Market Economy: Crash Course Government and Politics #46

Crash Course: U.S. Government and Politics
https://youtube.com/watch?v=6yLY06tTQ1A
https://nerdfighteria.info/v/6yLY06tTQ1A

Hello. I'm Craig and this is Crash Course Government and Politics and today we're going to turn to a topic that is near and dear to our wallets at Crash Course: economics. Now, I know that dedicated fans are saying: "Hold on Craigers, you have a whole series about economics. Tell me about government." To those fans, I say: "you're right…and don't call me Craigers." But this episode is going to be about the role that government plays in the economy, specifically, the way that government creates the market economic system that we know and love. [Theme Music] Before I get into the ways that government creates a market economy, let me be right up front and say that we're going to posit that without some government, it wouldn't be possible for a market economy to exist. [gasp] Whaaaaa? I realize that this is a bit controversial, with many people believing that markets are natural phenomena that follow laws like "supply and demand" that are analogous to real physical laws like, say, gravity. Which is also a movie starring George Clooney - he aged so well. This is an interesting construct and one that has important political ramifications, because if you believe in it, then basically there's nothing that the government can, or should, do to improve the economy. I'll leave it to commenters to argue this point, but I stand by my statement: we wouldn't have a market economy without government. So economically-minded political scientists, AND politically-minded economists, will tell you that there are a number of ways that government structures the economy in the U.S. I'm going to go over eight of them, although there might be more. So, in no particular order, here it goes. The government creates and maintains a market economy by:

- establishing law and order
- defining rules of property
- governing rules of exchange
- setting market standards
- providing public goods
- creating a labor force
- ameliorating externalities, and
- promoting competition

I think most of us can agree that a big part of the government's job is to establish law and order. This idea goes back at least as far as the Enlightenment and Thomas Hobbes, but since this is not Crash Course: Political Philosophy, I'm going to move on. Law and order helps to structure the economy by providing predictability. It is much harder to engage in trade or production for profit if you suspect that what you have to trade or sell may be taken away by bandits, like the Hamburglar. But -- only -- in that case only if it's burgers that you are actually trading. But it's not just that the government, if it's doing its job, can protect us from being robbed in the literal sense of the Hamburglar stealing our delicious, delicious burgers. The government creates a legal system that can punish people who commit fraud, and knowing that they can be punished prevents people from committing fraud. Or at least I hope it does. Most of the time it does. Don't do fraud kids. The second way that the government structures the economy is by defining rules of property. Now there are many people who will tell you that property is an inalienable right, sort of like something given by God. I'm looking at you John Locke. And John Locke would respond, "don't tell me what I can't do" but I would suggest that without government what you think of as your property might not be as "yours" as you think or want it to be. But isn't this sweet polka dot button-up I'm wearing mine? Well, it is because I paid for it and we have laws that say that payment for a good confers a title to it – we see this especially with land, or as it's known to the law as "real property" or perhaps "real estate." We don't actually receive written titles when we buy most things, but according to the law, if I can establish ownership by proving I paid for this shirt or somebody left it to me in their will or something then it's mine. And if someone takes it from me, I can bring the law down on them - the courts, the legal system, or maybe the sheriff will help me get it back. A really concrete example of the way the laws create and protect property rights are trespass laws, which allow you to tell those noisy kids to get off your lawn. Without trespass, who's to say it's not their lawn? Basically ownership of anything is a bundle of rights establishing what you can do with that thing, whether it's your car, or your house, or your eagle. And without legally established ownership rules, we can't buy or sell or punch anything. And speaking of buying and selling, another way that the government structures the economy is through setting and governing rules of exchange. Let's go to the Thought Bubble. In most states there are complex rules that explain how and when, or even if you can sell something. For example some localities, (like Indiana) have so called "blue laws" that prevent you from buying or selling alcohol on certain days. Some counties in some states are completely dry, meaning that you can't buy or sell alcohol at all, and for a brief (terrible) period in the US – prohibition – the Eighteenth amendment to the Constitution prohibited the "manufacture, sale, or transportation of intoxicating liquors" Manufacture, sale, and transportation, sound like the three main ingredients in an economy to me. Some exchanges are still flat-out forbidden by laws in the U.S.. Many drugs are called controlled substances for a reason, and that reason is that they are subject to government control. Some drugs are prohibited outright and if you make or sell or buy them you can be punished by the government. There are also laws preventing you from selling yourself into slavery, or from selling your body through prostitution, or selling parts of your body like your kidneys. Some economists may question the wisdom of these rules, but they exist and by making and enforcing them the government can exert powerful control over what can and cannot be exchanged. Thanks, Thought Bubble. Probably less controversial than the rules governing exchange is the government's role in setting market standards. This is something governments have been doing for a very long time, and you've probably learned about it in history class as the government's setting up weights and measures. This may not seem like such a big deal until you consider that if you are paying someone for a pound of chick peas, you need to know what a pound is...if you're going to get the right amount for that sweet hummus. This goes for measures too. If I am buying an acre of land, I want to make sure that I'm getting 4046.86 square meters of land, or 43,560 square feet. And if I buy an acre in Scotland, I'm going to get even more since a Scottish acre is the equivalent of 1.27 U.S. acres. Plus no one will look at me funny when I'm eating my haggis. Basically this means is that the government insures that buyers and sellers are operating on the same playing field. This used to be even more important when currency contained precious metals, but I don't want to get into a big argument about pennies and nickels -- that's John Green's thing, and we've all established that I'm not John Green. This brings us to public goods. Public goods are things and services that the government provides that can be enjoyed by everyone and, once provided, cannot be denied to a particular subset of the population. One example is public transportation: in many places the government provides bus or subway services to residents, not for free, but at highly subsidized costs, although if you've ridden the New York Subway recently it doesn't always seem like the subsidies are big enough. In many cases the government steps in to provide public goods when markets wouldn't. It's not likely that private companies would provide an air-traffic control system, and even if they did, it would have to be highly regulated by the government anyway because you don't want different cities and states enacting different rules about air-travel. That would be a literal disaster. Also, if it were up to unregulated markets, there wouldn't be any flights to places with small populations because they wouldn't be profitable. A really good example of the government providing a public good where the market wouldn't step in is the rural electrification projects of the New Deal, the most famous of which sprang from the Tennessee Valley Authority. It wouldn't have been profitable for power companies to provide electricity to rural towns and farms, so the government stepped in and provided it. And since without electricity it's pretty hard to watch Crash Course, I'm glad they did. We'd

have to do, like, a Crash Course Live Play. And I'm not good at live theater. You might have heard that the government is not a “job creator” and in some ways that’s true, except for government jobs like firefighters and public school teachers and, if we’re talking the federal government, soldiers and sailors. But there are other ways that government efforts help to create a labor force. The main way this happens is through compulsory education laws. States require that kids go to school up to a certain age and this is to ensure, or at least try to ensure, that when they become adults they will have a level of competence that will enable them to be productive workers. Of course, employers could provide the necessary training at their own expense, but why would they do it if the government provides it for them? Government also helps create the workforce by providing student loans, which help people pay for college. And that's why college is so easy to pay for now. Right? Wink. There are government-run training programs and, I suppose, the potential for the government to employ more people, like it did during the Great Depression with programs like the Works Progress Administration and the Civilian Conservation Corps. Now if you’ll allow me to put on my economist’s hat – Stan, do we have budget for an economist’s hat? No. Apparently economists wear very expensive hats. I will try to explain what the government does to ameliorate negative externalities. I love my externalities ameliorated. Especially the negative ones. An externality is an external effect that is a byproduct of a market transaction. They can be positive or negative and can also be seen as the difference between the private cost and the social cost of economic behavior. Here’s an example. Driving is an economic behavior. Back in the 1970s gasoline included lead, which made engines run better but also polluted the air with lead, which, as we now know is very bad. Very, very bad. Buying leaded gasoline and running your car on it was a private economic transaction but air pollution was a very public cost that neither the seller of the gasoline nor the purchaser had to pay. And air pollution was very costly in terms of public health. So the government ameliorated this by outlawing lead in gasoline and creating regulations that limited air pollution generally. What this did was force companies and, by extension, purchasers to pay for these negative external costs. Regulation is one way to deal with negative externalities. Another is through taxes, which we’ll deal with it in another episode. The last way that the government creates our market economy, at least the last way I’m going to talk about, is by promoting competition. According to our old friend Adam Smith, the essence of a functioning market system is competition, and in a perfect world competition would ensure that people got the best products at the best prices. But history has shown that corporations and individuals have often tried to stifle competition and create monopolies. If there’s only one firm selling a product, that firm can charge whatever it wants, and this monopoly condition doesn’t usually benefit consumers. At least not as much as it benefits monopolists. So government can and has stepped in to create laws to regulate monopolies. The best known of these are the anti-trust laws, which are sometimes used against big corporations, like Standard Oil or more recently, Microsoft. And the government can also grant anti-trust exemptions that allow monopolies, as it did for Major League Baseball. Either way, the government, under the Commerce Clause in the Constitution can pass laws that promote or inhibit competition, although usually it tries to make the marketplace more, rather than less, competitive. So that's why I say the government has a big role to play in making a free market economy. You may not be convinced that without government a free market system wouldn’t be possible, and that’s ok. You can think what you want. It's a free market. Thanks for watching. See you next time. Crash Course Government and Politics is produced in association with PBS Digital Studios. Support for Crash Course: U.S. Government comes from Voqal. Voqal supports nonprofits that use technology and media to advance social equity. Learn more about their mission and initiatives at Voqal.org. Crash Course was made with the help of all these free marketeers. Thanks for watching.