

Economic Policy

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Given #1

- Econ’c pol infl our present & our future
 - Job market
 - Housing market
 - Tax rates
 - Govt svcs/progs
 - etc

Given #2

- Econ’c indicators matter to voters
 - Nat’l econ’c health
 - Govt spending (how much & on what)
 - Level & distrib’n of taxes

Sidebar

- How do we measure indicators?
 - Inflation rates
 - Unemployment rates
 - Economic growth rates

Measuring Inflation

- Def: a rise in prices of G/S due to a decrease in the value of the dollar
- Measured monthly by Bur of Lab Stats @ Consumer Price Index
- Inflation changes over time (“infla’n rate”)
 - On avg, 3% for last 30 yrs

Four Causes of Inflation: Cause #1

- Changing taxes & fees
 - Personal income tax
 - Property tax
 - Auto reg
 - Utilities
 - Sales taxes
 - Corporate taxes
 - Payroll
 - SS
 - Medicare
 - State disability
 - Health ins

Changing Taxes & Fees

- Increases are passed on to the consumer
- Higher taxes ... higher prices ... don't mean higher income
- ...so live on less \$ or ask for a raise
 - If you get a raise, your boss passes that cost to...consumers

Cause #2

- Scarcity
 - High demand, low supply...prices rise (hand over more \$)

Cause #3

- Rising interest rates
 - The cost to borrow money
 - If this cost goes up, the cost of doing business goes up, and that cost is passed on to consumers

Cause #4

- Consumers keep buying
 - Consumers want stuff
 - ...won't go without stuff
 - ...so pay higher prices
 - ...and take on more debt

“Too much personal debt”? Yes.

- You'll max out your credit limit
- Creditors won't extend credit

- What if middle-class America is saturated with debt?
 - Inflation will rise
 - Economy will stagnate until debt is paid down
 - Wait til homes appreciate so ppl can borrow money against them
 - Result? More debt, but you can buy big-ticket items again

How does inflation affect me?

- Regular, steady inflation? Little effect on daily life
- Most ppl get a pay raise (“COLA”)

- In the long run: If you're 30, and you want to retire at 60 with \$1M, you have to account for inflation. \$1M today will buy ~\$400,000 in 30 years.

Measuring Unemployment

- Def: level of joblessness among those actively looking for work for the last four weeks
- Measured as % of the workforce by BLS, monthly
 - Current Population Survey
 - Census Bureau interviews 60,000 households (110K indivs)

What does unemployment mean to me?

- No income, no spending
 - Rent / mortgage (eviction/foreclosure; damages credit record)
 - Utilities (shut-off; damages credit record)
 - Transportation (gas, bus/BART fare)
 - Hunger (health)
 - Poor health (doctor bills, ER)
- More ppl get unemployment ins (it's income) = less \$ for svcs
- Less \$ circulates, economy/production slows, GDP drops, confidence drops, globalization slows

Measuring economic growth

- Economic growth = increase in GDP
 - Increased productivity
 - More outputs w/same inputs
 - Labor
 - Energy
 - Material
 - Capital
 - Anything you already have that's used to enhance production (\$, space, equipment)

Given #3

- Diff politics infl policies for nat'l econ'c health
- But yet more diff politics infl policies for govt spending
- And yet more diff politics infl policies for taxation

- BUT...All pol tends to be majoritarian

- AND everyone tends to hold the Prez responsible for the economy
- EVEN WHEN the *theories behind the policies are imperfect*
- And...
- EVEN WHEN *govt tools (policies) are controlled by divided pol authorities*

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- **STILL... econ'c health affects**
 - Election outcomes
 - Voters' perceptions of nat'l conditions (jobs, housing, \$, FP...)
 - AND
 - Their worries abt personal finances

Politics that infl pol for econ health

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- **When the economy of (an) industry or region is bad, then IG politics drives economic policy**
 - Ex: tariff policies
 - Supported by those who are hurt by competition from imports
 - Opposed by those who survive on imports

Politics that infl pol for govt spending

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- **Govt spending is only theoretically determined by the budget**
- **Spending bills often reflect IG and client pressures**

Politics that infl pol for taxation

- Tax policy reflects majoritarian politics (but specific provisions (ded'ns/exemp'ns) are from IG/client pol)

Tax Rate	Single	Married Filing Joint	Married Filing Separate	Head of Household
10%	Up to \$8,500	Up to \$17,000	Up to \$8,500	Up to \$12,150
15%	\$8,501 - \$34,500	\$17,001 - \$69,000	\$8,501 - \$34,500	\$12,151 - \$46,250
25%	\$34,501 - \$83,600	\$69,001 - \$139,350	\$34,501 - \$69,675	\$46,251 - \$119,400
28%	\$83,601 - \$174,400	\$139,351 - \$212,300	\$69,676 - \$106,150	\$119,401 - \$193,350
33%	\$174,401 - \$379,150	\$212,301 - \$379,150	\$106,151 - \$189,575	\$193,351 - \$379,150
35%	Over \$379,150	Over \$379,150	Over \$189,575	Over \$379,150

Given #4

- Theories drive economic policy

Sidebar: Economic theories

- Economic planning
- Keynesianism (John Maynard Keynes)
- Monetarism
- Reaganomics
- Supply-side economics
