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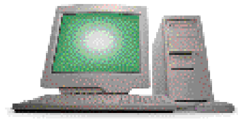
Overview

WHATEVER HAPPENED TO *laissez-faire*, the notion that the government should not interfere in the economy? This lesson will explain how the U.S. government has gone from not interfering in the economy to playing a supporting role to sustain the free enterprise system today. We will look at three areas in which the government has increased its involvement in the economy; we also will consider the reasons for these shifts. Today the government provides public goods, promotes fair competition, and maintains a stable economy.

In this lesson, students learn that government has an important role in perpetuating a thriving market economy. In addition, for the government to function at its best, the students must learn to appreciate important roles of government that serve to benefit our economic system.



Teaching Activities

Day 1

Use the first class period to introduce the material in the supplemental lecture notes. You may share the material in overhead transparency or smart board form during the first portion of the class period. Use the second portion of the class period for discussion of the questions shown at the right.

Objectives

- Students formulate explanations for why *laissez-faire* worked well during the early years in the United States and why the views of the American public began to change.
- Students review what public goods and services are and why the market economy by itself may not provide for them.
- Students discuss the fundamental characteristics of a market economy and the critical role of competition.
- Students evaluate the changing role of the government in the economy—looking particularly at public goods and services and at maintaining competition and stability in the monetary system in light of competing wants, needs, and limited resources.

Time Required

- Two class periods

Materials

- TRANSPARENCY 1 The Government's Role in the Economy Has Expanded
- HANDOUT 1 The Government Connection in the Economy

Day 1 Discussion Questions and Possible Answers

1. How has the marketplace changed in respect to communication since the early days of the postal service, post roads, and the Pony Express? (In the market today there is a great deal of competition among various providers of communication products and services. Information is delivered via telephones, faxes, and e-mail, for example. Competition of this sort has been fostered by governmental efforts to break up monopolies, as in the action taken in the Bell telephone case. Private enterprise today competes with government services such as the post office. Millions of letters and packages are now delivered daily by Fed Ex and UPS.)

2. How do private goods differ from public goods? What differences do you see between public and private schools or public and private roads? Why are public goods not naturally created in the market place? (Private goods are different from public goods because only the person that owns the private goods can consume them. Everyone can consume public goods, and one person's consumption does not diminish the consumption of others. Private schools can be selective on who can attend; public schools must within certain guidelines (residency, age) accept all. Private schools can include religious curricula if they desire; public schools cannot. Private roads and drives are generally accessible only to those who built them; public roads are accessible to everyone, although some require toll payments. It is not the natural tendency for individuals to want to pay for things for others to use. People sometimes fail to take ownership for public goods or responsibility in caring for them —not picking up trash in public places or taking care of public restrooms, for example.)

3. Think of items you buy or use. How has competition (or the lack thereof) influenced the price, variety, and service related to the item? (Possibilities here include video game equip-

ment-PS2, gamecube, xbox; the price of CDs, DVDs and DVD players; cell phones—plans and features; computers—the trend of falling prices and improved memory capacity.)

Day 2

On the second day, use HANDOUT 1, The Government Connection in the Economy, to assess the students' understanding of the concepts presented. Depending on your teaching style, the students may work independently or with partners.

Answer Key to
Government Connection Guide

1. Command
2. Laissez-faire
3. federal
4. national
5. local
6. Public goods
7. Competition
8. Market or free enterprise
9. Sherman Antitrust Act
10. trusts or monopolies
11. enforce
12. William Howard Taft
13. run, bank run, or panic
14. Federal Reserve Act of 1913 or Congress
15. FDIC or Federal Depositors Insurance Corporation
16. referee
17.-19. population growth, increased regulation/antitrust laws, Great Depression
20. There Ain't No Such Thing as a Free Lunch (or, someone somewhere has to pay)

Conclude with a class discussion about why the role of government has changed and what is necessary to ensure a viable market economy in the 21st century. Use the Day 2 Discussion Questions below. Deal with expectations regarding the government and end with TANSTAAFL: "There Ain't No Such Thing as a Free Lunch."

Day 2 Discussion Questions and Possible Answers

1. How has the Federal Reserve Bank helped to maintain economic stability? (The Fed controls the money supply and has for the past two decades kept inflation in check. Bank examiners work with banks to make sure they are making safe loans. The Fed has provided liquidity in times of economic and national crisis.)

2. Think of a time in U.S. history when the government got involved in the economy in a new way. (Late in the 19th century and early in the 20th century—during the presidencies of Theodore Roosevelt and William Howard Taft; also during the Great Depression)

3. What caused Congress to act? (The news media called attention to problems, and the general public pushed for change.)

4. Whose job is it to see that the government is not overstepping its bounds and hampering the economy rather than helping it? (Those who are not being allowed to participate in the market, i.e. competitors, voters, public opinion).

5. No one likes paying taxes. How can the government provide goods and services without hampering economic growth? (By recognizing that every dollar used by government is a dollar not available for use by consumers or business, the basis of opportunity cost).

Conclusion

People are quick to recognize the importance and value of government in their everyday lives. We drive to schools that are primarily provided by government on roads provided by government. In today's free market economy, we rely on the government to allow market forces to provide quality goods and services to American consumers at low prices. While free trade and free enterprise make us better off, government helps too by playing an important supporting role. But we should always keep in mind "There Ain't No Such Thing as a Free Lunch." Every decision has a cost.

Supplemental Lecture Notes

Laissez-faire was not written in the U.S. Constitution, and yet that view (the view that government should not interfere in the workings of the market) prevailed in the early days of our republic. The U.S. Constitution does not endorse or embody any particular economic system. Sometimes what is NOT in a document is important.

However, four features of the Constitution affect the economy. First is the federal system established by our Constitution, in which power and responsibility are shared among the national, state, and local governments. Second, our Constitution is a skeletal framework, which allows for change. Third, the Constitution does not authorize the government to control resources or the means of production as in a command economy. Lastly, the Constitution provides for the protection of private property, the enforcement of contracts, and the allowances for patents and copyrights—all basic constitutional elements—creating the rule of law within which the economy operates.

The Constitution sets the stage for providing some public goods and services. For example in Article I, section 8, clause 7, Congress is authorized to establish post offices and post roads. Having a means of communication between locations is desirable. No one in the market place initially saw it as a profitable endeavor; therefore, it fell to the government to provide the first postal service. States provide roads, police protection, and parks. Local governments got into the goods and services act early on—providing public schools, police and fire protection, and lending libraries, for example.

The government did not turn referee and promote fair competition as opposed to trusts until it had major prodding from the public. Titans of industry amassed great wealth and power. John D. Rockefeller, founder of the Standard Oil Company, was able to achieve a horizontal monopoly in the oil refining business for a while. Andrew Carnegie developed a vertical monopoly in steel manufacturing. A few companies were getting a corner on the market and thwarting competition. Service was bad, prices were high, and consumers were angry. Congress responded by passing the Sherman Antitrust Act. That did not really change the way some companies were doing business, however, because the act was not enforced. Not until the presidency of Teddy Roosevelt did any president actively try to enforce antitrust legislation. President William Howard Taft, who took over after Theodore Roosevelt, broke up more trusts than any other president. Competition must exist in the market place in order for a free market economy to work best.

Confidence and stability in the money supply are essential for a vibrant economy. The national government helped provide both with the passage of two key pieces of legislation. The Federal Reserve Act of 1913 created the banker's banks. Member banks could borrow from the Fed if necessary; they agreed to keep a required amount on reserve with the Fed; and the Fed supervised them. Another important piece of legislation created the Federal Depositor's Insurance Corporation in 1933. Banks make money by lending it, not by having it sit in vaults. Panics and bank runs caused banks to fail and hurt confidence in banking institutions.

Why has there been growth in government? Our nation has expanded dramatically in size and population since 1787. The need for schools, roads, parks, and other services has expanded. More regulation requires monitoring and enforcement. Someone must pay the referee and make sure his/her whistle works. The shift in expectations has been substantial. The government is expected to be a fair and impartial referee to insure competition. The expectation that the national government could and would intercede during times of economic crisis was established during the Great Depression. The American public seemingly expects more and more from its government. We always must keep in mind when asking for more from government – TANSTAAFL: There Ain't No Such Thing As A Free Lunch.

Economic Concepts

Command An economic system characterized by centralized planning and government control of the factors of production.

Competition A market situation where many sellers of goods and services are vying for the consumer's dollars.

Gross Domestic Product GDP is the market value of all final goods and services produced within a country in a given period of time.

Inflation A general rise in prices that occurs when the money supply rises at a rate greater that the production of goods and services.

Laissez-faire An economic system characterized by little if any government interference.

Monopoly A market situation where there is only one firm producing a good or providing a service that has no close substitutes.

Opportunity cost The next best opportunity given up when choosing between alternatives.

Private good A good that is produced for consumption by only those who are willing and able to pay.

Public good A good that is available for everyone to consume. One person's consumption does not diminish the consumption of others. Public goods are sometimes provided by the government.

TANSTAAFL There Ain't No Such Thing As A Free Lunch. Everything has a cost.

TRANSPARENCY 1

The Government's Role in the Economy Has Expanded

I. The U.S. Constitution does not endorse any economic system.
- a. It creates a federal system in which power and responsibility are shared among the national, state and local governments.
- b. The U.S. Constitution is flexible.
- c. The Constitution does not provide for a command economy.
- d. The Constitution does provide for conditions needed by market economies.

II. The Creation of Public Goods and Services.
- a. National: post offices and post roads
- b. State: roads, police, and parks
- c. Local: schools, fire and police protection, garbage pick up

III. The government promotes fair competition: Why and how?

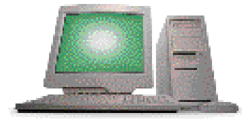
Why?
- a. Produce what the market (consumers) demands
- b. Promote efficient use of scarce resources
- c. Provide consumers with more choice and better prices

How?
- a. Anti-trust legislation Sherman Antitrust Act 1890; Clayton Antitrust Act 1914
- b. Enforcement: Presidents Theodore Roosevelt and William. H. Taft

IV. The government acts to maintain a stable economy.
- a. Federal Reserve Act of 1913
- b. FDIC 1933

V. Why has there been growth in the government?
- a. Population growth
- b. Antitrust laws enforcement
- c. Great Depression

VI. TANSTAAFL



HANDOUT 1
The Government Connection in the Economy

1. ______________________________ is the type of economic system where the government controls the resources and the means of production.
2. ______________________________ was the approach taken by the government of the United States in the early days, which meant that it left the economy alone.
The system of government in the United States is 3. ______________________________, which means that power and responsibility are shared among the
4.______________________________, state, and 5. ______________________________ governments.
6. ______________________________ benefit everyone in a society and are sometimes provided by the government.
7. ______________________________ is the rivalry among producers of goods and services—all seeking to gain customers.
8. ______________________________ or ______________________________ is an economic system where buyers and sellers are free to offer goods and services to consumers.
9. ______________________________ was the first act passed by Congress to break up unfair competition also known as 10. ______________________________.
Teddy Roosevelt is known as a “trust buster” because he was the first president to 11. ______________________________ the antitrust legislation. 12. President ______________________________ actually broke up the most trusts.
When people race to the bank and withdraw all of their money, it is known as a 13. ______________________________. The 14. ______________________________of 1913 created the banker’s banks.
The 15. ______________________________ insures people’s deposits up to $100,000 today.
The government acts as a 16. ______________________________when it intervenes to promote competition in the market place. 17. ______________________________, 18.______________________________ and 19. ______________________________ are all reasons the government has become more involved in the nation’s economy. TANSTAAFL means 20.____.

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