The Role of Government

In the U.S., the Economic activities of government include protecting property rights and contracts, providing public goods and services, redistributing income, promoting competition, and resolving market failures

Protecting Property Rights and Contracts

- A mixed/market economy is based on private ownership and voluntary exchange.
- For this system to work fairly, the legal rights of producers and consumers must be protected.
- The exchange of goods and services depends on ***contracts***, or legal agreements, between buyers and sellers.
- Governments make and enforce laws about the rights of both employers and workers, landlords, tenants, buyers and seller.

Protecting Property Rights and Contracts

- If a dispute arises about these rights, the judicial system acts as a referee to settle it.
- The government also protects the ideas, or intellectual property (something one invents, writes, etc. or their own) of individuals and businesses by issuing patents for new inventions and medicines, as well as copyrights for books, songs, and other creative work.

Providing Public Goods and Services

- When you buy a hamburger or haircut, you are purchasing **private goods** or services.
- You pay the entire cost for these goods, and you receive all the benefits.
- However, when you use a highway, a public park, or a library, you are benefiting from **public goods** and services.
- **Public goods and services** are those whose benefits and costs are shared by everyone in a society.
- The government pays for public goods and services by collecting taxes from citizens.

Providing Public Goods and Services

- Public schools are a service paid for by collecting state or local taxes.
- Educated citizens learn knowledge and skills that enable them to contribute more to the economy and to become better citizens.

Redistributing Income

- A mixed/market system is very efficient at producing private goods and services, but it cannot guarantee that everyone in society can afford these goods and services.
- Since the 1930s, when many people suffered during the Great Depression, the government has used some of the taxes it collects from wealthy citizens to make transfer payments to poor, disabled, and elderly citizens.

Redistributing Income

- ***Transfer Payments*** are those for which no service is required in return.
- For example, low-income families might receive welfare benefits in cash, food stamps, low-income housing, and Medicaid benefits to help them meet their basic needs.
- Some transfer payments are available only to those who have paid special taxes over the years.
- These include unemployment benefits, Social Security retirement benefits, and Medicare.

Redistributing Income

- All of these government programs evolved because Americans decided it was important to provide an economic “safety net” to protect people from the sometimes harsh consequences of a market economy.

Promoting Competition

- A mixed/market economy depends on free competition between producers to keep prices low and quality high.
- If one company were to buy up all the resources in a business such as steel production, it would have a ***monopoly*** in that area.
- One company would control the supply, and therefore the price, of steel.

Promoting Competition

- To prevent monopolies and promote competition, Congress has passed ***antitrust laws***. A trust is a group of companies that combine their resources in order to control production and prices.
- ***Trusts*** have been illegal in the U.S. since 1890.
- No private company or trust is allowed to gain a monopoly in the production of a good or service or try to “restrain trade” by keeping other companies out of the same business.

Promoting Competition

- For example, the government forced the breakup of the American Telephone and Telegraph Company (AT&T) in 1984 because it had a monopoly on the phone service.
- Today, many different companies compete to provide Americans with phone service.

Resolving Market Failures

- A **market failure** occurs when a private company benefits from production for which other people end up paying some of the costs.
- Example: A factory pollutes a river, people living nearby suffer the consequences or pay the costs of that pollution
- The market fails because the polluting company is not paying the full price for the resources it uses; it is passing on some of the costs to people who do not benefit.
- The government might force the company to reduce the amount of pollution or pay a fine.

Effects of Regulation and Deregulation

- **Regulation** – using laws to control what businesses can do.
- Government regulation is intended to increase the public benefit and decrease negative consequences of the market system.
- Examples of Regulation
  - Requiring automobiles produced in U. S. or sold to the U.S. to have seatbelts
  - Taxes on alcohol and tobacco to minimize negative health consequences to society
  - Laws protecting safety of our food, medicine, and workplaces

Effects of Regulation and Deregulation

- ***Deregulation***: When government stops regulating a particular industry.
- Regulation can have both positive and negative effects on producers and consumers
- For example, the government regulates public utilities such as electric companies to limit the prices they can charge
- However, when a company's profits are limited, it may try to reduce its costs by lowering the quality of its services –
  - When a car company must spend extra money in order to make its products safer, it will pass on these costs to consumers