

ACTIVITY 28.1

Broad Social Goals of an Economic System

Economic efficiency means allocating scarce productive resources to produce the goods and services that people want and using inputs in a manner that keeps production costs as low as possible.

Economic equity means what is “fair.” Economic actions and policies have to be evaluated in terms of what people think is right or wrong. Equity issues often arise in dealing with the distribution of income and wealth. To some, equity means providing equal opportunity; to others, equity means equality of outcomes.

Economic freedom means allowing consumers to decide how to spend or save their incomes, allowing workers to change jobs and join unions, and allowing individuals to establish new businesses and close old ones.

Economic growth means increasing the production of goods and service over time. Economic growth is measured by changes in the level of real gross domestic product (GDP). A target annual growth rate of 3 percent to 4 percent in real GDP is generally considered reasonable and sustainable.

Economic security means protecting consumers, producers, and resource owners from risks that exist in society. Each society must decide from which uncertainties individuals can and should be protected, and whether individuals, employers, or the government should provide or pay for this protection.

Economic stability means maintaining stable prices and full employment and keeping economic growth reasonably smooth and steady. Price stability means avoiding inflation or deflation. Full employment occurs when an economy’s scarce resources, especially labor, are fully utilized.

ACTIVITY 28.2

Diary of Student Intern A

Week 1: It was so exciting to start my internship with Congresswoman Aequus. Yesterday I attended a subcommittee policy meeting. The main topic of discussion was saving domestic jobs in the face of international competition, particularly now that we are experiencing the longest recession since the 1930s. She strongly supports a bill that requires at least six months' notice to employees of any downsizing decision. This makes sense to me, as my own family is hurting financially due to my mother's job loss. It is difficult to make educational plans for me when our family's resources are so uncertain.

Week 3: I am amazed by how much time is needed to prepare legislation for vote. Congresswoman Aequus' original draft was well received, but many changes were proposed by others on the subcommittee. One interesting idea is to require that any layoffs of hourly workers be matched by a proportionate layoff of salaried workers at the company. This would ensure that financial losses would be shared by all levels of employees, not just the lowest level. Another idea is to require that top management salaries be tied to the relative levels that existed in 1990. Back then, executives earned five times the income of an average hourly worker. Now, that figure is 50 times a typical worker's income! We'll soon see if either of these ideas becomes part of the bill.

Week 5: This week, the latest unemployment statistics came out, and the news continues to be grim. Unemployment rates are still high, with no relief in sight, according to respected economists. Given the latest data, the subcommittee is even more committed to keeping further job losses from happening. A controversy is developing this week following the announcement that the federal government is providing funds to a giant corporation to keep it out of bankruptcy. Aequus supports the "bailout," which may save the corporation and preserve jobs. Another proposal mentioned today affects government offices that are considering downsizing. The idea is to require an alternative to layoffs—by insisting that departments cut all workers' hours (or days) by a small fraction, instead of laying off workers. That way, the burden of a sluggish economy is borne by all, not just a select few. Congresswoman Aequus has also begun work on a bill to regulate the financial industry more closely, which she says will reduce the probability of future financial crises. She believes that even in a market economy, some regulations are necessary for the economy to work well.

Week 7: Is it possible that my internship is coming to an end? I learned so much about how legislation is created! Now I am motivated to continue my studies in economics and political science. Perhaps someday I will be elected to public office and help along an intern like me.

ACTIVITY 28.3

Diary of Student Intern B

Week 1: It was so exciting to start my summer internship with Congressman Libre. Yesterday, he allowed me to attend a subcommittee policy meeting. The main topic of discussion was saving domestic jobs in the face of international competition, particularly now that we are experiencing the aftermath of the longest recession since the 1930s. He strongly opposes a bill that will require at least six months' notice to employees of downsizing decisions. He argues that companies must be allowed to make business decisions in their best interests, including how many workers to employ. Otherwise, they become unprofitable and—in the long run—go out of business, resulting in all jobs being lost. He argues that domestic companies have difficulty competing internationally because they face significantly more regulation than their rivals. He proposes to cut many regulations, which he says burden businesses with unnecessary costs that make it difficult to compete in a global economy.

Week 3: I am amazed by how much time is needed to prepare legislation for consideration by the full House. Congressman Libre's proposal to deregulate was quite provocative in some circles and stimulated debate on both sides. A controversy is developing this week with the announcement that the federal government is providing funds to a giant corporation to keep it from going into bankruptcy. Congressman Libre is outraged by the "bailout." He argues that a freely operating market creates the most favorable conditions for maximizing the exchange of goods and services of the type and quantity most desired by consumers. It makes sense to me that subsidizing a company that made bad choices is an incentive for it to do more of the same! I also wonder if companies lose their drive to become bigger and better as a result.

Week 5: This week the latest unemployment statistics came out, and the news continues to be grim. Unemployment rates are still high, with no quick relief in sight, according to respected economists. Congressman Libre argued in subcommittee yesterday that small business is the engine of job creation, as most new jobs come from companies with fewer than 50 workers. He proposes tax cuts for entrepreneurs, and special incentives for small-business development. Although it may take many months to see the results, he is confident that it is the best path toward economy recovery and expansion. He is concerned about a new bill that would limit management salaries to an amount equal to five times that of the average worker in the company. He wonders why entrepreneurs would start businesses if they can't earn a good profit from their work.

Week 7: Is it possible that my internship is ending? I learned so much about how legislation is created. Now I am motivated to continue my studies in economics and political science. Perhaps someday I will be elected to public office and help along an intern like me.

ACTIVITY 28.4

Connecting Broad Social Goals and Public Policies

Public policies:

1. Requiring health insurance by all members of society.
2. Indoor smoking laws that prohibit smoking to improve air quality.
3. Tariffs imposed on imported clothing to protect domestic manufacturers of clothing.
4. Requiring motorcycle riders to wear helmets.
5. Taxing capital gains at a lower rate than wage income.
6. Shortening the length of time unemployment benefits may be collected.
7. Taxing sodas that contain excessive amounts of sugar.
8. Providing subsidies to farmers.

Working within your group, answer the following questions about one or more of the eight public policies above, as directed by your teacher.

1. Which broad social goals are most likely targeted by this public policy? Explain.
2. Explain how implementing this public policy could result in a trade-off that harms other broad social goals.