Government Regulation: Crash Course Government and Politics #47

Crash Course: U.S. Government and Politics
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Hello, I'm Craig and this is Crash Course Government and Politics, and today I'm going to talk a bit more about economic policy. Ran into the table there a little bit. Whoo! Economic policy can be dangerous.

Specifically, we're going to look at some of the broad goals of economic policy and some of the things that the government does to try to accomplish those goals.

And we may even provide some examples of times when the government *did* accomplish them, so take that, skeptics. But, I have to admit, a lot of the time the goals are just goals.

[Theme Music]

So all people have goals and aspirations (except me), and the government, since it's made up of people is no different. Well I do have one goal: to punch the eagle again. And I did it. Accomplished.

Well, actually the government's different because its economic goals are much bigger and more important than, say my goal of punching the eagle again. Although I would argue my goal is pretty important. So what are these goals of economic policy?

The first goal is promoting stable markets. We talked about how the government structures the market system in the last episode, so I probably don't need to repeat it. At least I hope I don't. You should've been paying attention.

But since nobody wants a malfunctioning market, most of the things the government does to create a market system also work to make the system stable and predictable.

Maintaining law and order and minimizing monopolies are examples of government actions that make the market system stable. I didn't know the government maintained *Law and Order* – oh not the tv show, okay.

One of the more interesting ways – ok interesting to me – that the government keeps markets predictable is through national regulations of things like automobile fuel efficiency standards.

If there were no national regulations, and states were allowed to set the rules, then it might be possible for car makers in Detroit to build cars that live up to the mileage standards in Michigan, but not in California, and that would be anarchy.

Well, maybe not anarchy exactly, but it wouldn't be good, and it'd make it much more difficult for manufacturers to know what kind of cars to make. Also, do you really want California, the state with the biggest population, making rules for the rest of us? Of course you don't.

The second major goal of economic policy is promoting economic prosperity. Here's another example of a situation where many people will tell you that the best way for the government to promote prosperity is to get out of the way, and they may have a point, but the government doesn't stop trying.

So what does the government do to promote prosperity? For one thing, it tries to keep a positive investment climate and build confidence in the economy.

One way the federal government can accomplish this is through regulating financial markets through the Securities and Exchange Commission, since people won't want to invest in the securities markets if they think the game's fixed.

Another thing the government can do, if it's feeling particularly Keynesian, is to spend money on public investment in things like highways and the internet. While not actually built by Al Gore, it did begin with a government program out of the Defense Department.

The government also pays for research through the National Institutes of Health and the National Science Foundation, and enhances the workforce through education policy and immigration policy, all of which contribute to national prosperity.

Another, and by no means the last, way that the government can try to make the country more prosperous is by keeping inflation low. You can find out more about inflation from Crash Course: Economics, but the main tool the government uses to control inflation is the Federal Reserve, which is so complicated that it gets its own episode.

A third goal of government economic policy, one closely related to the first two, is promoting business development.

Many people would probably argue that promoting business development and promoting prosperity are the same thing, but policies aimed at helping businesses are slightly different and more focused than those targeting the broader goal of promoting prosperity.

The main ways that the federal government promotes business development are through tariffs and subsidies. Since the Great Depression, the U.S. has pretty much pursued a policy of free trade, which means lowering tariffs on most things, which by forcing them to compete, can hurt businesses, at least in the short run.

In the past, however, high tariffs allowed American businesses to develop free from foreign competition and this helped to make the U.S. the most powerful industrial nation in the world! Can we use that Libertage from US History? I think Yes!

[Libertage]

Subsidies are very controversial and they come in two forms. Grants in aid for things like transportation – building those superhighways again – provide an indirect subsidy to businesses who don't have to pay for the roads they use to ship the goods they make.

Most people don't complain about this type of subsidy, because they can also be looked at as a public good.

Direct subsidies are another issue. These include direct assistance to businesses through the Small Business Administration and government investment in firms like Sematech and, more recently and more controversially, Solyndra.

Many people don't think that the government should be in the business of investing in business and that these subsidies provide the businesses that receive them with an unfair advantage.

Farm subsidies are probably just as controversial. They were put in place to help farmers during the Great Depression, but these days, critics worry that most of the subsidies go to corporate farms.

The fourth goal of government economic policy is to protect consumers and employees. A lot of people will tell you that the federal government doesn't do much to protect employees these days, and those people are probably right, but in the past it certainly did.

The government made unionization easier with the National Labor Relations Act and set labor standards, especially overtime rules

with the Fair Labor Standards Act. Both of these were passed in the 1930s, by the way.

Probably the most notable thing that the government does to protect workers these days is set the federal minimum wage, but since that topic is being hotly debated as this episode is being produced in 2015, I can't really comment on how it's going to turn out.

On the other hand the Occupational Safety and Health Administration does set up regulations to prevent workers from breathing in hazardous fumes and protect them from other potentially life threatening workplace conditions, and that's a good thing.

As far as consumers are concerned, there are thousands of regulations that protect us to make sure that the things we buy don't kill or maim us. The Food and Drug Administration makes sure that our medicines aren't poison, and the Department of Agriculture inspects meat, which I think is really good a idea, actually.

The National Traffic and Motor Vehicle Safety Act of 1966 made cars safer, and the Consumer Products Safety Commission helps keep lead paint out of our toys and saves us from exploding toasters. I like explosions as much as the next guy, but not with breakfast.

All of these goals of economic policy, promoting stable markets, promoting economic prosperity, fostering business development and protecting employees and consumers are interrelated and important.

I'll leave it up to you to decide if one of these is more important than the other three, because that makes for excellent dinner conversation. If your dinner parties are mostly about the role the government plays in our economy. Please invite me to those dinner parties. I'm hungry, for roast beef and political debate.

So, to shift gears a little, let's talk history, and how the government's role in regulating the economy has changed in the last 240 years or so.

So you probably remember from back when we talked about the transition from congressional to presidential government that began with Teddy Roosevelt and really came into its own with Franklin Roosevelt, that before the 20th century the federal government didn't really do that much.

A lot of that has to do with fiscal policy and taxation, which we're going to discuss in another episode, and maybe that dinner you're going to invite me to, but some of it was certainly because of the way that the Supreme Court had interpreted the Commerce Clause to mean that government regulation was suspect, and by suspect, I mean generally not allowed.

But by the end of the 19th century the Federal government's regulatory power had begun to change, and a lot of that has to do with one of my favorite subjects - no not Star Wars.

And no not the protection of endangered species.
(punches eagle)

I'm talking about railroads (Yeah!). Let's go to the Thought Bubble.

So, with the completion of the transcontinental railroad in 1869, travel and communication across the U.S. became much easier and it was possible for the first time to have a national market for goods. If you raised cattle in Kansas, you could now easily ship beef to New York or San Francisco.

Railroads were, almost by definition, interstate entities, so it was pretty clear that Congress could regulate them. And they needed regulation because railroads had a nasty habit of discriminatory pricing, charging much, much more for some shippers than others. Something had to be done and Congress stepped in with the Interstate Commerce Act in 1887, which created the Interstate Commerce Commission to regulate railroads.

The period of time around the turn of the 20th century in the U.S. is known as the Gilded Age and is associated with runaway capitalism and the creation of modern corporate structures and industrial capitalists like Andrew Carnegie – or Carnegie, if you will – and John D. Rockefeller who are heroes to some and villains to others. In response to some of the abuses of the Gilded Age, Congress passed its first wave of regulatory legislation.

In addition to the ICC, Congress created the Federal Trade Commission to regulate trade and the Sherman and Clayton Acts to try to counter the problem of monopolies. These anti-trust laws are the basis of modern anti-trust regulation and have been used against Standard Oil and Microsoft.

This first wave of economic regulation didn't have huge effects on the economy, certainly not greater than the effects of, say World War I. In the 1920s the federal government returned to a more traditional laissez faire approach, which lasted until the Great Depression swept Herbert Hoover and the Republicans out of office and Franklin Roosevelt into it. And with Franklin Roosevelt came the New Deal and the advent of what law schools sometimes like to call the administrative and regulatory state.

Thanks, Thought Bubble. We're not going to get into details about the various laws and regulations of the New Deal here, but luckily I think John talked about them in Crash Course U.S. History. John, he talks about stuff.

But in general, those regulations meant that the federal government would take an active role in regulating certain sectors of the economy, like agriculture and transportation. Sometimes technology played a part. There really wasn't a need for a Federal Aviation Administration until there were airplanes.

The next big wave of government regulation happened in the early 1970s under, of all people, President Nixon.

These new regulatory laws were different from their New Deal predecessors, in that they focused on the economy as a whole. For example the Occupational Safety and Health Administration dealt with *all* occupations, or at least most of them, and the EPA was created to protect the whole country's environment.

Beginning in the 1980s with Ronald Reagan, or actually before him under Carter, the federal government has undertaken various initiatives to de-regulate the economy, but we already talked about deregulation in our episode on taming the bureaucracy so we don't need to re-hash that here.

The point to remember is that, despite attempts at deregulation, the administrative regulatory state appears to be here to stay.

So why do we have an administrative regulatory state now, even though so many people complain about it? Part of the reason has to do with the remarkable staying power of bureaucracies, which are harder to kill than Wolverine.

Nowadays the federal government not only has economic goals, goals like increasing prosperity that most of us agree upon, it also

has a sense, maybe even a belief, that it should try to achieve those goals.

This is a long way from the view of the federal government that persisted through the 19th century, one which many people say was handed down by the framers. But times change, and the world and the U.S. has gotten much more complex.

Economic concerns take up an increasingly large part of our lives and many of them, especially big macroeconomic policies require big solutions. And for many Americans, but certainly not all of them, the best solution we have is government. Thanks for watching. See you next time.

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