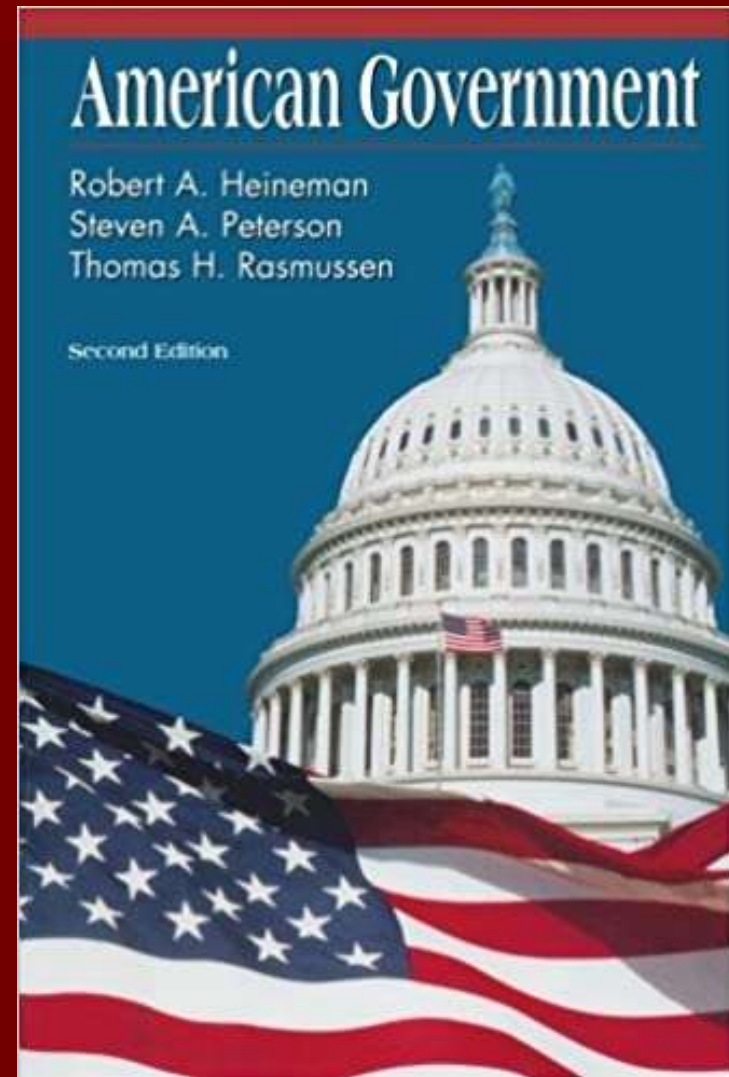


Economic Policy

**The Politics Of
Economic
Policy**

Economic Policy

“The fortunes of every American citizen are profoundly affected by governmental economic policy-making. Every time government makes a decision, some people win and others lose. The resulting conflicts are the very stuff of politics.” – Robert Heineman



Economic Policy

What is Heineman giving away here???

What are some of the examples of government involvement in the economy...

Economic Policy

1. Government manages the economy

(unemployment / inflation)



Economic Policy

2. Government Regulatory Decisions

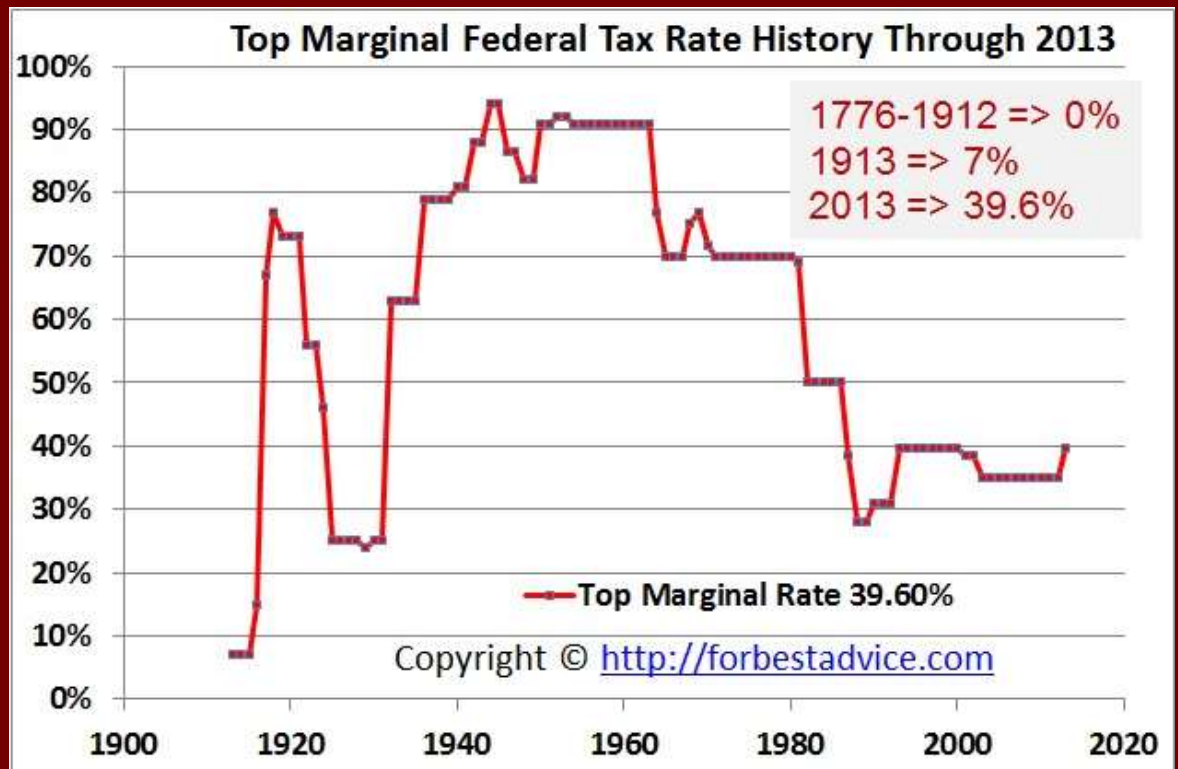
(environment and
workplace safety v.
industry and
corporations)



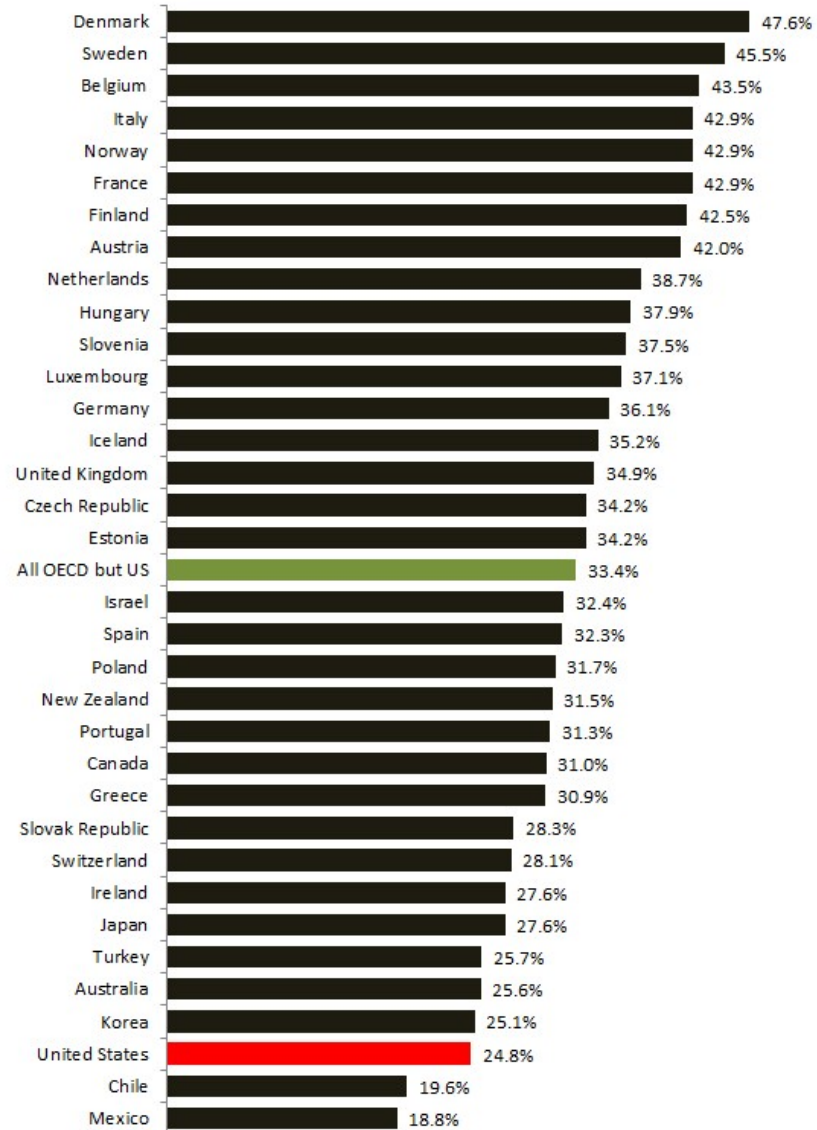
Economic Policy

3. The Sticky Question of Taxation

(who should pay what?)



Total Taxes Paid as % of GDP in 2010



Source: CTJ, OECD

Economic Policy

4. Government Spending Programs

(who should get “subsidies” aka “welfare”)



Economic Policy

5. Other Government Policies

...which might affect the distribution of income (budget cuts, legislation to protect jobs, etc...).



Economic Policy

**Managing
The Economy:
4 Perspectives**

Economic Policy

1. Laissez-Faire Policy

Government should keep its hands off the economy, allowing price changes to determine what the economy produces and where people work.



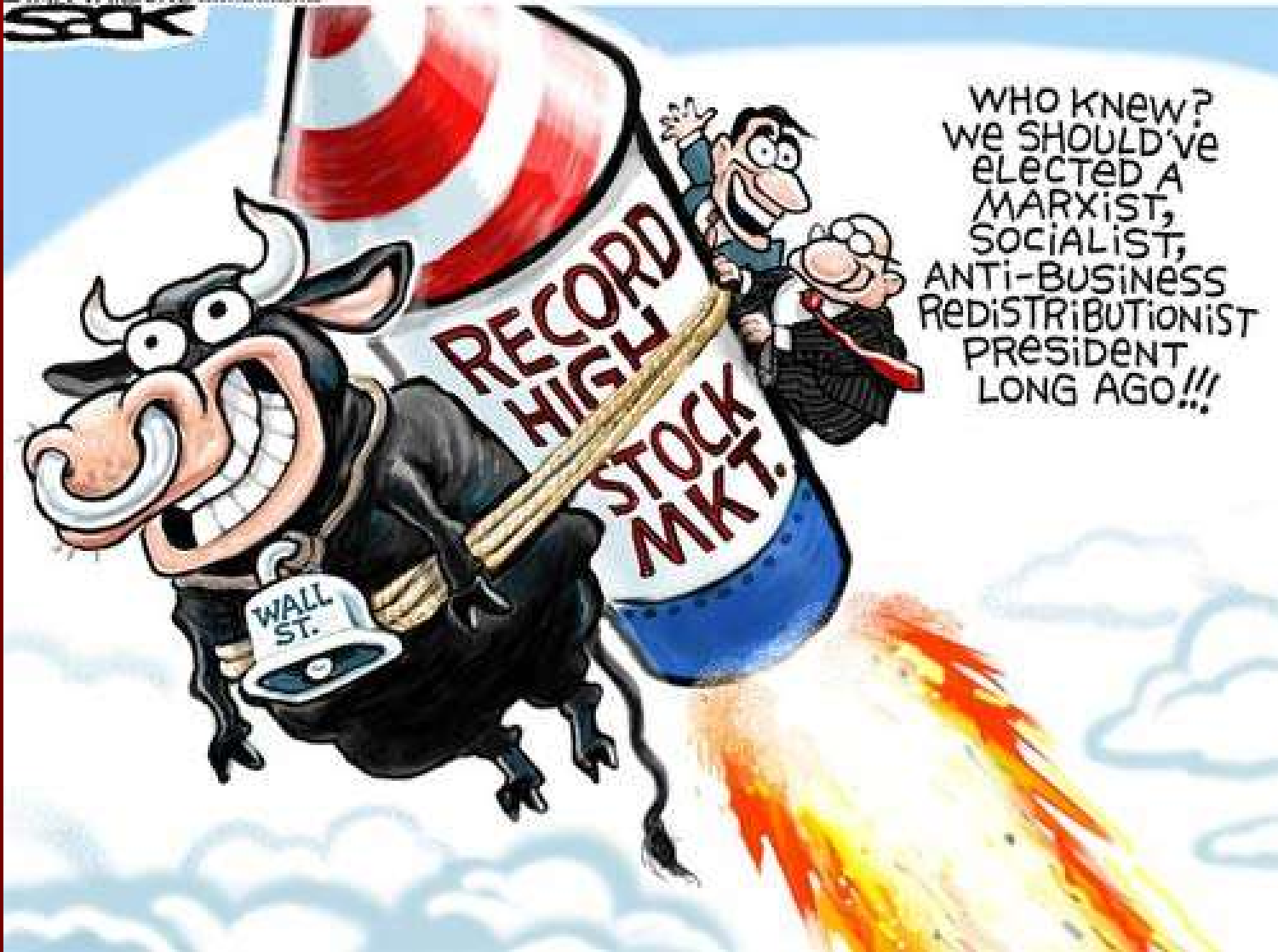
Economic Policy



2. Keynesian Fiscal Policy

Government should make taxing and spending decisions to promote full employment.

SBK



WHO KNEW?
WE SHOULD'VE
ELECTED A
MARXIST,
SOCIALIST,
ANTI-BUSINESS
REDISTRIBUTIONIST
PRESIDENT
LONG AGO!!!

Economic Policy

3. Monetary Policy

The Federal Reserve should increase or decrease the supply of money to promote stable prices.



Economic Policy

4. Supply-Side Policy

Government should lower tax rates to encourage more savings and investment in high productivity.



“And then we told them wealth would ‘trickle down.’”

Economic Policy

**Economic
Policy-Making
Institutions**

Economic Policy

1. Council of Economic Advisors (CEA)

Annual reports on the state of the economy and advice on economic policies.

(Trump's CEA Chairman Kevin Hassett quote: "Our human capital stock is ready to get back to work.")



Definition of "stock" from Merriam-Webster: "animals kept or raised for use or pleasure especially: farm animals kept for use and profit"

Economic Policy

2. Office of Management and Budget (OMB)

Designs budget for spending revenue.

(Trump's OMB "Acting Director"
Michael Rigas)



Economic Policy

3. Treasury Department

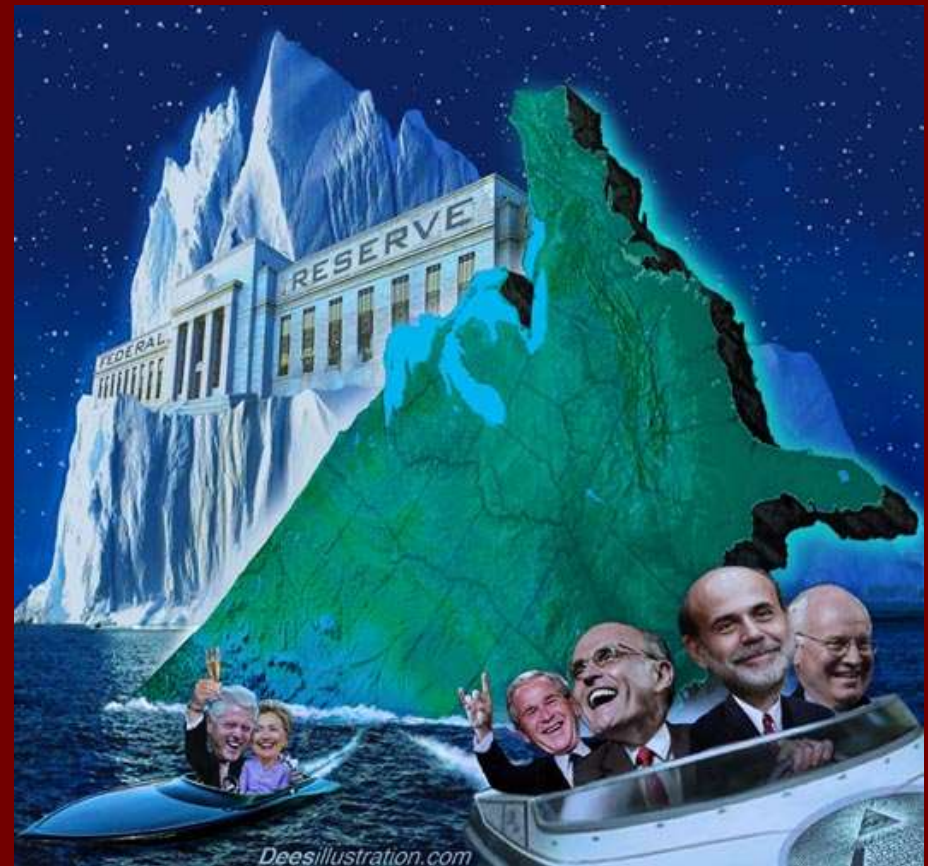
Advises president on
taxation and
monetary
policy.



Economic Policy

4. Federal Reserve Board (The Fed)

Controls money supply in 3 ways:



Economic Policy



- A. Establishes reserve requirements** (higher reserve means less money to loan).
- B. Sets discount rate** (interest rate banks must pay to borrow money from the Fed).
- C. Buys and sells government securities** (when selling, less \$ in economy, interest rates up – when buying, more \$ in economy, interests rates down).

Economic Policy

**Can Government
Manage the
Economy?**

Economic Policy

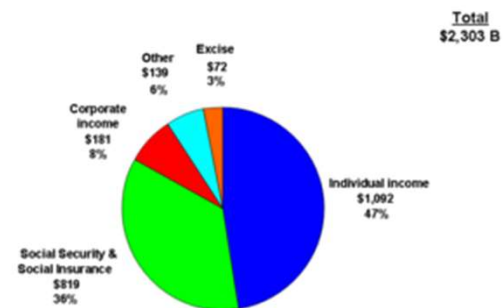
Yes!

1. Fiscal and monetary policy.

2. Sheer size of government spending.



U.S. Federal Tax Receipts – Fiscal Year 2011 (\$ Billions)

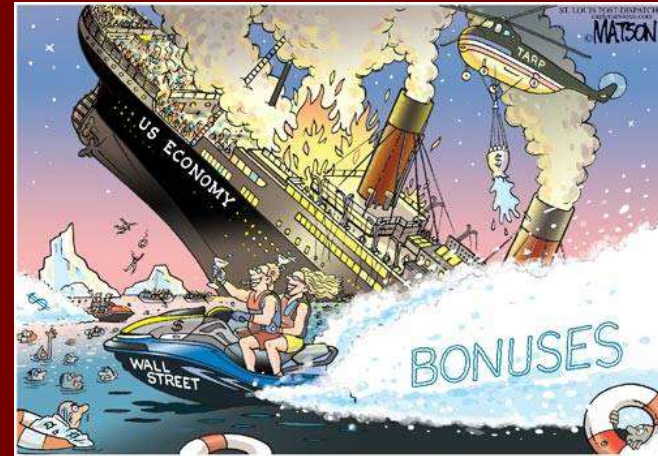


Source: Data: CBO Historical Tables

Economic Policy

No!

1. Institutional fragmentation.
2. Economically interdependent world.
3. Oil supply disruptions.
4. Political priorities.



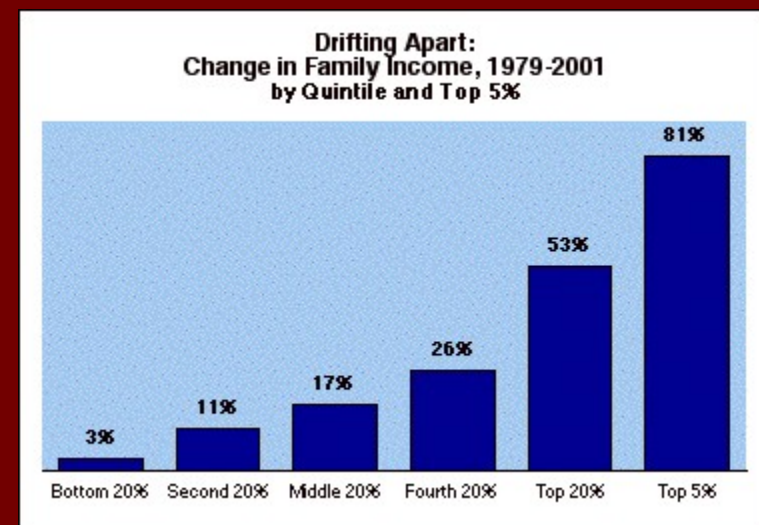
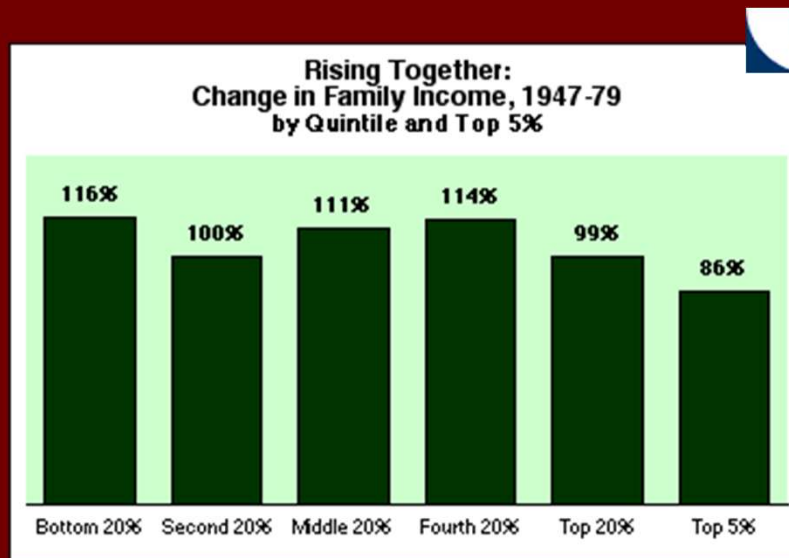
Economic Policy

**The
Budgetary
Process**

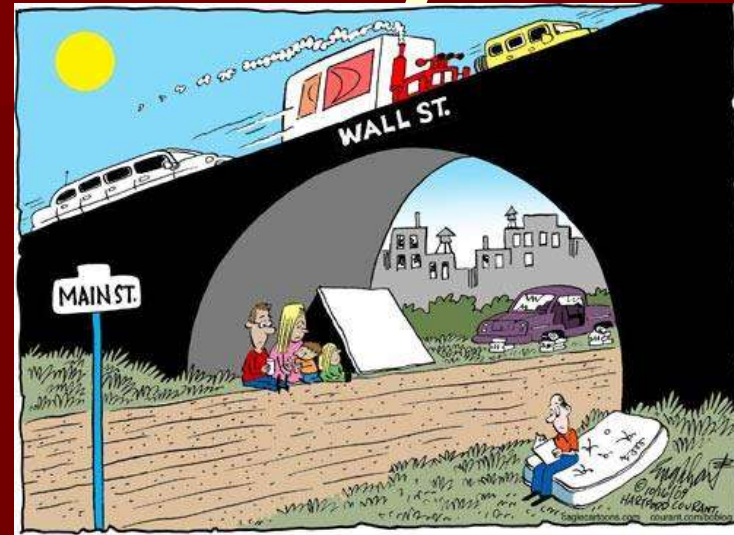
Economic Policy

Taxing, Spending and Income Distribution

To what extent do taxation and social spending serve to narrow the gap between the rich and poor?



Economic Policy



The Politics of the Budgetary Process

At what levels should the government tax and spend?

How should dollars be divided among various spending categories?

Economic Policy

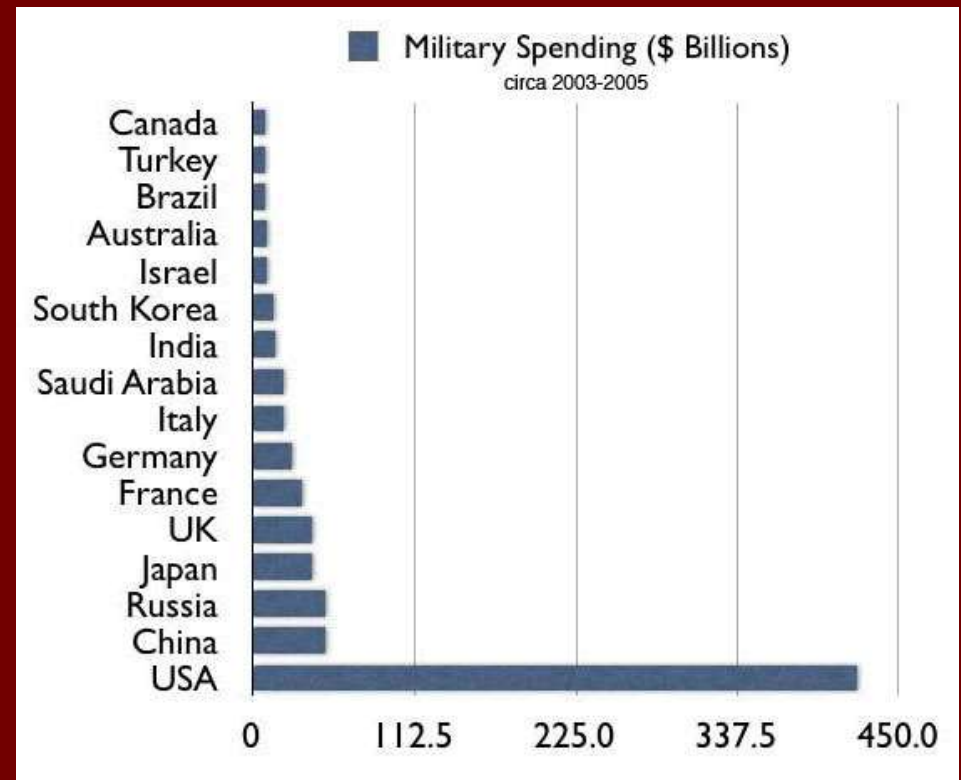
6

**Contentious
Issues**

Economic Policy

1. Military Spending

Too low, too high,
or just right?



Economic Policy

2. Entitlement Payments to Individuals

- a. Social Security
- b. Medicare
- c. Students
- d. Unemployed



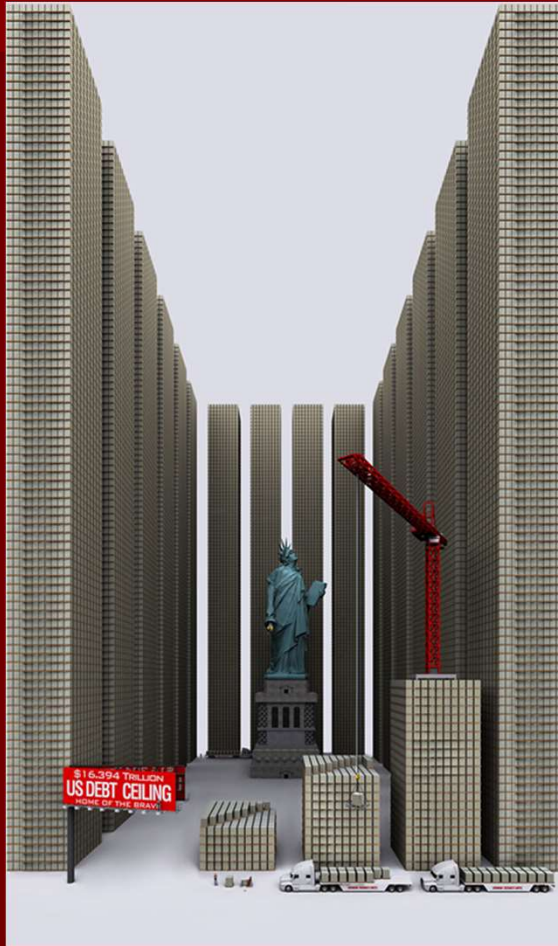
Economic Policy

3. Interest Payments on Government Debt

Will the economy grow faster than the debt?



Economic Policy



4. Deficit Reduction

a. Gramm-Rudman-Hollings Act: failed in its attempt to stop deficit spending

b. The 1993 Deficit Reduction Act: achieved deficit reduction by raising taxes and increasing military cuts.

Economic Policy

5. 2008 Bailout

**“Too big to fail”
and
contemporary
capitalism’s
“moral hazard”**



Economic Policy

6. How should we teach economics?

