sought to equalize wealth.
   e. Advocated a national income tax.
4. Why has globalization added income to the average U.S. family?
   a. Because it has allowed them to purchase cheaper products.
   b. Because illegal immigrants work for lower wages.
   c. Because stores like Wal-Mart have fought against labor unions.
   d. Because it has increased the amount companies are willing to pay employees.
   e. Because it has allowed the average family to travel the world in search of bargains.

5. The issue most stressed by Democrats is
   a. High tax rates.
   b. Employment.
   c. Inflation.
   d. Home ownership.
   e. Free trade.

6. The percentage of Americans seeking work, but who are unable to find it is known as
   a. The rate of discouraged workers.
   b. Inflation.
   c. Stagflation.
   d. The unemployment rate.
   e. The underemployment rate.

7. Why isn’t unemployment among younger workers an important campaign issue?
   a. Because younger people are less likely to be unemployed than older people.
   b. Because younger people do not participate as regularly in elections as older people.
   c. Because younger voters are all in college and high school.
   d. Because younger workers are ineligible for unemployment insurance.
   e. Because it is easier for younger workers to find new jobs.

8. The rise in the price for consumer goods is known as
   a. Deflation.
   b. Stagflation.
   c. Inflation.
   d. Conflagration.
   e. Stagnation.

9. One reason for inflation in the cost of food is
   a. America’s obesity problem.
   b. The increased use of “biofuels”
   c. Collusion on the part of large food growers.
   d. Union demands for increased wages and benefits.
   e. The end of price controls for key food items.
10. The Federal Reserve System is governed by
   a. A seven member Board of Governors appointed by the president and confirmed by the Senate.
   b. The director of the Internal Revenue Service.
   c. The president’s Council of Economic Advisors.
   d. The Secretary of the Treasury.
   e. The Secretary of Commerce.

11. Which of the following statements about the tools government has to manage the economy is accurate?
   a. The ability to manipulate the supply of credit in private hands is the most important tool the government has.
   b. Monetary policy is the most important tool the government has.
   c. The most important tool government has is its control over the money supply.
   d. None of the above.
   e. All of the above.

12. An example of the use of monetary policy is
   a. Instituting a freeze on prices.
   b. Subsidizing farmers.
   c. Making low interest, long term loans to college students.
   d. Requiring banks to keep more money on reserve.
   e. All of the above.

13. Taxing, spending, and borrowing decisions by Congress and the president are known collectively as
   a. Supply-side economics
   b. Monetary policy
   c. Budgetary policy
   d. Fiscal policy
   e. Econometrics

14. Since the New Deal
   a. Policymakers have made it part of their regular business to seek to control the economy.
   b. The federal government has become less involved in economic policy.
   c. The principle of laissez-faire has dominated economic policy.
   d. Economic issues have become less politicized.
   e. Keynesian economics has replaced supply-side theory in American fiscal policy.

15. An example of a Keynesian economic policy is:
   a. Allowing the free market to determine economic health.
   b. Creating more money to help pay for deficits.
   c. Borrowing funds to cover the federal deficit.
   d. Creating government jobs to ease unemployment.
   e. Deregulating commerce and industry.
16. One of the major causes of the Great Depression was
   a. The promotion of international trade epitomized by the formation of the World
      Trade Organization.
   b. The New Deal economic policies of President Franklin Roosevelt.
   c. The 20 percent hike in tariffs known as the Smoot-Hawley tariff.
   d. The tax cuts advocated by President Reagan.
   e. Strikes waged by labor unions for higher wages and benefits.

17. Antitrust legislation is designed to
   a. Promote union rights.
   b. Prevent foreign investors from owning U.S. corporations.
   c. Stop the growth of multinational corporations like Wal-Mart.
   d. Ensure competition and prevent monopolies.
   e. Foster industrial growth through tariffs designed to keep out foreign goods.

18. The major change in government policy toward labor took place during
   a. World War I
   b. The New Deal
   c. The Progressive Era
   d. The 1960s
   e. The late 1890s.

19. The National Labor Relations Act was passed in order to
   a. Assure workers the right to join and form unions.
   b. Limit the power and influence of labor unions.
   c. Prohibit corporate monopolies.
   d. Determine a national minimum wage.
   e. Prevent unions from forming in the public sector.

20. Legislation that forbids labor contracts from requiring workers to join unions in order to
    hold their jobs is known as
    a. Unfair labor practice legislation.
    b. Right-to-work laws.
    c. Right-to-choose laws.
    d. Right-to-unionize laws.
    e. Fair share laws.