

# LESSON 4

## WHAT ARE THE ECONOMIC FUNCTIONS OF GOVERNMENT?

### INTRODUCTION

In order to ensure and support economic freedom as well as political freedom, the founders of our nation envisioned a very limited role for the government in economic affairs. In a market economy, such as the one established by our Constitution, most economic decisions are made by individual buyers and sellers, not by the government.

Economists, however, identify six major functions of governments in market economies. Governments provide the legal and social framework, maintain competition, provide public goods and services, redistribute income, correct for externalities, and stabilize the economy.

Citizens, interest groups, and political leaders disagree about how large a scope of activities the government should perform within each of these functions. Over time, as our society and economy have changed, government activities within each of these functions have expanded.

### OBJECTIVES

- ◆ Identify the six economic functions of government
- ◆ Classify examples of government actions and policies within various economic functions
- ◆ Identify and evaluate two different positions on the role of government in the economy

### LESSON DESCRIPTION

The six economic functions of government are presented to students. Students categorize a series of newspaper headlines as examples of each of the six functions and locate additional examples

in current newspapers and newsmagazines. The lesson concludes with a discussion of how limited the economic functions of government should be.

### CONCEPTS

Role of Government

### TIME REQUIRED

Two class periods

### MATERIALS

- ★ Activity/Visual 1, "Economic Functions of Government"
  - ★ Activity 1, "Economic Functions of Government Worksheet"
  - ★ Activity 2, "Newspaper Headlines"
  - Activity 3, "What Role Should The Government Play in the Economy?"
- Copies of recent newspapers and/or news magazines

### PROCEDURE

#### DAY ONE

1. Ask students to identify examples of the activities that local, state, and national governments carry out in the U.S. economy; for example: provide for national defense, collect social security taxes, pay social security benefits, build highways, and insure quality of food and medicines. Make a list of these activities on the chalkboard.
2. Show Activity/Visual and explain each of the six functions.

#### *Maintaining Legal and Social Framework*

*Example:* Create laws and provide courts, provide information and services to help economy function better, establish a monetary system, define and enforce property rights.

#### *Maintaining Competition*

*Example:* Create and enforce antitrust laws; regulate natural monopolies.

#### *Providing Public Goods and Services*

*Example:* Provide goods and services that markets are unable or unwilling to provide, such as national defense.

*Redistributing Income*

**Example:** Higher income tax rates for rich than for poor, provide social security, and aid to dependent children, Medicare, Medicaid.

*Correcting for Externalities*

**Example:** Taxes to reduce negative externalities, such as environmental pollution; subsidies to encourage positive externalities, such as education. Externalities exist when some of the costs or benefits associated with the production or consumption of a product “spill over” to third parties other than the direct producer or consumer of the product.

*Stabilizing the Economy*

**Example:** Use government budgets and/or the money supply to promote economic growth, control inflation, and reduce unemployment.

3. Have students categorize some of their activities listed in Step 1 as examples of the economic functions of government.

4. Tell students that all levels of government work to maintain the legal and social framework, and provide public goods and services; that state and national governments have the major responsibility for maintaining a competitive framework, redistributing income, and dealing with externalities; and that the national government has the responsibility for stabilizing the economy.

5. Distribute copies of Activity 1, “Economic Functions of Government Worksheet,” and Activity 2, “Newspaper Headlines,” to groups of students. Have students classify each of the headlines under the appropriate economic function category. Explain that some headlines may represent more than one function. Check their work to be certain they understand each of the six functions.

6. When students have completed the classification activity, distribute copies of recent newspapers/newsmagazines. Have students locate and classify three additional headlines that illustrate the economic functions of government.

**DAY TWO**

1. Tell students that in a mixed market economy like that of the United States, where both markets and government decisions play important roles, citizens often do not agree on the role of government in the economy and how it should carry out the six economic functions.

2. Distribute Activity 3, “What Role Should The Government Play in The Economy?” to the small groups. Ask the students to read the activity and summarize each view.

3. Check to see that students can summarize each viewpoint. Ask students to take a personal stand on the role of government in the economy. Which position makes the most sense to them? Why?

**CLOSURE**

Return to the classification form and ask students how they think conservatives and liberals would react to these headlines. Ask students to explain their answers.

ACTIVITY/VISUAL 1

**ECONOMIC FUNCTIONS OF GOVERNMENT**

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Maintaining Legal and Social Framework

Providing Public Goods and Services

Maintaining Competition

Redistributing Income

Correcting for Externalities

Stabilizing the Economy

# ACTIVITY 1

## ECONOMIC FUNCTIONS OF GOVERNMENT/WORKSHEET

Name \_\_\_\_\_

Maintaining Legal and Social Framework	Maintaining Competition	Providing Goods & Services
Headline:	Headline:	Headline:
Headline:	Headline:	Headline:
Headline:	Headline:	Headline:
Redistributing Income	Stabilizing the Economy	Correcting for Externalities
Headline:	Headline:	Headline:
Headline:	Headline:	Headline:
Headline:	Headline:	Headline:

# ACTIVITY 2

## NEWSPAPER HEADLINES\*

Name \_\_\_\_\_

1. Federal Government Approves Crime Bill; Cities to Hire Additional Police
2. Minnesota to Sue Tobacco Firms to Recover Health Care Costs
3. Consumer Product Safety Commission Recall of Skirts Made in India
4. US Investigation Seeks to Find if Aluminum Producers Conspired to Cut Output; Broke Anti-Trust Laws
5. Insurer Files Suit Charging Bank Made False Claims
6. Higher Interest Rates Likely Despite Inflation Data
7. U.S. Government to Increase Aid to Education Next Year
8. Northeast's Petition for Tighter Curbs on Auto Emissions Approved by Environmental Protection Agency
9. Group of Economists Urges Federal Reserve System Not to Act Against Inflation Now
10. Hughes Aircraft to Lay Off 4,400 and Close Big Defense Plant
11. Social Security Payments to Increase by 4% Next Year: Cost of Living Allowance Up
12. Congress Approves Higher Income Tax Rate for Top Wage Earners

\*These headlines are fictional.

From *Civics and Government: Focus on Economics*, © National Council on Economic Education, New York, NY

## ACTIVITY 3

WHAT ROLE SHOULD THE GOVERNMENT  
PLAY IN THE ECONOMY?

Name \_\_\_\_\_

Although it is generally agreed there is a role for the government to redistribute income in favor of the poor, provide public goods and services, and deal with externalities, there is considerable disagreement over how far the government should go in these areas, and what additional areas the government should be responsible for. Some people feel that "big government" is already a problem, that government is doing too much. Others believe that the government sector of the economy is being starved and that government should be allowed to do more. What is the appropriate role for government is a basic question, and one that involves a great deal more than economics.

**Conservative View**

On the one hand, conservatives believe that the government's role should be severely limited. They feel that economic and political freedom is likely to be undermined by excessive reliance on government. Moreover, they tend to question the government's ability to solve social and economic problems. They believe that faith in the government's power to solve these problems is unreasonable. They call for more and better information about what government can reasonably be expected to do—and do well.

They point to the slowness of the government bureaucracy, the difficulty in controlling huge government organizations, the problems political considerations can breed, and the difficulties in telling whether government programs are successful or not. On the basis of these considerations, they argue that the government's role should be carefully limited.

**Liberal View**

Conservatives tend to question the government's ability to solve important social and economic problems, but liberals tend to question the market's ability to solve these problems. They point to the important limitations of the market system, and they claim that the government can do a great deal to overcome these limitations. Government can regulate private economic activity. It can also provide goods and services that the private businesses produce too little of. Liberals tend to be less concerned than conservatives about the effects on personal freedom of greater governmental intervention in the economy. They point out that the price system also involves a form of coercion by awarding goods and services to those who can pay the price. In their view, people who are awarded only a small amount of goods and services by the market are forced into discomfort and malnutrition.

Adapted from Edwin Mansfield and Nariman Behravesh. *Economics USA*, New York: W.W. Norton, 1992, pp. 592–594.