

VISUAL 4.1/ACTIVITY 4.1

SIX ECONOMIC FUNCTIONS OF GOVERNMENT

1. Maintain the Legal and Social Framework
2. Maintain Competition
3. Provide Public Goods and Services
4. Correct for Externalities
5. Stabilize the Economy
6. Redistribute Income

ACTIVITY 4.2

CLASSIFYING GOVERNMENT ACTIONS

Directions: Below is a list of the six economic functions of government, followed by a set of 12 (fictitious) newspaper headlines. Decide which of the six economic functions is referred to, directly or by implication, in each headline. Classify each headline according to the six functions by writing in the letter of the economic function that best fits that headline.

The Six Economic Functions:

- A. Maintain the Legal and Social Framework
- B. Maintain Competition
- C. Provide Public Goods and Services
- D. Correct for Externalities
- E. Stabilize the Economy
- F. Redistribute Income

The Headlines:

- ___ 1. Federal Reserve Raises Key Interest Rate
- ___ 2. Congress Raises Tax Rates for Top Income Brackets
- ___ 3. EPA Plan to Reduce CO₂ Emissions
- ___ 4. Homeland Security Funding Increased
- ___ 5. President Says More Spending Will Fight Recession
- ___ 6. Agency Blocks Merger of Two Airlines
- ___ 7. City Police Increase Neighborhood Patrols
- ___ 8. Lawsuit Establishes Patent Rights
- ___ 9. Legislature Passes Funding for Subsidized Housing
- ___ 10. New Info from Government Agency Helps Consumers Choose Wisely
- ___ 11. Songwriter Sues Singer; Says Song Stolen
- ___ 12. County Funds Free Flu Vaccinations

ACTIVITY 4.3

WHAT ROLE SHOULD THE GOVERNMENT PLAY IN THE ECONOMY?

Although it is generally agreed that there is a role for the government to play in redistributing income in favor of the poor, providing public goods and services, and dealing with externalities, there is considerable disagreement over how far the government should go in these areas—and about additional areas for which some people believe the government should be responsible. Some people believe that “big government” is already a problem—that government is doing too much. Others believe that the government sector of the economy is being starved and that government should be allowed to do more. In the United States, the former view is associated with what is commonly called “conservative” political thinking; the latter view is associated with “liberal” political thinking.

The Conservative View

Conservatives believe that the government’s role in the economy should be severely limited. They believe that economic and political freedom will be undermined by excessive reliance on government. Moreover, they question the government’s ability to solve social and economic problems. They believe that faith in the government’s power to solve these problems is unreasonable. They point to the slowness of government bureaucracy, the difficulty in controlling huge government organizations, the problems political considerations can breed, and the difficulties that arise when people try to learn whether government programs are successful or not. On the basis of these considerations, they argue that the government’s role should be carefully limited. They call for more and better information about what government can reasonably be expected to do (and do well).

The Liberal View

While conservatives often question the government’s ability to solve important social and economic problems, liberals often question the market’s ability to solve such problems. They point to important limitations within the market system, and they claim that the government can do a great deal to overcome these limitations. Government can regulate private economic activity—for example, through minimum-wage laws. It can also provide goods and services that private businesses produce in insufficient quantities—for example, health care for the poor. In their advocacy for government programs of this sort, liberals tend to be less concerned than conservatives about the effects on personal freedom that may be a consequence of governmental intervention in the economy. They are more concerned with certain consequences of market activity—contending, for example, that the price system is unfair because it awards goods and services to those who can pay the price. In their view, people who acquire little in the way of goods and services through market activity are forced into lives of hardship. Liberals are, therefore, more concerned than conservatives about the unequal distribution of income produced by market activity and are more likely to propose government policies aimed at redistributing income in a manner that will reduce income inequality.

ACTIVITY 4.3, CONTINUED

WHAT ROLE SHOULD THE GOVERNMENT PLAY IN THE ECONOMY?

Questions for Discussion

1. Suppose a U.S. Senator proposes legislation that increases taxes for higher- income taxpayers in order to make more funds available for public education. Is this Senator more likely to have a conservative view or a liberal view of the economic role of government?
2. A Congressional leader argues that there should be a constitutional amendment that limits the size of the federal government. Is this policymaker more likely to be liberal or conservative?