U.S. And The World Economy Essay, Research Paper

The

U.S and the world economy like everything else have its ups and downs. The

government plays a crucial role in deciding how the economy will set over time.

An Economist by the name of John Maynard Keynes felt that if either inflation or

unemployment got out of hand, the government could adjust the business cycle to

balance the economy. Keynes was more geared toward the bigger picture and

focused on macroeconomics. His work led to the government and many economists

believing that they had control over the economy. This led to economic

regulations, which affected everyone from companies to the consumers. Through

the history of our economy the government has made changes by enforcing many

regulations to have full control of the growth and power of the economy and to

protect the consumers. Regulations can be divided into two different categories,

Economic regulations and Social regulations. An Economic regulation covers

sectors of the economy such as electricity, natural gas, communications,

transportation, aviation, agriculture, and banking. These regulations usually

include barriers to entry and exit, licensing and tariff laws, and the control

of prices and wages. These regulations include acts such as the banking act of

1933 or the civil aeronautics act of 1938. Social regulations on the other hand,

are there to protect the consumers. These regulations concern such things as

health and safety of workers, environmental issues, and civil rights. Unlike the

Economic regulations these were created much later in the 1960?s and 70?s.

Examples of Social regulations would include the food and drug administration

and the Equal Opportunity Commission, which protects employers. Regulations were

starting to appear around the time of the New Deal. The government?s main

purpose for enforcing these regulations was because competition among

corporations was starting to fail. The bulk of these regulations were put into

affect from 1933 through 1938. At the time regulations seemed to have been

helping. The economy continued to grow and was doing better than it ever had

been. The system was able to control price and entry competition in the nations

key industries. From 1930 through the sixties the economy was booming. There

were low inflation rates that averaged 3.8 percent over that period of thirty

years. The interest rates were also low at two percent over a period of three

months. Bank failures were virtually non-existent, oil and gas supplies were

readily available. The price of gas even had a slight decline in the sixties. As

the sixties came to an end the growth had stopped and problems in the economy

started to occur once again. The budget deficits in 1968 went from eight billion

dollars to twenty five billion dollars, and continued to rise as it exceeded

over 200 billion dollars by 1983. The growth in labor productivity from 1948 to

1968 was about 3.3 percent and from 1968 to 1983 declined to as low as 1.2

percent. In 1974 the banking failure rate had skyrocketed from past success. The

Airlines were losing money even though they kept on increasing the price of

fares; also the nations largest railroad companies were facing possible

bankruptcy. The reason for the downturn in the economy was due to the control,

which the government had over these corporations by enforcing these regulations.

The problem with these regulations was that it caused higher than necessary

costs, distorted the patterns of supply and demand. The rate of return

regulations was creating inefficient capital allocations. These problems brought

on what is called as deregulation. Deregulation is were the government drops

many of the regulations that were put on the corporations. The period of

deregulating in the late 70?s is stated by many economists to be very crucial

in the affect of our economy today. Major corporations such as American

Airlines, AT&T, El Paso Natural Gas, and Bank America went through a process

of deregulating in the late 70?s and into the 80?s. Even though recent acts

of deregulations have occurred and have been proven to be very successful, there

are also benefits to regulations along with the disadvantages. Social

regulations are most beneficial to the consumer, because it protects them from

their employers to what they eat. With out these regulations corporations might

take short cuts to save on money, while in turn they are harming their consumers

with out us having any knowledge of it. It also protects us from our employers

who might have been trying to take advantage of us, or tries to refuse us of the

benefits we deserve. There are also economic regulations, which protect our

economy by making sure corporations such as Microsoft, don?t become a

monopoly. This allows our economy to stay balanced. This protects the consumers

from higher prices, and also leaves them with other options. The major problem

with Regulations is the amount of money it cost not only to the corporations,

but the government and the consumers. In 1998 the direct annual cost of

compliance with federal regulations was seven hundred billion dollars according

to professor Thomas Hopkins of the Rochester Institute of Technology. Each year

the government spends more money on regulations, adjusted to inflation the

government spent 654 billion dollars in 1977 on regulations and 709 billion

dollars in 1999. Federal Regulations cause 1.3 trillion dollars in economic

activity to be lost each year. So the price of not only following these

regulations is expensive, but so is enforcing them. In the long run it cost much

for the corporations than it does the government. Costs such as paperwork,

permits, equipment, worker training, attorney fees, and record keeping are some

of the expenses which may be overlooked as cost of enforcing regulations for

firms. This affects the consumer because prices will rise, corporations will

reduce innovation and economic growth due to lack of funds. It also affects the

corporation?s decision on whether to hire a worker or how much should they pay

him. One of the major problems with the regulations is the burden that it puts

on small companies. Many of the large corporations have the funds to follow

these regulations, while small and medium sized companies do not. A small

company creates two out of every three new jobs in America. This means that they

play as important of a role in our economy as do the larger companies. According

to the Small Business Administration (SBA) firms with fewer than 500 employees

spend approximately $5,000 per employee on regulatory costs. While firms with

more than 500 employees spend only $3,500 per employee. The biggest hit is for

firms with fifty to a hundred people, they pay seven to ten times higher than

larger firms. No matter how big the firm all of them need to get the paperwork

done, they need to hire attorneys. Studies have shown that the long-term costs

of certain regulations can reduce the productivity level. The consumer also

suffers from regulations; the more a corporation has to spend on the regulations

the higher the prices of the product or service. According to the office of

Federal Register every man, woman and child in America pays $2,800 in regulatory

costs. This means that each American works 40 days out of the year just to pay

for these regulations. Not only does it affect the cost of the products for

Americans, but it also hurts them at work. When a business puts all of its

resources to regulatory laws, it is using the resources less efficiently; it is

forced to operate in a less productive, in a more costly way. Eventually this

leads to the employees, which will deny them a higher standard of living. Many

firms cannot afford to give their employees as much benefits, as they should

receive due to the high regulatory costs. Many expert economists are against

over enforcing to many regulations. They feel that it cuts down the competition

in the economy. Deregulation has been very popular among economists over the

last 25 years. They feel that deregulating the 4 major industries in the late

70?s was one of the best decisions for our economy. Robert Cradell and Jerry

Ellig did research on how the airline, trucking, electricity sector, natural

gas, and telecommunications were affected after they went through deregulations.

They found many benefits that not only helped the company, but also the

consumer. During the first two years after deregulation the average prices fell

from 4 to 15 percent, and after ten years prices went down twenty five percent.

In some cases prices even fell to half of what they used to be. They also found

out the quality of service improved. Corporations were able to give their

customers more options to choose from and better reliable service. ?More

freedom equals more benefits? says Ellig about deregulation. Rates fell faster

in parts of the market where regulators permitted greater customer choice.

Giving customers choices will allow for a more competitive market and in turn

more benefits for everyone. From past experience we know that regulations can

help the economy, but at the same time over regulating can cause the economy to

hit a brick wall. Too many regulations can cause higher prices for consumers,

corporations, and even the government. It also creates barriers to entry and

exit, which will allow there to be less competition in the economy. Deregulating

also has been proven to be a successful method of balancing the economy. It has

worked for many of the major industries. As long as the regulations are kept to

a minimum and are useful in protecting the consumer, there should be no

problems.

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