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In the s, government had great faith in fiscal policy, or the manipulation of government revenues to influence the economy. Since spending and taxes are controlled by the president and the Congress, these elected officials played a leading role in directing the economy.

This section does not cite any sources. Please help improve this section by adding citations to reliable sources. Unsourced material may be challenged and removed. April Learn how and when to remove this template message Regulation is generally defined as legislation imposed by a government on individuals and private sector firms in order to regulate and modify economic behaviors. Most governments, therefore, have some form of control or regulation to manage these possible conflicts. The ideal goal of economic regulation is to ensure the delivery of a safe and appropriate service, while not discouraging the effective functioning and development of businesses. For example, in most countries, regulation controls the sale and consumption of alcohol and prescription drugs , as well as the food business, provision of personal or residential care, public transport, construction, film and TV, etc. Monopolies, especially those that are difficult to abolish natural monopoly , are often regulated. The financial sector is also highly regulated. Regulation can have several elements: Public statutes, standards, or statements of expectations. A registration or licensing process to approve and permit the operation of a service, usually by a named organization or person. An inspection process or other form of ensuring standard compliance, including reporting and management of non-compliance with these standards: Not all types of regulation are government-mandated, so some professional industries and corporations choose to adopt self-regulating models. Often, voluntary self-regulation is imposed in order to maintain professionalism, ethics, and industry standards. For example, when a broker purchases a seat on the New York Stock Exchange , there are explicit rules of conduct, or contractual and agreed-upon conditions, to which the broker must conform. The coercive regulations of the U. However, in a democracy, there is still collective agreement on the constraintâ€"the body politic as a whole agrees, through its representatives, and imposes the agreement on those participating in the regulated activity. Regulation in this sense approaches the ideal of an accepted standard of ethics for a given activity to promote the best interests of those participating as well as the continuation of the activity itself within specified limits. In America, throughout the 18th and 19th centuries, the government engaged in substantial regulation of the economy. In the 18th century, the production and distribution of goods were regulated by British government ministries over the American Colonies see mercantilism. Subsidies were granted to agriculture, and tariffs were imposed, sparking the American Revolution. The United States government maintained a high tariff throughout the 19th century and into the 20th century until the Reciprocal Tariff Act was passed in under the Franklin D. President Ronald Reagan deregulated business in the s with his Reaganomics plan. In , the U. Congress enacted the Administrative Procedure Act APA , which formalized means of ensuring the regularity of government administrative activity and its conformance with authorizing legislation. The APA also sets forth the process for judicial review of agency action. Regulatory capture[edit] Regulatory capture is the process through which a regulatory agency, created to act in the public interest, instead advances the commercial or special concerns of interest groups that dominate the industry said agency is charged with regulating [2]. The probability of regulatory capture is economically biased, in that vested interests in an industry have the greatest financial stake in regulatory activity and are more likely to be motivated to influence the regulatory body than dispersed individual consumers, each of whom has little particular incentive to try to influence regulators. Thus the likelihood of regulatory capture is a risk to which an agency is exposed by its very nature. Two ideas have been formed on regulatory policy: The former examine why regulation occurs. Normative economic theories of regulation generally conclude that regulators should encourage competition where feasible, minimize information asymmetry costs by gathering information and incentivizing operators to improve their performance, provide for economically efficient price structures, and establish regulatory processes that provide for "regulation under the law and independence, transparency, predictability, legitimacy, and credibility for the regulatory system. They are most commonly studied in the context of principal-agent problems. Here, the government is the principal, and the operator the agent, regardless of who owns the operator. Principal-agent theory is applied in incentive regulation and multi-part tariffs. The Worldwide Governance Indicators project at the World Bank recognizes that regulations have a significant impact in the quality of governance of a country. The Regulatory Quality of a country, defined as "the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development" [7] is one of the six dimensions of governance that the Worldwide Governance Indicators measure for more than countries. Deregulation In modern American politics[edit] Overly complicated regulatory law, increasing inflation, concern over regulatory capture , and outdated transportation regulations made deregulation an appealing idea in the US in the late s. Though favored by industry, Reagan-era economic policies concerning deregulation are regarded by many economists as having contributed to the Savings and Loan Crisis of the late s and s. Does it make life better or safer for American workers or consumers? If the answer is no, we will be getting rid of it. The goal of privatization is for market forces to increase the efficiency of denationalized industries. Others point out that lack of careful regulations on some of the privatized industries is a source of continued problems. Further, contemporary economic sociologists such as Neil Fligstein in his Architecture of Markets argue that markets depend on state regulation for their stability, resulting in a long term co-evolution of the state and markets in capitalist societies in the last two hundred years. Opponents[edit] There are various schools of economics that push for restrictions and limitations on governmental role in economic markets. Generally, these schools attest that government needs to limit its involvement in economic sectors and focus instead on protecting individual rights life, liberty, and property. This position is alternatively summarized in what is known as the Iron Law of Regulation, which states that all government regulation eventually leads to a net loss in social welfare. Some argue that companies are incentivized to behave in a socially responsible manner, therefore eliminating the need for external regulation, by their commitment to stakeholders, their interest in preserving reputability, and their goals for long term growth.

Chapter 2 : Government economic policy | finance | calendrierdelascience.com

Gig economy and temp workers are most commonly employed in office and administrative support functions, with 20 percent of states and localities surveyed indicating their use.

Direct Services Each level of government provides direct services. The postal system, for example, is a federal system serving the entire nation, as is the large military establishment. By contrast, the construction and maintenance of most highways is the responsibility of individual state governments. The public education systems are primarily paid for by state, county or city governments. In general, police and fire protection are the responsibilities of local government. Regulation and Control The government regulates and controls private enterprise in many ways in order to ensure that business serves the best interests of the people as a whole. Regulation is usually considered necessary in areas where private enterprise has been granted a monopoly, such as in electric or local telephone service, or in other areas where there is limited competition, as with the railroads. Public policy permits such companies to make reasonable profits, but limits their ability to raise prices "unfairly" as defined by the regulators because the public depends on their services. Often control is exercised to protect the public, for example, when the Food and Drug Administration bans harmful drugs, or requires standards of quality in food. In other industries, government sets guidelines to ensure fair competition without using direct control. In the s and s, Americans became increasingly divided on the issue of government regulation of the economy. Proponents argued that government regulation was needed to protect consumers, workers and the environment; critics insisted that regulations interfered with free enterprise, increased the costs of doing business and thus contributed to inflation. These factors, coupled with rapid technological change, prompted President Jimmy Carter to reduce regulation of the transportation and communication industries in the s. Also, at this time, federal agencies were encouraged to be more flexible in applying regulations. Regulations or the implementation of regulations designed to protect workers, consumers and the environment were cut back. In addition, during the Reagan administration, a voluntary approach was taken to some regulations. For example, the Consumer Product Safety Commission adopted a voluntary compliance program, allowing individual companies to design their own remedies for targeted safety programs. In the early s, the drive to push still further deregulation in a broad, across-the-board manner appeared to have slowed considerably. Although proponents of deregulation continued to stress its benefits, criticism of how deregulation had actually worked in practice mounted. Airline deregulation, for example, initially fostered increased competition that lowered the cost of flying. But, within a few years a wave of airline mergers and consolidations shrank the number of airlines, and critics argued that the benefits of deregulation had either disappeared or become minor. On the other hand, deregulation of telecommunications unquestionably brought increased competition to certain parts of the telephone services industry. At the same time, by the s the number of federal government officials occupied with regulatory matters was on the increase again after having been cut back during the s. According to an analysis of regulatory institution staffing by the Center for the Study of American Business, in the number of federal government regulatory officials was expected to be around ,, which surpassed the previous record set in The study particularly noted increases in staffing at agencies concerned with such activities as protection of the environment and regulation of the financial sector. These were areas where increasing numbers of Americans appeared to be troubled by disturbing events or trends. Stabilization and Growth Branches of government, including Congress and such entities as the Federal Reserve System, attempt to control the extremes of boom and bust, and of inflation and depression, by adjusting tax rates, the money supply and the use of credit. They can also affect the economy by changing the amount of public spending by the government itself. Normally, the aim is a balanced federal budget. Direct assistance The government provides many kinds of help to businesses and individuals. For example, tariffs permit certain products to remain relatively free from foreign competition; imports are sometimes taxed or limited by volume so that American products can better compete with foreign goods. Government also provides aid to farmers by subsidizing prices they receive for their crops. In quite a different area, government supports individuals who cannot adequately care for themselves by making grants to low-income parents with dependent children, by providing medical care for the aged and indigent, and through social insurance programs that assist the unemployed and retirees. Government also supplies relief for the poor and help for the disabled.

Chapter 3 : Economic Policy

A government devises monetary policies to keep the economy growing at the desired pace. By controlling circulation of money, adjusting interest rates and tax rates, and controlling access to credit, the government can control the inflation or the decline of the economy.

A government is the system to govern a state or community. Finally, government is also sometimes used in English as a synonym for governance. Political history of the world and Political philosophy The moment and place that the phenomenon of human government developed is lost in time; however, history does record the formations of early governments. About 5, years ago, the first small city-states appeared. The human ability to precisely communicate abstract, learned information allowed humans to become ever more effective at agriculture, [9] and that allowed for ever increasing population densities. Like stars, cities and states reorganize and energize the smaller objects within their gravitational field. The Glorious Revolution in England, the American Revolution , and the French Revolution contributed to the growth of representative forms of government. The Soviet Union was the first large country to have a Communist government. Like all categories discerned within forms of government, the boundaries of government classifications are either fluid or ill-defined. Superficially, all governments have an official or ideal form. The United States is a constitutional republic , while the former Soviet Union was a socialist republic. However self-identification is not objective, and as Kopstein and Lichbach argue, defining regimes can be tricky. Communist dictatorships have been especially prone to use this term. Thus in many practical classifications it would not be considered democratic. Identifying a form of government is also difficult because many political systems originate as socio-economic movements and are then carried into governments by parties naming themselves after those movements; all with competing political-ideologies. Experience with those movements in power, and the strong ties they may have to particular forms of government, can cause them to be considered as forms of government in themselves. Other complications include general non-consensus or deliberate "distortion or bias" of reasonable technical definitions to political ideologies and associated forms of governing, due to the nature of politics in the modern era. As Ribuffo notes, "what Americans now call conservatism much of the world calls liberalism or neoliberalism". However, during the era of segregation many Southern Democrats were conservatives, and they played a key role in the Conservative Coalition that controlled Congress from to Even the most liberal democracies limit rival political activity to one extent or another while the most tyrannical dictatorships must organize a broad base of support thereby creating difficulties for " pigeonholing " governments into narrow categories. Examples include the claims of the United States as being a plutocracy rather than a democracy since some American voters believe elections are being manipulated by wealthy Super PACs. Plato also assigns a man to each of these regimes to illustrate what they stand for. The tyrannical man would represent tyranny for example. These five regimes progressively degenerate starting with aristocracy at the top and tyranny at the bottom. Forms of government For a more comprehensive list, see List of forms of government. One method of classifying governments is through which people have the authority to rule. This can either be one person an autocracy, such as monarchy , a select group of people an aristocracy , or the people as a whole a democracy, such as a republic. The difference of Commonwealths consisteth in the difference of the sovereign, or the person representative of all and every one of the multitude. And because the sovereignty is either in one man, or in an assembly of more than one; and into that assembly either every man hath right to enter, or not every one, but certain men distinguished from the rest; it is manifest there can be but three kinds of Commonwealth. For the representative must needs be one man, or more; and if more, then it is the assembly of all, or but of a part. When the representative is one man, then is the Commonwealth a monarchy; when an assembly of all that will come together, then it is a democracy, or popular Commonwealth; when an assembly of a part only, then it is called an aristocracy. Other kind of Commonwealth there can be none: That entity may be an individual, as in an autocracy , or it may be a group, as in an oligarchy. The word despotism means to "rule in the fashion of despots". The actual role of the monarch and other members of royalty varies from purely symbolical crowned republic to partial and restricted constitutional monarchy to completely despotic absolute monarchy. Traditionally and in most cases, the post of the monarch is inherited , but there are also elective monarchies where the monarch is elected. The term "Aristocracy" could also refer to the non-peasant, non-servant, and non-city classes in the Feudal system. An oligarchy is ruled by a small group of segregated, powerful or influential people who usually share similar interests or family relations. These people may spread power and elect candidates equally or not equally. An oligarchy is different from a true democracy because very few people are given the chance to change things. An oligarchy does not have to be hereditary or monarchic. An oligarchy does not have one clear ruler but several rulers. Some critics of representative democracy think of the United States as an oligarchy. The Athenian democracy used sortition to elect candidates, almost always male, Greek, educated citizens holding a minimum of land, wealth and status. Also refer to the rule by a government chosen by election where most of the populace are enfranchised. A democratic government is, therefore, one supported at least at the time of the election by a majority of the populace provided the election was held fairly. A "majority" may be defined in different ways. There are many "power-sharing" usually in countries where people mainly identify themselves by race or religion or "electoral-college" or "constituency" systems where the government is not chosen by a simple one-vote-per-person headcount. Commonly significant in democracies are political parties, which are groups of people with similar ideas about how a country or region should be governed. Different political parties have different ideas about how the government should handle different problems. It is a form of government in which representative democracy operates under the principles of liberalism. It is characterised by fair, free, and competitive elections between multiple distinct political parties , a separation of powers into different branches of government , the rule of law in everyday life as part of an open society , and the protection of human rights and civil liberties for all persons. To define the system in practice, liberal democracies often draw upon a constitution , either formally written or uncodified , to delineate the powers of government and enshrine the social contract. After a period of sustained expansion throughout the 20th century, liberal democracy became the predominant political system in the world. A liberal democracy may take various constitutional forms: The people, or some significant portion of them, have supreme control over the government and where offices of state are elected or chosen by elected people. Scope of government Rule by authoritarian governments is identified in societies where a specific set of people possess the authority of the state in a republic or union. It is a political system controlled by unelected rulers who usually permit some degree of individual freedom. Rule by a totalitarian government is characterised by a highly centralised and coercive authority that regulates nearly every aspect of public and private life. Republics that exclude sections of the populace from participation will typically claim to represent all citizens by defining people without the vote as "non-citizens". January Federalism is a political concept in which a group of members are bound together by covenant Latin: The term "federalism" is also used to describe a system of government in which sovereignty is constitutionally divided between a central governing authority and constituent political units such as states or provinces. Proponents are often called federalists. Economic systems Further information: Economic system Historically, most political systems originated as socioeconomic ideologies. Experience with those movements in power and the strong ties they may have to particular forms of government can cause them to be considered as forms of government in themselves.

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Consumer data privacy, digital commerce, expansion of broadband networks, and many other advancements within the digital economy are becoming increasingly relevant to policymakers.

See Article History Government economic policy, measures by which a government attempts to influence the economy. The national budget generally reflects the economic policy of a government, and it is partly through the budget that the government exercises its three principal methods of establishing control: Over time, there have been considerable changes in emphasis on these different economic functions of the budget. In the 19th century, government finance was primarily concerned with the allocative function. The job of government was to raise revenue as cheaply and efficiently as possible to perform the limited tasks that it could do better than the private sector. As the 20th century began, the distribution function acquired increased significance. Social welfare benefits became important, and many countries introduced graduated tax systems. Once more, allocative issues came to the fore, and stabilization and distribution became less significant in government finance. The allocative function The allocative function in budgeting determines on what government revenue will be spent. Because a high proportion of national income is now devoted to public expenditure, allocation decisions become more significant in political and economic terms. At all times and in all countries the calls for expenditure on specific services or activities, or for more generous transfer payments, will always exceed the amount that can reasonably be raised in taxation or by borrowing. The debate about how these scarce resources should be allocated has continued for hundreds of years, and, although numerous methods of deciding on priorities have emerged, it has never been satisfactorily resolved. In practice, most democracies contain a number of different factions that disagree on the proper allocation of resources and indeed the proper level of public sector involvement in the economy; the frequent change of national governments is related to the constant search for the right answers. Public goods Economists have sought to provide objective criteria for public expenditures through the so-called theory of public goods. It is generally recognized that some goods needed by the public cannot be provided through the private market. Lighthouses are a classic example. The costs of a lighthouse are such that no one shipowner will want to finance it; on the other hand, if a lighthouse is provided for one shipowner, it can be made available to all for no additional cost. Indeed it must be available to all, since there is no practical means of excluding ships from using the facility provided by the lighthouse, even if their owners have refused to pay for it. The only practical method of providing such services is by collective action. If goods are to be provided in this way, rather than through the private market, it is immediately necessary to confront the twin problems of deciding how much to provide and who should pay for that provision. Even if all individuals wanted the service equallyâ€”as, perhaps, with lighthousesâ€”their views on the extent of the service would be influenced by the allocation of the costs. Where different households may have different preferences and some may not want the service at allâ€”as, for example, with defense by nuclear weaponsâ€—these difficulties are compounded. Economists have tried to devise abstract voting schemes that would reconcile these difficulties, but these appear to have little practical application. Moreover, others would challenge this whole approach to the problem. It would be absurd to say that the consumer has a taste for national defense and that it is the job of the government to satisfy it. The task of national leaders is to evolve a defense policy and persuade the public to accept it. Similarly, conservationists must attempt to awaken the public to the importance of parks and wildlife. In the context of public policy, the efficient allocation of resources consists not merely of distributing funds in the pursuit of given objectives but also involves determining the objectives themselves. Genuine public goods pose severe problems for the national budget; it is very difficult to decide how far particular goodsâ€—the arts, national parks, even defenseâ€—should be supplied, and therefore no formal procedure of determination is likely to evolve. What should be given to each will continue to be the subject of intense political debate, with allocation changing as the government changes. Merit goods The concept of merit goods assists governments in deciding which public or other goods should be supplied. Merit goods are commodities that the public sector provides free or cheaply because the government wishes to encourage their consumption. Goods such as subsidized housing or social services, which predominantly help the poor, or health care services, which help the poor and elderly, are generally regarded as having considerable merit and therefore have a strong claim on government resources. Other examples include the provision of retraining schemes or urban regeneration programs. Cost-benefit analysis Once decisions have been made on how the limited national budget should be divided between different groups of activities, or even before this, public authorities need to decide which specific projects should be undertaken. One method that has been used is cost-benefit analysis. This attempts to do for government programs what the forces of the marketplace do for business programs: If the ratio of benefits to costs is considered satisfactory, the project should be undertaken. Or, if funds are limited, public investment projects may be assigned priorities according to their cost-benefit ratios. One difficulty with cost-benefit analysis is that every government agency has an incentive to estimate favourable ratios for its own projects. It must, after all, compete with other agencies for funds. No one can be certain as to the returns to be expected from an irrigation canal or a highway. Private investors have also been known to exaggerate their claims in appealing to stockholders, but they are generally subject to market sanctions that encourage them to err on the side of caution. In addition to the possibility that cost-benefit analysis may be biased by the preformed views of those commissioning the study, there are other, more fundamental difficulties. Almost all proposals have effects that are difficult to value in monetary terms. The siting of a new airport brings problems of noise and property blight to local people and increases the risk that civilians may die in an accident. Putting a sensible value on human life has been a continuing difficulty for those carrying out cost-benefit analyses, even though every project does in fact affect probabilities of life and death. These problems are, of course, not confined to cost-benefit analysis. The failure of cost-benefit analysis to provide answers to the problems of valuing life, or the quality of life , is a reflection of the wider problem confronting all decisions on public expenditure: Public ownership and privatization Until the mids the proportion of economic activity controlled by the government and the share of taxes in national income tended to increase in most countries. Since then, however, challenges to this growth in the role of government have become increasingly influential, and moves to privatization have been common. There are several types of privatization. One involves the sale to private owners of state-owned assets, and this is most correctly called privatization. Publicly owned houses may be sold to their occupants. Commodity stockpiles may be reduced or disbanded. Increasingly, however, attention has been turned to the sale of publicly owned industries, thus reversing the move to nationalization that occurred, particularly in western Europe, around and after World War II. Where the privatized industry operates in a competitive environment , no new problems arise. Singapore has privatized its airline system, for example, which now competes with a mixture of privately and publicly owned international airlines. Where privatization occurs but monopoly continues, however, there are new difficulties. Both Japan and the United Kingdom have privatized their telecommunications networks. Although, in certain limited areas of telecommunications, competition is possibleâ€”and has been allowed to develop in both the United States and Britainâ€”technical and legal restrictions inhibit competition in many sectors of the industry. Regulation is necessary, therefore, to restrict the freedom of privatized monopolies, or near monopolies, to raise prices and to exploit consumers in other ways. In the United States, which has by far the longest history of regulating private utilities, such regulation has normally limited the rate of return that they earn to what is considered a fair level. A disadvantage of this is that it may give the industry no greater incentive to increased efficiency than would exist in public ownership, since higher costs can be passed directly onto consumers. There have been experiments, therefore, with other forms of regulation, which seek to strike a balance between incentives for better performance and the ability to exploit consumers. A further problem for such regulation is that utilities and similar industries normally operate in both competitive and monopoly markets. They may be inclined to use their monopoly power in some areas to gain unfair competitive advantages in others. Despite these difficulties, an increasingly wide range of industries, ranging from water supply to airports, are now considered candidates for privatization. Privatization can also mean the dismantling of existing statutory restrictions on competition. State activities are often protected by legal prohibitions on competing private enterprise. German railways, for example, are entirely state-owned, and the law not only prevents competing railroads but severely restricts coach services and limits competitive trucking. The dismantling of such restrictions is seen as one method of improving the efficiency of state concerns. Another demand of privatization is the contracting out of publicly provided services. These possibilities demonstrate that a service may be government-financed but not necessarily provided by the government; if extended more widely, the concept could yield a different view of the economic role of the state. While the objective of privatization is often to increase the efficiency of government activities, its implementation may also have important effects on government revenue. Any savings that result from lower costs lead directly to lower tax rates. Where budgeting procedures do not distinguish between capital and current transactions, the proceeds of privatization sales provide a once-and-for-all boost to revenues. The availability of this source of funding for state activity has given an artificial attractiveness to privatization, especially in the United Kingdom. If an industry is sold for the present value of its expected earnings and if these earnings are the same in public and private ownership, privatization should have no net impact on public finances. If it is expected to be more efficient in the private sector, government finance, on balance, gains. If it is sold for less than the maximum revenue that would be obtainedâ€”and this is often the case, either because of the difficulty of selling assets as large as nationalized industries or because the government wishes to secure a wide dispersion of share ownershipâ€”the impact is likely to be negative. Other forms of government intervention Government spending is not the only way in which government allocates resources. Its regional policies will determine whether domestic and overseas investors build factories in particular places, while its taxation policies will determine whether they build them at all. Government competition and merger policies affect the structure of industry and commerce, while regulatory activitiesâ€”setting the number of hours shops may be open or who may buy cigarettesâ€—have profound effects on commercial activities. Government also affects allocations by setting the legal and administrative framework within which the economy functions. It may specify minimum wage levels or control the siting of new ventures and the activities of existing ones. Such activities of government profoundly affect the allocation of resources, but they are rarely monitored or subject to serious control. The stabilization function Stabilization of the economy e. Fiscal policy relates to taxes and expenditures, monetary policy to financial markets and the supply of credit , money, and other financial assets. History of stabilization policy The use of fiscal and monetary policy as a means of stabilizing the economy is relatively recent, for the most part a development of the period after World War II. During the 19th century the only stabilization policy was that associated with the international gold standard. To counteract this process, the monetary authorities would raise interest rates and stiffen credit requirements, causing a fall in prices, income, and employment ; this in turn led to a reduction in imports and an expansion of exports, thus improving the balance of payments. If a country had a surplus in its balance of payments, gold tended to flow in; this meant that the interest rate fell and the supply of money and credit was increased. As a consequence, imports were stimulated and exports discouraged so that the surplus in the balance of payments tended to disappear. The adjustment mechanism also included another important element: When interest rates fell in surplus countries and rose in deficit countries, mobile international financial capital tended to flow from the former to the latter, contributing to the elimination of deficits and surpluses in the balance of payments. The working of this mechanism was partly automatic and partly the result of deliberate actions by the monetary authorities in each country. In this form of stabilization policy, external stability was achieved at the cost of stability in the domestic economy: Occasionally governments attempted to reduce the impact of this mechanism on the domestic economy, particularly on the price level.

Chapter 5 : Indian Economy News, Trade News, Government Policy & Economic Indicators - Economic Tir

International economic cooperation is in crisis. The global economy faces fragmentation across institutional, economic, and social dimensions. This column argues that the task of the G20 is to revamp international economic cooperation and to promote a multilateral approach that addresses the key.

Economy Governement and the Economy Although the market system in the United States relies on private ownership and decentralized decision-making by households and privately owned businesses, the government does perform important economic functions. The government passes and enforces laws that protect the property rights of individuals and businesses. It restricts economic activities that are considered unfair or socially unacceptable. In addition, government programs regulate safety in products and in the workplace, provide national defense, and provide public assistance to some members of society coping with economic hardship. There are some products that must be provided to households and firms by the government because they cannot be produced profitably by private firms. For example, the government funds the construction of interstate highways, and operates vaccination programs to maintain public health. Local governments operate public elementary and secondary schools to ensure that as many children as possible will receive an education, even when their parents are unable to afford private schools. Other kinds of goods and services such as health care and higher education are produced and consumed in private markets, but the government attempts to increase the amount of these products available in the economy. For yet other goods and services, the government acts to decrease the amount produced and consumed; these include alcohol, tobacco, and products that create high levels of pollution. These special cases where markets fail to produce the right amount of certain goods and services mean that the government has a large and important role to play in adjusting some production patterns in the U. But economists and other analysts have also found special reasons why government policies and programs often fail, too. Even these basic functions require a wide range of government programs and employees. For example, the government maintains offices for recording deeds to property, courts to interpret contracts and resolve disputes over property rights, and police and other law enforcement agencies to prevent or punish theft and fraud. To perform these basic functions, the government must be able to shift resources from private to public uses. It does this mainly through taxes, but also with user fees for some services such as admission fees to national parks , and by borrowing money when it issues government bonds. Most economistsâ€”and most Americansâ€”widely accept that competitive markets perform these functions most efficiently. One role of government is to maintain competition in these markets so that they will continue to operate efficiently. In other areas, however, markets are not allowed to operate because other considerations have been deemed more important than economic efficiency. In these cases, the government has declared certain practices illegal. For example, in the United States people are not free to buy and sell votes in political elections. After the Civil War the Constitution was amended to make slavery illegal, resulting in a major change in the structure of U. In other cases, the government allows private markets to operate, but regulates them. For example, the government makes laws and regulations concerning product safety. Other regulations call for government inspection of food products, and still others require extensive government review and approval of potential prescription drugs. In still other situations, the government determines that private markets result in too much production and consumption of some goods, such as alcohol, tobacco, and products that contribute to environmental pollution. The government is also concerned when markets provide too little of other products, such as vaccinations that prevent contagious diseases. The government can use its spending and taxing authority to change the level of production and consumption of these products, for example, by subsidizing vaccinations. Even the staunchest supporters of private markets have recognized a role for the government to provide a safety net of support for U. This support includes providing income, housing, food, and medicine for those who cannot provide a basic standard of living for themselves or their families. Because the federal government has become such a large part of the U. This is done with an eye to the monetary policies carried out by the Federal Reserve System, which also have an effect on the national rates of inflation, unemployment, and economic growth. The Federal Reserve System itself is chartered by federal legislation, and the president of the United States appoints board members of the Federal Reserve, with the approval of the U. However, the private banks that belong to the system own the Federal Reserve, and its policy and operational decisions are made independently of Congress and the president. Correcting Market Failures The government attempts to adjust the production and consumption of particular goods and services where private markets fail to produce efficient levels of output for those products. The two major examples of these market failures are what economists call public goods and external benefits or costs. Correcting Market Failures - Providing Public Goods Private markets do not provide some essential goods and services, such as national defense. Public goods differ from private goods in two key respects. First, a public good can be used by one person without reducing the amount available for others to use. This is known as shared consumption. An example of a public good that has this characteristic is a spraying or fogging program to kill mosquitoes. The spraying reduces the number of mosquitoes for all of the people who live in an area, not just for one person or family. The opposite occurs in the consumption of private goods. When one person consumes a private good, other people cannot use the product. This is known as rival consumption. A good example of rival consumption is a hamburger. If someone else eats the sandwich, you cannot. The second key characteristic of public goods is called the nonexclusion principle: It is not possible to prevent people from using a public good, regardless of whether they have paid for it. With private goods, like a hamburger, when you pay for the hamburger, you get to eat it or decide who does. Someone who does not pay does not get the hamburger. Because many people can benefit from the same pubic goods and share in their consumption, and because those who do not pay for these goods still get to use them, it is usually impossible to produce these goods in private markets. Or at least it is impossible to produce enough in private markets to reach the efficient level of output. That happens because some people will try to consume the goods without paying for them, and get a free ride from those who do pay. As a result, the government must usually take over the decision about how much of these products to produce. In some cases, the government actually produces the good; in other cases it pays private firms to make these products. The classic example of a public good is national defense. It is not a rival consumption product, since protecting one person from an invading army or missile attack does not reduce the amount of protection provided to others in the country. The nonexclusion principle also applies to national defense. It is not possible to protect only the people who pay for national defense while letting bombs or bullets hit those who do not pay. Instead, the government imposes broad-based taxes to pay for national defense and other public goods. Correcting Market Failures - Adjusting for External Costs or Benefits There are some private markets in which goods and services are produced, but too much or too little is produced. Whether too much or too little is produced depends on whether the problem is one of external costs or external benefits. In either case, the government can try to correct these market failures, to get the right amount of the good or service produced. External costs occur when not all of the costs involved in the production or consumption of a product are paid by the producers and consumers of that product. Instead, some of the costs shift to others. One example is drunken driving. The consumption of too much alcohol can result in traffic accidents that hurt or kill people who are neither producers nor consumers of alcoholic products. Another example is pollution. If a factory dumps some of its wastes in a river, then people and businesses downstream will have to pay to clean up the water or they may become ill from using the water. As a result, too much of the product is produced considering the overall social costs. To correct this situation, the government may tax or fine the producers or consumers of such products to force them to cover these external costs. If that can be done correctly, less of the product will be produced and consumed. An external benefit occurs when people other than producers and consumers enjoy some of the benefits of the production and consumption of the product. One example of this situation is vaccinations against contagious diseases. The company that sells the vaccine and the individuals who receive the vaccine are better off, but so are other people who are less likely to be infected by those who have received the vaccine. Many people also argue that education provides external benefits to the nation as a whole, in the form of lower unemployment, poverty, and crime rates, and by providing more equality of opportunity to all families. When people other than the producers and consumers receive some of the benefits of producing or consuming a product, those external benefits are not reflected in the market price and production cost of the product. Because producers do not receive higher sales or profits based on these external benefits, their production and price levels will be too lowâ€”based only on those who buy and consume their product. To correct this, the government may subsidize producers or consumers of these products and thus encourage more production. Maintaining Competition Competitive markets are efficient ways to allocate goods and services while maintaining freedom of choice for consumers, workers, and entrepreneurs. If markets are not competitive, however, much of that freedom and efficiency can be lost. One threat to competition in the market is a firm with monopoly power. Monopoly power occurs when one producer, or a small group of producers, controls a large part of the production of some product. If there are no competitors in the market, a monopoly can artificially drive up the price for its products, which means that consumers will pay more for these products and buy less of them. One of the most famous cases of monopoly power in U. Rockefeller bought out most of his business rivals and by controlled 90 percent of the petroleum refineries in the United States. Largely in reaction to the business practices of Standard Oil and other trusts or monopolistic firms, the United States passed laws limiting monopolies. Since , when the Sherman Antitrust Act was passed, the federal government has attempted to prevent firms from acquiring monopoly power or from working together to set prices and limit competition in other ways. Some states have passed their own versions of some of these laws. The government does allow what economists call natural monopolies. However, the government then regulates those businesses to protect consumers from high prices and poor service, and often limits the profits these firms can earn. The classic examples of natural monopolies are local services provided by public utilities. Economies of scale make it inefficient to have even two companies distributing electricity, gas, water, or local telephone service to consumers. It would be very expensive to have even two sets of electric and telephone wires, and two sets of water, gas, and sewer pipes going to every house. That is why firms that provide these services are called natural monopolies. There have been some famous antitrust cases in which large companies were broken up into smaller firms. Other examples include a ruling in by the Supreme Court of the United States, which broke the Standard Oil Trust into a number of smaller oil companies and ordered a similar breakup of the American Tobacco Company. Some government policies intentionally reduce competition, at least for some period of time. For example, patents on new products and copyrights on books and movies give one producer the exclusive right to sell or license the distribution of a product for 17 or more years.

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