Government

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A government's intervention in the economy of a country, especially in the United States has fueled debates and criticisms, market failures, disruptions in the free-flow of market economic transactions between producers and consumers. However, its benefits far outweigh the dangers offailurein the economic affairs of the country.

It has been said that, " Government intervention in the market sets out to attain twogoals: social efficiency and equity. Social efficiency is achieved at the point where the marginal benefits to society for either production or consumption are equal to the marginal costs of either production or consumption (Wikipedia. org, 2006)." And it aims also to attain equity as when the United States government began to exercise its power to intervene in order to protect small businesses and consumers during the consolidation of United States industries into powerful corporations.

In giving a picture of an economy under the framework of government intervention as beneficial, we must first put in mind the economic process in which a government intervention action would be applicable.

This is the picture; " Economic performance can be illustrated through the concepts of aggregate supply and aggregate demand. Aggregate supply is the total supply of goods and services produced in the nation's economy. It is upward-sloping because at higher prices firms have an incentive to produce more, and at lower prices they are likely to produce less. Aggregate demand is the total demand for goods and services in the nation's economy. It is downward-sloping because at higher prices, consumers, firms,

government, and foreign customers are less willing to buy, while they will likely buy more at lower prices.

Shifts in the aggregate supply and aggregate demand curves can illustrate changes in the performance of our economy. If consumer confidence in the economy falls and people reduce their spending, aggregate demand can fall, reducing real output and prices and possibly dropping the country into a recession. However, if themoneysupply is too large, excessive consumer demand can push up the aggregate demand, raising real output and prices and possibly pushing the country into serious inflation (Econedlink. org, 2006).

Basically, the government intervenes in a given situation in order to correct economic problems such as serious inflation, as was stated in the preceding paragraph, or enhancing the benefits and advantages to be derived from the market in the context of economy.

Now, when inflation begins to manifest, sometimes the government let it move in its natural course, but if the inflation rates go very, very high to the detriment of the country's economy, the government takes action by making policies to correct these rates. And now, most economists learned their lesson from history theGreat Depressionduring the early part of the 20th century. In fact most economists try to advocate in favor of the idea that the government should be more aggressive in creating economic stabilizing policies.

One concrete example of a government intervention that had a positive effect on the country was the implementation of President Franklin Delano

Roosevelt's " New Deal" policy which was a response to the GreatDepression. During this period in the 1930s, (Economics. about. com, 2006) the United States endured the worst business crisis and the highest rate of unemployment in its history. Many Americans concluded that unfettered capitalism had failed. So they looked to government to ease hardships and reduce what appeared to be self-destructive competition.

Roosevelt and the Congress enacted a host of new laws that gave government the power to intervene in the economy. Among other things, these laws regulated sales of stock, recognized the right of workers to form unions, set rules for wages and hours, provided cash benefits to the unemployed and retirement income for the elderly, established farm subsidies, insured bank deposits, and created a massive regional development authority in the Tennessee Valley.

Usually, in stabilizing the economy, the government uses monetary policies in order to regulate supply and demand, two factors in basic economics. A policy like this is implemented by " influencing the national economy by monetary control. Its feature of monetary control includes the definition of the monetary unit, the regulation of the supply of cash and bank deposits, and the control of banking (Greene, Parthemos. 78)."

Using this monetary control power, it is recommended that the Federal Reserve System, being the foundation of the American Banking System, buy bonds so that banks can have more money by loaning. Therefore, this would help to reduce the interest rates; consumers, producers and firms are more

likely to engage enthusiastically with each other in trade through economic transactions.

The government can also regulate its expenditures so as to maintain its treasury reserves so that in cases of economic difficulties, it has means to offset the increased in debts.

A situation in an economy where consumers and firms are fearful of borrowing from banks, the government can intervene by recommending that the Federal Reserve Bank lower the discount and interest rates, so that consumers and firms will be more willing to loan and spend because banks are willing to borrow money available for loans at lower interest rates. This would effectuate an increased in aggregate demand.

The aims of the United States government, being a capitalist country, withrespectto national economy are said to be to 1) secure an adequate rate of growth, 2) sustain high levels of production and employment, and 3) maintain reasonability in prices (Greene, Parthemos. 73).

These objectives would justify America's implementation of fiscal and economic policies in times of economic turmoil.

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