**SSEF5 Describe the roles of government in the United States economy.**

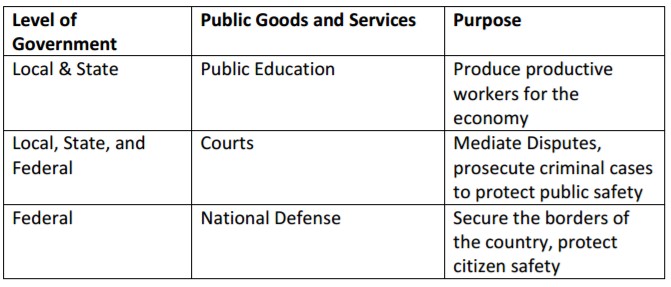
**LVL I Answer the following questions as you read**

1. What type of goods/services does the government provide?
2. How does the government fund the goods/services they provide?
3. Who is a free rider?
4. What is a market failure?
5. Define externalities.
6. Define regulation and deregulation.
7. **Explain why government provides public goods and services, redistributes income, protects property rights, and resolves market failures.**

Federal, state, and local governments in the United States are involved in the economy. Invention includes providing public goods and services, redistributing income, protecting property rights, and resolving market failures.

Governments in the United States usually produce **public goods and services** only when there is a reason that the private market is unable to provide the good or service at a level considered beneficial to society. The most common way to pay for public goods are through the collection of tax dollars. There are two main characteristics of purely public goods. They include “shared consumption” goods also known as “non-rival” good. This means the consumption of the good by one person does not diminish the satisfaction enjoyed by another consumer who consumes the exact same good. For example, public interstate highways are used by one driver without decreasing the benefits enjoyed by another driver. A non-example is a piece of gum. We are unlikely to get the same benefit as someone else by chewing the same piece of gum. In fact, we are unable to chew the same piece of gum as someone else at the same time. The other characteristic is non-exclusion. **Non-exclusion** means that it is difficult or impossible to keep a person who is unwilling to pay from enjoying the benefits of the public good. For example, the federal government provides national defense to everyone who resides in the United States regardless of whether they pay for protection. (They become in economic terms, a “freerider”. A free rider enjoys the benefit of a good without incurring the cost of paying for it.) In the case of a piece of gum, a non-example, I cannot have it unless I pay for it at the store. However, one can drive on most United States interstate highways even if one does not pay any taxes.

The chart below shows examples of public goods or services for each level of government in the United States.



When pursuing the social economic goal of equity, governments in the United States may choose to **redistribute income**. This involves taking tax money from one group of individuals or firms and giving it to other individuals and firms. These transfer payments include things like social welfare payments to low income citizens, unemployment compensation to those laid-off during a recession, or Social Security payments made to retirees. These payments subsidize the income of recipients to allow the consumption of necessities. In some cases, there may be redistribution to higher income people such a tax credits for buying electric vehicles.

In a market economy, the protection of **private property rights** is essential. If consumers and businesses are uncertain of their ability to retain property, they are less likely to purchase goods or invest in and expand their businesses. Property rights are protected by intellectual property laws such as copyrights and patents, legal documents like deeds for real estate or titles for cars, and business licenses or corporate charter recognize the legal owner of a business. In an economy that protects private property rights, the court system is available to hear property dispute and settles them based on an impartial “rule of law”.

**Market Failures** occur when the private market is unable to produce goods and services in a way that the marginal benefit to society from the production of the good is equal to or greater than the marginal cost to society for producing the good. Market failures include externalities and market power.

**Externalities** can be both positive and negative. They occur when a third party other than the consumer or producer of a good is hurt or benefits from the production or consumption of that good. For example, some industries cause air pollution while producing a product. If this pollution causes a local resident to get sick there is a negative externality. If your new roommate at college plays their iPod full of all your favorite singers/bands you get to enjoy it even though you did not purchase the songs, this is a positive externality. In the United States, government attempts to correct negative externalities like pollution through increasing taxes or regulations on the polluting industry. This makes it more expensive to produce the good and reduces the amount of production. In the case of a positive externality producing industry like colleges and universities, the government will provide subsidies to the institutions and to their students so there is an increase in amount supplied to the market.

**Market power** refers to a market failure resulting from the formation of monopoly and oligopoly market structures. Monopoly market structures are markets controlled primarily by one seller of a good or service, an oligopoly market is one controlled by several large firms. Under anti-trust laws in the United States, monopolies, and oligopoly firms who work together to fix prices or restrain competitors, may be prosecuted by the government and, in some cases, broken up into smaller companies. Economists are divided over the dangers of market power. Many believe that market power is fine as long as prices are reasonable and new competitors are not barred from entry into the market by unfair practices.

1. **Explain the effects on consumers and producers caused by government regulation and deregulation.**

**Government regulation** takes many forms. Overall, the goal of the government is to provide for the health and safety of its citizens and its businesses. Some regulations protect citizens from corporate abuse. Other government regulations help businesses recover from external problems by offering money to help offset an unforeseen disaster.

Examples of Increased Regulation:

The Sarbanes–Oxley Act of 2002 was a response to major problems with the accounting practices of large public companies. In the wake of corporate bankruptcies like Enron, Tyco, and WorldCom, Congress passed the act to regulate the way public companies handle their accounting. The purpose of the act was to increase the responsibility of the corporate board of directors for published financial records and to protect investors from financial loss due deceptive accounting practices.

On the consumer side, government may pass laws regulating the information companies must provide to consumers. As obesity has become more of a problem in the United States, some states now require certain restaurants to publish nutritional information so consumers can make better choices. Credit card companies must publish information about how long it will take customers to pay off debt.

Example of Decreased Regulation:

The Banking Act of 1933 or Glass-Steagall included many provisions connected with the U.S. banking system. Many believe, although there are those who disagree, that Glass-Steagall did not permit commercial banks to be involved in investment banking activities. In 1999, Congress repealed the parts of Glass-Steagall that many believed prevented commercial banks from acting as investment banks. This increased competition among financial institutions in the investment banking industry. However, some believe this increased risk-taking contributed to the Subprime Mortgage Crisis and Great Recession of the late 2000s.

**LVL II Consider the following questions**

1. What two characteristics help differentiate between a private good and a public good?
2. Define non-exclusion with relation to public goods.
3. What is an example of a public good at the local/state level of government?
4. What is an example of a public good at the federal level of government?
5. Provide examples of a Positive and Negative Externalities.
6. How does the government try to correct negative externalities?
7. What does market power refer to?
8. Why does the U.S. government not allow monopolies?
9. What are examples of regulation and deregulation?

**LVL III Do the Following**

1. Describe in a persuasive essay your opinion on whether it the responsibility of the government in resolving the market failure of poverty/income inequality.