

## LESSON TWO

# LESSON TWO BROAD SOCIAL GOALS OF AN ECONOMY

### INTRODUCTION

Several recent events have focused attention on the broad social goals of economic systems, including the breakup of the former Soviet Union, the aging of the U.S. population, remarkable advances in technology, and public policy discussions relating to health care, retirement, job training, and international trade. These are just some of the events that have forced people to seriously examine the questions:

- 1) *what* do we want our economic system to do; and
- 2) *how effectively* is our economic system doing those things?

A widely accepted list of broad social goals for an economic system, along with brief explanations of these goals, is shown in Activity 1. A careful, explicit discussion of these goals helps lay a foundation for later lessons and examples that deal with public policy issues.

The overall task of American voters and policy makers today is to decide how best to achieve these goals within the framework of a market economy. That's not always easy to do. In some cases, the goals complement each other—i.e., efforts to achieve one goal facilitate the achievement of another. But in other cases, there are serious trade-offs to be faced, and actions designed to achieve one goal interfere with achieving another goal. Resolving these conflicts when people have different opinions about the relative importance of each of these goals, and different interpretations of what the goals mean, is a perennial challenge in every country, and in every economic system.

### CONCEPTS

Economic goals  
Trade-offs

### CONTENT STANDARD

Economic systems can be evaluated by their ability to achieve broad social goals such as freedom, efficiency, equity, security, and growth.

### OBJECTIVES

- ◆ Identify five broad goals of an economic system.
- ◆ Discuss and evaluate the relative importance of the five broad goals.
- ◆ Evaluate various public policy actions with respect to their impact on the American economy and the achievement of these five goals.

### LESSON DESCRIPTION

This lesson uses a lively (sometimes loud) activity to demonstrate to students why public policy actions are usually controversial. Students will be introduced to statements reflecting a wide range of viewpoints and dealing with various kinds of public policy actions that they will have to evaluate in terms of their own views and preferences. Discussions of these statements with other students representing other viewpoints are then used to develop new statements, which are designed to be acceptable to a broader range of people with different goals.

### TIME REQUIRED

Three class periods. Day one—procedures 1 and 2. Day two—procedures 3-6. Day three—Assessment.

### MATERIALS

- ★ One copy of Activity 1 for each student.
- ★ One copy of each of the statements listed in Activity 2. Putting each statement on 3" x 5" index cards is helpful, but not required.
- ★ One copy of Activity 3 for each student.

### PROCEDURE

1. Distribute Activity 1—The Broad Social Goals of An Economic System. After allowing time for the students to read it, explain that individuals have different opinions concerning the relative importance of these goals and how well the American economy is achieving them. This activity asks students to rate the importance of each of the five goals in accordance with what-

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ever criteria the students think appropriate, and to assign a grade for each goal. This could be done by individual students or in small groups. Discussion of this part of the lesson might include listing on an overhead or chalkboard the number of "votes" each goal received (cast as numbers 1-5) and the letter grades assigned for each goal. Or, to save time, you may want to record only the number of votes each goal receives as the most and the least important.

2. Discuss with the students several examples of how the market system and/or specific government policies help to achieve one or more of these goals. Stress that policies designed to achieve one goal may interfere with the achievement of another. The following examples could be used:

- A. Market competition encourages producers of tennis shoes, jeans, and other products to offer consumers a wide variety of styles in different price ranges. Consumers are free to choose from many competing goods and services.
- B. Requiring motorcycle riders to wear helmets reduces their freedom, but may help to achieve the goal of economic efficiency (by reducing medical costs) and economic equity (taxpayers and consumers with auto and health insurance don't have to pay so much to support uninsured motorcycle riders who suffer serious injuries).
- C. Taxes tend to restrict the economic freedom of taxpayers, but tax revenues may be used to support activities that promote the achievement of many goals. For example, some people argue that by requiring and providing a minimum level of education for all citizens, government expenditures and taxes help to achieve all five goals.
- D. Students are likely to have varying opinions on the importance of the following government programs: national defense, public assistance (welfare), parks and other recreation areas, automobile inspection laws, and restrictions on the purchase of alcoholic beverages.

3. Cut up the Activity 2 statement cards, which describe various points of view and different public policies, and distribute them randomly to students. The 34 cards are numbered with pairs of related statements, i.e., statements 1 and 2 deal with the same topic, as do 3 and 4, 5 and 6, etc. Therefore, starting with card #1, use only the exact number of cards required to give one card to each student. Some statements with an odd number reflect what are often referred to as "liberal" attitudes or policies; some even-numbered statements reflect what are generally referred to as "conservative" attitudes or policies. Some statements don't fall in either category—they are included simply to stimulate interest and discussion. Some statements are expressed in rather extreme terms.

4. After you distribute the cards, tell the students: "Read the statement you have been given and decide whether you agree or disagree with it. Ask other students whether they agree or disagree with their statements. Try to exchange your card in order to get one statement with which you agree very strongly. You will have 10 minutes to negotiate a trade or trades." Discussions during the exchange of statements is likely to be lively. Some students will have very strong opinions about some of these statements.

5. Following the exchange of the statement cards, ask the students holding each matched pair of statements (1 and 2, 3 and 4, etc.) to sit or stand together and compare their statements. Ask them to discuss whether they think the statements, as written, are too extreme. Ask each pair of students to try to agree on a new statement on the same topic that might represent an acceptable compromise between the extreme positions. In some cases, this may be possible by changing a word or two. In other cases, the students may not be able to agree.

6. Review with the students the process they have just completed. In cases where a new statement was created, it might be written on the overhead or chalkboard and compared with the original statements. The class discussion can be directed using these questions: Which broad social goals are involved in each pair of statements? In what ways did the statements reflect a

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conflict among the goals? In what ways did the statements reflect complementarity among the goals? What trade-offs were made in writing the compromise statement?

Stress that the actual determination of public policy actions occurs in the political process, and is shaped partly by what beliefs people hold and partly by the expected costs and benefits of the policies.

### ASSESSMENT

Use Activity 3 to assess students' understanding and their ability to apply the concepts presented in this lesson. This can be done through class discussion or as a written assignment. Student responses are likely to vary greatly. The following positions on the issue may be discussed:

1. The idea of a "free" college education may appeal to some students, but others may argue that college students themselves are the main beneficiaries of higher education and should bear the major part of the cost. External benefits (benefits that accrue to society as a whole) are likely to be much greater for pre-college education, in which students learn basic reading, writing, computational, and social skills, than for college education.
2. Even under the suggested plan, students will still bear a large part of the cost of higher education because of the implicit cost of foregone earnings (the opportunity cost of the time spent in school and studying).
3. It might be argued that the economic freedom of college students will be strengthened by this plan, but the adverse effects on the freedom of car and truck buyers are very large.
4. The effects of this plan on economic efficiency can be debated from several points of view. A large increase in the proportion of the population with a college education is clearly beneficial, but the costs of achieving this in the manner proposed may be greater than the benefits.
5. Most students are likely to argue that, overall, this plan is unfair. Some students may want to support the idea of making college education "free," but financed in some other way.
6. Higher levels of education will tend to strengthen economic security as a result of lower levels of unemployment and higher incomes.
7. This plan might lead to increased long-run economic growth because higher education levels tend to increase productivity.

# ACTIVITY 1

## THE BROAD SOCIAL GOALS OF AN ECONOMIC SYSTEM

Name \_\_\_\_\_

The five broad goals described below can be thought of as criteria for evaluating an economic system. Some of these goals are difficult to measure in objective terms while others can be easily stated as numerical targets. In political cam-

paigns and public policy discussions, there is often considerable debate concerning differing interpretations of these goals, their relative importance in the American economic system, and how well the system is achieving these goals.

Your Ranking*		Your Grade <sup>+</sup>
	<i>Economic Freedom</i> refers to such things as the freedom for consumers to decide how to spend or save their incomes, the freedom for workers to change jobs and join unions, and the freedom of individuals to establish new businesses or close old ones.	
	<i>Economic Efficiency</i> refers to how well productive resources are allocated with respect to the costs and benefits of using those resources. One definition of an efficient allocation of resources is a situation in which all resources are employed and no person can be made better off by shifting resources from their current use without making someone else worse off. When government actions alter the results of a market economy, such actions can be evaluated in terms of economic efficiency by examining the additional costs and the additional benefits of the action. Economic efficiency is improved only if the additional benefits exceed the additional costs.	
	<i>Economic Equity.</i> Equity, in this sense, simply means what is "fair". Economic actions and policies have to be evaluated in terms of what people think is right and wrong. Equity issues often arise in questions dealing with the distribution of income and wealth. For example, some people might think that a particular tax is fair while others consider it unfair.	
	<i>Economic Security</i> refers to protection against economic risks such as work injuries, unemployment, inflation, business failures, and poverty. Individuals often pursue the goal of economic security through savings and insurance. Many government programs are also directed toward the goal of economic security, including unemployment insurance, social security, and workers' compensation.	
	<i>Economic Growth</i> refers to increasing the production of goods and services over time. The rate of economic growth is measured by changes in the level of real gross domestic product, and a target of 3 to 4% growth per year is generally considered to be a reasonable goal. Economic growth complements some other broad social goals. For example, a growing economy can help achieve the goal of economic security by making it easier for people to spend more on private and social insurance programs.	

\* In this column, use a 1-5 scale to show your own evaluation of the relative importance of each goal with 1 = low, and 5 = high. Put a \* next to the goal you believe is *most* important, and an X next to the goal you consider *least* important.

<sup>+</sup> In this column, assign a letter grade for each goal to indicate your evaluation of how well the American economic system achieves this goal today. A = Excellent; B = Good; C = Average; D = Fair; F = Failing.

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### ACTIVITY 2

<p>1</p> <p>The main factor determining who is rich and who is poor in the United States is luck.</p>	<p>2</p> <p>In the United States, anyone who is willing to learn and to work hard can get to the top, regardless of family background or income.</p>	<p>3</p> <p>The driving force of American capitalism is competition, which forces people to be productive and efficient. Therefore, inherited wealth should be heavily taxed so that children of the wealthy have the same opportunities and face the same competitive pressures as everyone else.</p>
<p>4</p> <p>Anyone who is successful enough to amass a family fortune should have the right to leave the fortune to his or her heirs without the estate being taxed, because taxes were paid when the person earned this income.</p>	<p>5</p> <p>Free trade with other nations is essential to keep the American economy strong, rich, and competitive.</p>	<p>6</p> <p>In order to protect American jobs and a high standard of living, the government should enact high tariffs and low quotas to keep cheap foreign goods out of the U.S.</p>
<p>7</p> <p>All American citizens, regardless of income level, should be guaranteed an adequate level of health care.</p>	<p>8</p> <p>Health care is just like any other good or service, and its price and quantity should be determined in private markets. If the federal government tries to provide health care, the price will go up and the quality will go down.</p>	<p>9</p> <p>If reducing the nation's speed limit to 50 miles per hour would save even one life, it should be done.</p>
<p>10</p> <p>The government should not dictate how fast people can drive on Interstate highways. If people want to risk their own lives driving fast that's their business, not the government's.</p>	<p>11</p> <p>The government should enact and enforce strict laws to make sure that employers do not discriminate against workers on the basis of race, sex, or age.</p>	<p>12</p> <p>An employer who can increase productivity by firing an older worker and hiring a younger one should be allowed to do so. The company will be more profitable, and the national economy will be more competitive.</p>

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### ACTIVITY 2 (continued)

<p>13</p> <p>Drug abuse is a burden on our economy and on our health care system. Therefore, strong drug enforcement can reduce the demand for health care services and lower health care costs for all of us.</p>	<p>14</p> <p>Tax dollars should not be wasted trying to enforce drug laws that are inevitably ineffective. Remember the U.S. experience with Prohibition in the 1920s.</p>	<p>15</p> <p>Strong environmental protection laws should be enacted and enforced to make sure that our children and grandchildren have clean air, clean water, and a safe environment for people and wildlife.</p>
<p>16</p> <p>Environmental protection programs are often misguided and lead to loss of jobs. They also increase prices of the things we buy.</p>	<p>17</p> <p>A progressive income tax is the fairest possible tax. It raises revenue on the basis of people's ability to pay without creating undue hardships on anybody.</p>	<p>18</p> <p>Progressive income taxes penalize those with higher incomes, which discourages their efforts to work, save, and invest, and thereby hurts society.</p>
<p>19</p> <p>A sales tax isn't fair to people with low incomes because almost every dollar they spend is subject to the tax.</p>	<p>20</p> <p>A sales tax is the fairest possible tax. Everybody pays the same percentage when they make a purchase.</p>	<p>21</p> <p>The minimum wage should be increased because a person can't live on what the minimum wage is now even if he or she works 40 hours a week.</p>
<p>22</p> <p>Minimum wage laws lead to unemployment because employers will only pay workers what they are worth, and some workers are not productive enough to earn the minimum wage.</p>	<p>23</p> <p>The price of gasoline should be kept low by law so that people can afford to drive to work.</p>	<p>24</p> <p>If the government keeps any price lower than the market price to try to help poor people, it will cause long lines, shortages, and black markets.</p>

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### ACTIVITY 2 (continued)

<p>25</p> <p>Anyone who watches television knows that a lot of valuable resources are wasted on commercials designed to trick people into buying things they really don't need. All advertising should be true and provable.</p>	<p>26</p> <p>There are far too many frivolous government regulations that interfere with people's lives today. Government should worry about important things and not be concerned about what is shown on television commercials.</p>	<p>27</p> <p>"Scalping" tickets for plays, concerts, and athletic events exploits consumers and should be illegal.</p>
<p>28</p> <p>"Ticket scalping" for plays, concerts, and athletic events actually benefits both buyers and sellers.</p>	<p>29</p> <p>It is ridiculous that some people are being paid several million dollars a year while other people can't afford food and a home. There should be a limit on the amount of money a person can earn.</p>	<p>30</p> <p>In a market system, a person is entitled to earn as high an income as possible with no government restrictions.</p>
<p>31</p> <p>The small family farm is the backbone of the American economic system and should be maintained even if prices for farm products have to be set higher than market-clearing prices.</p>	<p>32</p> <p>We still have too many people living on small, inefficient farms. Farm subsidies should be eliminated to force these people to move into more productive work.</p>	<p>33</p> <p>Large companies are so powerful today that they can charge any price they want. The automobile industry, the oil industry, and others, should be broken up into many small firms so that competition will keep prices low.</p>
<p>34</p> <p>Large-scale production means more efficient production and lower prices for consumers. Large efficient firms should not be penalized for being successful.</p>		

ACTIVITY 3

Name \_\_\_\_\_

Assignment: Read this newspaper story and answer the discussion questions.

HIGHER EDUCATION PLAN PROPOSED

To be funded by new horsepower tax

The Board of Directors of the prestigious Economic Policy Institute Consortium (EPIC) issued a report yesterday calling for a startling new program to fund higher education in the United States. Members of EPIC include well-known business executives, labor leaders, and political figures. The consortium staff has just completed a two-year study of higher education.

Dr. Polly Fiscal, Executive Director of EPIC, explained the plan: "We are recommending that college educations be provided free to all students just as high school educations are. We believe that the case for providing a free college education is just as strong as the case for a free high school education. The impact of this new plan on the productivity of the American economy will be enormous. Using and adapting to today's technologies requires higher education. A college education in the 21st century will be as important as a high school education was in the 20th century.

The basic structure of colleges and universities will remain the same as today. They will continue to perform a combination of research, teaching, and public service. However, we expect enrollments in existing colleges to increase dramatically and some new colleges to be founded. We believe that existing student-aid programs, generally based on need, are confusing and unfair. Under our plan, federal funding will be provided directly to colleges and universities to replace whatever they are now receiving in the form of student tuition, and to provide textbooks

to students. This funding will be possible as a result of a new tax."

By reducing the costs of attending college, it is expected that many more students will attend. However, the EPIC report points out that students will still have to pay for room and board, and they will still have to be able to afford to spend time studying and attending classes.

The new tax that Dr. Fiscal mentioned is a tax on automobiles and other motorized vehicles, based on the horsepower of the vehicle's engine. The tax will be levied on manufacturers and included as part of the sales price. The horsepower tax on mopeds, motor scooters, and low-powered motorcycles will be quite small. The tax on subcompact and compact cars is expected to be about \$1,000 per car, while the tax on midsize cars will be about \$3,000. Purchasers of station wagons, vans, and sports cars will face a tax of \$5,000 or more. According to Dr. Fiscal, "This new tax will provide other important benefits. Powerful incentives will be provided to reduce our use of energy. It is critical that we do this as we look to the 21st century."

Some well-known economists have expressed skepticism about the proposal. They are especially concerned about the possible adverse effects of the horsepower tax. But the plan is expected to have a great deal of support in Congress because it deals with two politically popular topics, education and energy conservation.

Discussion questions:

1. Which of the broad social goals of an economic system will be strengthened by this plan?
2. Does this plan involve any conflicts among the five broad social goals? Explain.
3. Explain why you would vote for or against this plan, or how you would recommend modifying it, if you were a member of Congress.