UNIT SEVEN

ECONOMIC POLICY

LABOR POLICY

ITEM	DESCRIPTION
Wagner Act **(AKA: National Labor Relations Act) (1935)**	Created the National Labor Relations Board
National Labor Relations Board	A federal executive branch commission: ● regulates labor organization ● hears complaints of unfair labor practices ● ensures workers' rights to collectively bargain with management.
Fair Labor Standards Act **(1938)**	● established minimum wage ● set 40 hour work week ● required overtime pay
Taft-Hartley Act **(1947)**	Favored by the business community: ● Enabled states to outlaw the closed shop (a company policy or labor contract that requires all employees to join the local union) ● State could now pass "right to work" laws ● Allowed the federal government to block any labor strike in an industry that might put into jeopardy the "national health or safety"
Occupational Safety and Health Act **(1970)**	Created the Occupational Safety and Health Administration
Occupational Safety and Health Administration **(OSHA)**	A federal regulatory agency: ● Inspect factories & workplaces for occupational hazards ● They can give fines to companies and even close them down until problems are fixed.

We have a **mixed economy** in the United States. We have **free enterprise system** in which people can own the **factors of production** (land, labor, capital) instead of the government. But we also have government regulation in order to ensure the production of safe products and safe working conditions.
-Labor regulation came into effect due to conditions under rapid industrialization.

EXECUTIVE INFLUENCE ON ECONOMIC POLICY

PRESIDENTIAL ECONOMIC ADVISORS	DESCRIPTION
Council of Economic Advisors	Three person panel in the White House Executive Office that forecasts economic trends and makes predictions on the economy.
Director of the Office of Management and Budget (OMB)	Is the President's chief accountant charged with determining how much the federal government should spend year to year.
Secretary of the Treasury	The treasury department carries out tax laws, enforcing economic sanctions, advises the president, and maintains the country's financial infrastructure.
--Obviously we have already talked about how Congress is influenced by Interest Groups. Americans public blame politicians for a bad economy (regardless of the fact that there are many economic influences that our government does not truly control) at election time. (The President is held most accountable) --The American people do belief that presidential philosophy and the collective attitude of Congress can influence the value of the dollar, trade relationships with foreign nations, taxes paid into the federal purse, and the federal budget. --People want lower taxes, no national debt, and enhance government services (all three together is impossible)	

ECONOMIC IDEOLOGY

THEORY	DESCRIPTION
KEYNESIAN ECONOMICS	● This theory believes the government should get involved to ensure the right about of demand. (This is referring to how much money is in the economy) ● When demand is too low, the government should put more money into the economy by reducing taxes and/or increasing government spending (even if we need to borrow the money) ● If demand is too high, the government should take money out of the economy by taking more and/spending less. ● **Multiplier Effect:** Best explained with an example: a $10 billion increase in government spending could cause the total output to rise by 15 billion (a multiplier of 1.5) because when the government spends money to begin a construction project they hire builders who also hire bricklayers, electricians, and plumbers who purchase supplies for their jobs who take portions of their earnings to pay for food, shelter, transportation and clothing.
SUPPLY--SIDE THEORY	● This theory represents a fiscal conservative (also known as supply side theorists, or supply--siders) ● This approach believes that less taxes will cause people to have more money to spend (which they will spend) and this spending will increase purchasing, jobs, and manufacturing. The states will collect more money in sales taxes. ● If people do not spend more they will then invest their savings to make more money thus boosting the economy.
Other books include theories: --**Monetarism**: The belief that inflation occurs when too much money is chasing too few of goods. They want a predictable increase in the money supply at a rate about equal to the growth in the economy's productivity. --**Economic Planning**: The belief that the government plans, such as wage and price controls or the direction of investment can improve the economy.	

ECONOMIC POLICY

MONETARY POLICY VERSUS FISCAL POLICY

POLICY	DESCRIPTION
MONETARY	● How the government manages the supply and demand of its currency and thus the value of the dollar. ● This is done by the Federal Reserve Board (The Fed).
FISCAL	● How the government decides to tax and spend of money. ● This is done by primarily by Congress (President signs)

THE FEDERAL RESERVE BOARD, AKA: THE FED (MONETARY POLICY)

POWER OF THE FED	DESCRIPTIONS
BOND RATES	This is when American citizens and foreign governments purchase government bonds & treasury notes (securities) with promise the U.S. government will pay them back with a certain amount of interest. ● **The Fed decides what rate those bonds pay out.**
DISCOUNT RATE	The interest rate which the government loans actual dollars to commercial banks. ● **The Fed sets that interest rate**
RESERVE REQUIREMENTS	Commercial banks must have a certain amount of cash in their vaults. This affects how much money that bank can loan out (put into economy). ● **The Fed decides how much money banks keep on hand**
--Federal Reserve System created by Congress in 1913, is made up 3 components: Federal Reserve Board (most powerful), Federal Open Market Committee, and 12 Regional Federal Reserve Banks. --The Federal Reserve Board is an independent agency (Presidents can appoint (with consent) and remove with cause (although no one ever has). The elections of board governors (members) is staggered as to not become a presidential election issue.	

CONGRESS (FISCAL POLICY)

FISCAL POLICY	DESCRIPTION
REVENUE	Taxes (primarily income) and borrowing
SPENDING	Congress (with President) creates policy which costs money

ECONOMIC POLICY

TAX PHILOSOPHY (FISCAL POLICY)

TYPE OF TAX	DESCRIPTION	EXAMPLE
PROGRESSIVE TAX	The more you make the more you pay.	Income Tax
FLAT TAX	Everyone pays the same rate.	Sales Tax

--Some people think progressive tax is fair because the rich can afford to pay more money than the poor.
--Some people think progressive tax is unfair because they worked harder to make more money so they should not be penalized and also people could invest more money into the economy if they were taxed less.
--Some AP Tests include questions in which they expect you to know that **Regressive Tax** affects a poorer person's pocketbook more than a richer person even though they are paying a **flat rate** (or the same percent). Example: Person A and Person B are both paying an excise tax on cigarettes. If Person A makes 100 dollars a year and spends 1 dollar on cigarette tax that is 1% of their income. But if Person B makes 10 dollars a year and spends 1 dollar on cigarette tax that is 10% of their income.

TAX POLICIES (FISCAL POLICY)

TAX ORIGIN	TYPE OF TAX	DESCRIPTION
NATIONAL (Federal)	Income Tax	Tax on money earned from working.
	Estate Tax	Also known as death tax. When people inherit money from a relative it can be taxed.
	Corporate Tax	Companies pay money for obtaining profits. (varies between 15--35%)
	Excise Tax	Pay money to purchase certain items like alcohol, tobacco, gasoline, and airline fees.
STATE	Sales Tax	Pay money to purchase something.
	Property Tax	Pay money to have your property (even if you own your house) (This is how a State raises largest amount of revenue)
	Business License	Pay money to operate a business.
	Driver's License	Pay money to take test and have permission to drive.
	Marriage License	Pay money to legally wed to another.
	Hunting & Fishing Permits	Pay for the right to hunt or fish for a period of time.

--The United States did not have the right collect income tax until the **16th Amendment** in 1913. This amendment also allows the government to tax incomes from successful investments, gambling winnings, earned interest, and stock dividends.
--The average U.S. citizen pays about 25.4% of income in various taxes (combining Federal and State)

THE FEDERAL BUDGET (FISCAL POLICY)

BRANCH OF GOVERNMENT	SPECIFIC AREA	DESCRIPTION
EXECUTIVE BRANCH	Federal Agencies	Submit spending desire to department secretaries.
	Department Secretaries	Department heads may tweak requests and send them to OMB.
	Office of Management and Budget (OMB)	Headed by a director (Presidents accountant) considers that needs and wants of all the federal departments and agencies.
	• The Budget Director (in consultation with the President) • Council of Economic Advisors • Treasury Secretary.	They finalize and submit the President's budget proposal to Congress.
LEGISLATIVE BRANCH	Congress	Sets overall levels or revenues and expenditures, the size of the budget surplus or deficit, and spending priorities.
	Congressional Budget Office (CBO)	Nonpartisan accountants which examines and analyzes the budget proposal.
	Government Accountability Office (GAO)	Independent and nonpartisan acts as watchdog of congressional funds and keeps track of where and how money is spent (headed by U.S. Comptroller General)
	Congressional Committees	They examine the President's budget. They take up & pass **appropriation bills** (spending bills).
	Congress	Passes the overall budget bill then goes to the President for a signature.

--In summary the President submits a budget to Congress who controls the purse strings.
--Budgets have been done in this matter since the **Congressional Budget and Impoundment Control Act (1974)**. This law also makes it illegal for a President to impound funds (not spend them).
--The fiscal year is October 1 through September 30.

DEBT AND DEFICITS (FISCAL POLICY)

TERM	DESCRIPTION
DEBT (NATIONAL DEBT) (PUBLIC DEBT)	The grand total that the United States owes at any one time.
DEFICIT	When the United States spends more than it takes in as revenue.
SURPLUS	When the United States spends less than it takes in as revenue.

--The United States owes money in the forms of bonds and securities (treasury notes) to American citizens and foreign governments.
--The United States is seen as a good investment because it has a strong economy and it pays it debts. It is sort of like the United States has a huge credit card bill but it always makes some payments (when someone pays the minimum payment every month VISA is happy).
--The United States has been in debt since 1836. It owed over 18 trillion in 2015.
--in 2006 the United States paid 226 billion for interest on the debt (this was the 3rd largest area of spending).
--The last budget surplus was under Bill Clinton (and that was super rare).
--It is difficult to compare deficits from budgets through history because of inflation. This is why economists compare this as a percentage of the U.S **GDP** (**gross domestic product**: the total value of all goods and services produced in the United States in one year).
--Budget related legislation:
Gramm-Rudman-Hollings Act (1985): initial deficit reduction effort (not effective).
Budget Enforcement Act (1990): Set limits on discretionary spending and created a "pay as you go system".
Omnibus Budget Reconciliation Act (1993): incorporated a mix of tax increases and entitlement reductions.
--9/11 retaliation and housing collapse in recent history has appeared to justify deficit spending again.

ENTITLEMENT PROGRAMS (FISCAL POLICY)

DEFINITION	Government services Congress has promised to citizens that meet a requirement.
EXAMPLES	Social Security, Medicare, Medicaid, block grants, financial aid, food stamps, money owed on bonds and other contractual obligations.
PERCENT OF BUDGET	This makes up ⅔ of the budget.

There is no way to know for sure how many people will meet the requirement that qualifies them for food stamps in January versus February, or March. The point is the government cannot possible know how much money it will need to pay the benefits to these recipients. Thus spending becomes mandatory and uncontrollable.

TYPE	ALSO KNOWN AS	AMOUN T OF BUDGET	DESCRIPTION
UNCONTROLLABLE SPENDING	MANDATORY SPENDING	2/3	Entitlement programs must be funded according to federal law. (Lawmakers do not know how many people will qualify month to month so they do not actually know how much money they are allocating to each program)
CONTROLLABLE SPENDING	DISCRETIONARY SPENDING	1/3	Government writes checks for specific items that could always be altered or decreased. (Lawmakers have complete control over how much money they are allocating to each program)
--Social Security makes up 20% of budget. Medicare and Medicaid make up nearly 20%. Although Congress could change the requirements to qualify for benefits it is considered politically unsafe to suggest or make such changes. --Defense spending makes up 20% of budget and is considered discretionary spending. --One study claims there are reasons money is unnecessarily spent: 1) fraud and abuse 2) waste 3) pork			

GLOBALIZATION

ITEM	DESCRIPTION	EFFECT OF IT
TRADE SURPLUS **(FAVORABLE TRADE BALANCE)**	When a country exports (sells) more than it imports (purchases).	Wealth from other nations enters the economy.
TRADE DEFICIT	When a country imports (purchases) more good than it exports (sells).	The wealth leaves your economy to enter another country's economy.
NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)	An agreement between the United States, Mexico, and Canada (it basically removes all import taxes).	This created a battle between corporations and labor unions.
--**Globalization**: is the process of an ever-expanding and increasingly interactive world economy. --The business community favors free trade to create a free flow of goods and services on a global scale. They also believe that the process has decreased poverty and enhances the general quality of life in foreign nations. --Laborers fear that American firms will outsource their labor requirements (which many have done)		