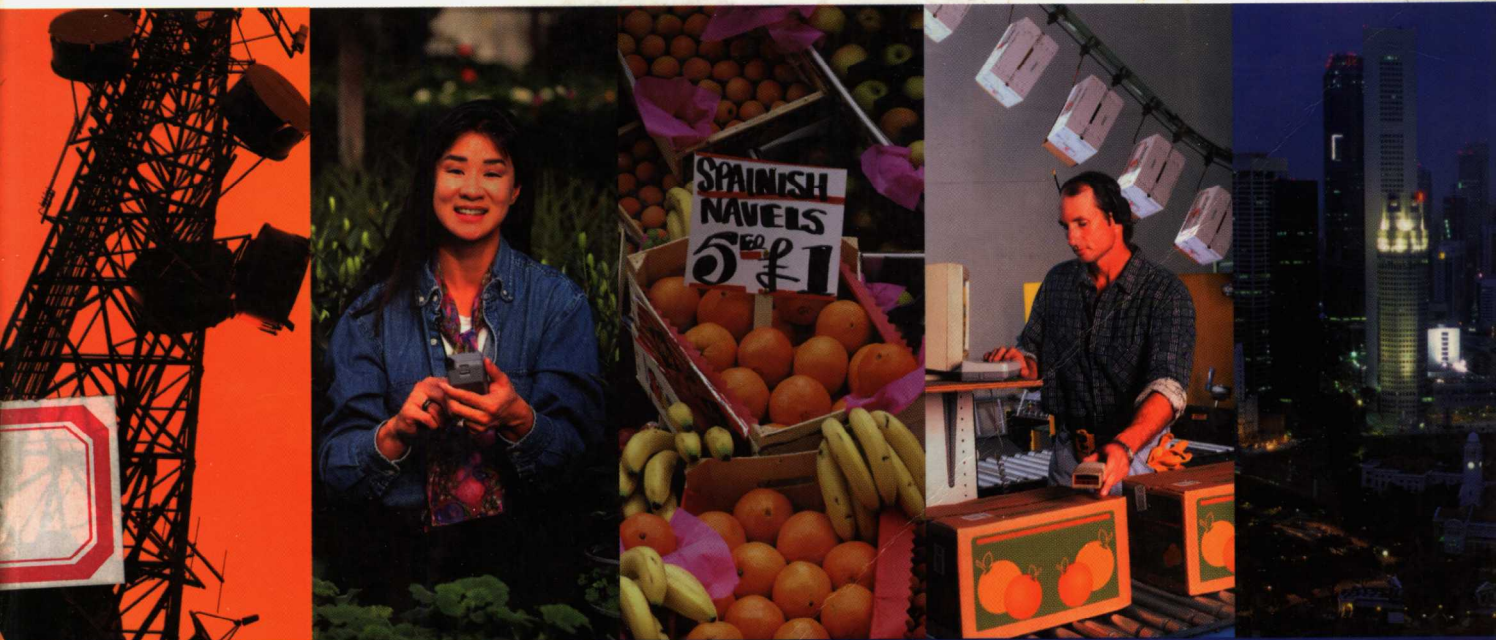




SECOND EDITION

# Economic Issues and Policy



BRUX & COWEN

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# Economic Issues and Policy

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*Economic Issues and Policy, 2e*, by Jacqueline M. Brux and Janna L. Cowen

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Manufacturing Coordinators: Charlene Taylor, Sandee Milewski  
Production House: UpperCase Publication Services, Ltd.  
Printer: R.R. Donnelley & Sons Company, Crawfordsville Manufacturing Division

Quotations from John Kenneth Galbraith (page 1), Bertolt Brecht (page 7), Cicero (page 10), and Lech Walesa (page 14) are taken from *Columbia Dictionary of Quotations*. Copyright 1993 by Columbia Univ. Press. Reproduced with permission of Columbia Univ. Press in the format Textbook via Copyright Clearance Center.

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Printed in the United States of America  
1 2 3 4 5 05 04 03 02 01

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**Library of Congress Cataloging-in-Publication Data**

Brux, Jacqueline Murray.

Economic issues and policy / Jacqueline Murray Brux, Janna L. Cowen.—2nd ed.

p. cm.

Includes bibliographical references and index.

ISBN 0-324-10856-7 (pbk. : alk. paper)

1. Economics. 2. Economic policy. I. Cowen, Janna L., 1942- II. Title.

HB171.5 .B8 2001

330—dc21

2001020812

# FOREWORD

## TO THE INSTRUCTOR

This text is intended for a nontechnical, issues-oriented economics course, usually a 100-level course in four-year universities. The book is also appropriate for two-year colleges and other institutions, as well as economic education programs for elementary and secondary schoolteachers. Chapters are designed so that they can be taught in any order (with the exception that Chapter One must come first). Each chapter includes references to other chapters that mention similar topics.

The authors together have approximately 40 years' experience in teaching issues-oriented economics. Usually our students are not economics majors, although many have decided to major in economics after taking this course. Some of our students are recent high school graduates and incredibly naive about the workings of the economy. Others are nontraditional students who know only too well how the economy works. They also understand how disadvantaged they are without a college degree. The primary objective of this book is to reach both groups plus those in between.

Our goals in writing the book were to make students aware of economic issues in the world around them and to facilitate their understanding of these issues and related policy perspectives. Students are often unaware that so many important issues of our day, including ones that directly affect them, are rooted in economics: issues pertaining to our environment, our health care, and our educational system, and matters as weighty as war and peace. Furthermore, students often set aside as too complex the issues that *are* recognized as economic, such as unemployment and inflation or trade and budget deficits. They believe that these issues are better left for the experts. Students need to know that these issues are indeed relevant, interesting, and within their ability to understand. They need to comprehend these issues to make sound choices and form intelligent opinions.

Recent studies suggest that today's youth are disinterested in the world around them and focused instead on more personal concerns such as getting good grades, paying for education, and acquiring a job. Students must be shown the connection between themselves and their world. In a functioning democracy, they need to understand the relevance of social issues to their lives, and the impact their lives can have on these issues. This book is an effort to demonstrate that relevance and suggest that impact. Indeed, its epilogue, "You and the World around You," invites the student to address some of the matters raised in the text.

The discussion of issues in this book is lively and current. We have made an effort to include issues of gender, race, and ethnicity. Because the world is so rapidly becoming interdependent, we also have provided plenty of discussion of the international economy. Even if you rarely have time to include international topics in your course, we encourage you to read all three chapters addressing such

topics before deciding to skip them. We think you will find them quite relevant and interesting, and the issues are presented in such a way that students can understand them.

In this book we use economic theory to analyze economic situations and the implications of possible policies. The economic theory is basic: supply and demand, aggregate supply and aggregate demand, production possibilities, and so on. The level of technicality in the book is deliberately appropriate for an economic issues course with no prerequisites, unlike the level in other texts on the market that attempt to incorporate all relevant principles and theory into pages better focused on the issues themselves. The material is written in a clear and student-friendly manner. Occasionally more technical material or additional examples are placed in appendices to the chapters. Graphs are clear and each usually illustrates only one concept. A careful explanation of the concept appears with most graphs. We generally use only two basic types of graphs: production possibilities and demand and supply (and aggregate demand and supply). Every effort has been made to place the graph and the discussion of the graph on the same or adjacent pages.

We generally present economic theory in a simple, market-oriented framework, but we don't limit policy discussion to such a narrow context. Rather, we offer diverse policy perspectives. As a result, the book contains a more liberal orientation than one that would rely on market analysis only, but the text is carefully balanced to reflect both the conservative and the liberal views.

Indeed, the careful presentation of conservative and liberal viewpoints is one of the unique characteristics of this book. Students often have opinions, and they often consider themselves to be either conservative or liberal, but they rarely have the sophistication to understand the economic meaning of these terms and how their viewpoints tie into one or the other general philosophy. The Viewpoint section at the end of each chapter clarifies these notions, giving students a framework within which to understand their own economic philosophies. Please point out to your students the importance of reading the Foreword to the Student, which clarifies the conservative versus the liberal economic views.

## Changes in the Second Edition

The second edition of the text is extensively updated. First, it has a new design and artwork that should be more appealing to the student. This artwork includes a "roadmap" at the beginning of each chapter that shows how topics from previous chapters tie into the current chapter, and how topics in the current chapter tie into future chapters. As a result of a reorganization of chapters, two of the international chapters appear earlier in the second edition than in the first. The renamed chapter "International Trade" now appears directly after "Market Power" (extending the concept that competition is enhanced by trade), and the renamed chapter "World Poverty" appears directly after "U.S. Poverty" (extending the concept of poverty worldwide). Because of exciting additions to "International Trade," the topic of international finance is now relegated to an appendix. Because discrimination is certainly one of the causes of poverty, the chapter on "Discrimination"

now directly precedes “U.S. Poverty.” The chapter “Globally Free Markets for the Twenty-First Century?” remains at the end of the book, inviting students to synthesize all they have learned about economic conservative and liberal philosophies and put it to the test of predicting the future of the world economy. The epilogue “You and the World around You” follows this chapter as before.

Second, the new edition contains the latest data available, as well as new, current topics. These topics include the conservative Bush agenda, our newly designed welfare program, the employment effects of immigration, the controversy over the minimum wage, the new era of government budget surpluses, indigenous people’s rights to land, AIDS in Africa, the Seattle protests, sweatshop labor, (an expanded discussion of) housing segregation, and the controversy underlying our trade relationships with Cuba and China.

Third, Internet exercises are now included in the Discussion Questions in each chapter, as well as Web links directing students to further information. You have the option of providing your students with the *New York Times Economic Issues Guide*. This guide can be used formally in the classroom or informally for life-long learning. All articles are accompanied by exploratory exercises and probing questions developed by experts in the field. Previews provide context for each chapter of articles and link them to key economic topics. Because the guide is divided into six sections highlighting critical factors in economics today, it can easily be integrated into any economics course. You and your students are also invited to use the South-Western Web site at <http://economics.swcollege.com>, where you can find summaries of the latest economics news stories, indexed by topic, as well as commentary on today’s most crucial economic policy debates, and a variety of economic data.

## Ancillaries

Two ancillary volumes, *Instructor’s Manual with Test Bank* and *Study Guide*, are available with this book. These volumes are newly revised to complement the second edition of the text. As authors of the text, we also wrote the instructor’s manual and the study guide, thereby ensuring that the ancillaries are consistent with the second edition in both vocabulary and intent.

In *Instructor’s Manual with Test Bank*, we reveal our purpose and objectives on a chapter-by-chapter basis. The manual contains teaching and lecture suggestions (based on our long-term education in how students think) as well as additional examples that you can use in class. It also contains sample short-answer, multiple-choice, true-and-false, and critical thinking exam questions. As such, it provides instructors with plenty of choices in the types of exam questions they wish to use. The manual also includes suggested Web sites for instructors.

*Study Guide* also presents our purpose and learning objectives. In it we’ve included, on a chapter-by-chapter basis, study suggestions and practice exercises that reflect our experience with students. We also provide a self-test of multiple-choice and true-and-false questions.

## TO THE STUDENT

This book focuses on economic issues. It includes those issues that you would normally consider to be economic issues, such as unemployment and inflation. But it also includes a variety of other social issues that you might not ordinarily think of as economic ones: crime, the plight of our nation's homeless, the degradation of our environment, and the problems of public education. These and many other issues are addressed in this book.

The book is intended to be student-friendly. The graphs are straightforward and clear. You may be relieved to know that most of the graphs in this book boil down to just two basic types: production possibilities and demand and supply. The definitions of economic vocabulary help you cut through the economic jargon. The issues are current. The text is clear and to the point, with a minimum of technicality. The material is presented in a way that you should find relevant to your personal life.

The book is intended to get you to think. As you acquire a basic understanding of economics, you also acquire a basic framework within which to form and justify your personal opinions about social issues. Are you a conservative or a liberal? Are you conservative on some issues and liberal on others? Do you even know what these terms mean in the context of economics? In economics, and from a U.S. perspective, conservative generally means believing in only a limited role for government in the economy. In the conservative view, the free market operates relatively well by itself; therefore, little government intervention in the form of regulations, taxes, and programs is needed. Indeed, conservatives believe that if left alone, the market will solve most economic problems. The conservative view is on the right end of the economic philosophical spectrum. Liberal, on the other hand, generally means support for far greater government involvement in the economy. In the liberal view, the marketplace may often be efficient, but it is not necessarily equitable—that is, the marketplace is not always fair, and it does not ensure an adequate education, health care, housing, and income for all. Government intervention in the marketplace is thought to be necessary to overcome problems such as discrimination, poverty, and pollution. The liberal view is on the left end of the economic philosophical spectrum.

Keep in mind that these notions of what it means to be conservative or liberal specifically apply to *economics*. On the other hand, from a *social* perspective, conservative often means resistance to change, whereas liberal means support of social experimentation and change. Social conservatives may therefore support more government involvement in the social aspects of our individual lives than a liberal would. Social conservatives are more likely to favor, for example, government censorship of music, movies, and magazines than are liberals. *Do not confuse the economic and social perspectives!*

This textbook covers viewpoints that are conservative or liberal from an economics standpoint. The Viewpoint section at the end of each chapter clarifies the positions of both liberals and conservatives to help you formulate your own beliefs. Keep in mind that this section is intended to show opposite viewpoints; often

economists and policymakers find themselves closer to the middle. On many issues, agreement among economists is widespread.

Basic economic tools can be used as a framework for understanding the various social issues in the world around us. They can provide greater insight into issues such as crime, education, housing, poverty, and discrimination. They can help us understand government policy within our nation. They can help us understand economic events in other countries, including those countries making a transition from socialism to capitalism in Eastern Europe and those countries struggling to develop in the less-developed world.

Finding solutions to economic problems is not easy. People of different philosophies can hold very different viewpoints, despite a common understanding of economic concepts. Here is where you, the student, come in. This book will provide a basic economic framework for discussing social issues and problems, but you must determine your own viewpoint on these issues and problems.

The second edition of the text is extensively updated from the first. First, it has a new design and artwork that should be appealing to you. This artwork includes a “roadmap” at the beginning of each chapter that shows how topics from other chapters are linked to topics in the current chapter. Second, the new edition contains the latest data available, as well as new, current topics. These topics include the conservative Bush agenda, our newly designed welfare program, the employment effects of immigration, the controversy over the minimum wage, the new era of government budget surpluses, indigenous people’s rights to land, AIDS in Africa, the Seattle protests, sweatshop labor, housing segregation, and the controversy underlying our trade relationships with Cuba and China. Finally, you will benefit from the Internet exercises included in the Discussion Questions in each chapter, and Web links, which direct you to further information.

An updated study guide is available with this textbook to aid you in your study of economic issues and policies. It presents our purpose and learning objectives for each chapter. It includes, on a chapter-by-chapter basis, many study suggestions and practice exercises that reflect our experience with students. Multiple-choice and true-and-false questions are provided.

Finally, as a student using a South-Western textbook, you have access to an excellent Web site (<http://economics.swcollege.com>) that includes data summaries of the latest economic news, and commentary on today’s most crucial economic policy debates.

Now enjoy your discovery of the world of economic issues!

## ACKNOWLEDGMENTS

We owe a debt of gratitude to many people. First we wish to thank the thousands of students who allowed us to experiment on them. Without them, we would still fail to understand why they always believed that economics was *so* difficult and boring! We would never know how we could make it relevant for them.

Second, we would like to thank all the reviewers who made suggestions on early drafts of this book: Robert L. Gordon, San Diego State University; Alan

Grant, Eastern Illinois University; Eric R. Hake, Eastern Illinois University; Emily P. Hoffman, Western Michigan University; George Monsma, Calvin College; and Raymond A. Pepin, Stonehill College. They critiqued our pedagogy and our English usage, and the book is significantly stronger because of their efforts. Its remaining weaknesses are, of course, our responsibility.

Third, we appreciate the support provided by our department chair and interim director, Glenn Potts, and our program assistant, Eunice Filkins.

And finally, we are grateful for the support of family and friends. Thank you, Corey and Christina, for providing enough joy in my life to see me through any project.

Jacqueline M. Brux  
Janna L. Cowen

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**Jacqueline Murray Brux** received her Ph.D. in economics in 1983 from the University of Michigan in Ann Arbor, and is a professor of economics at the University of Wisconsin-River Falls. Her areas of expertise are economic development and international economics. Her research encompasses the area of economic development of less-developed countries, with special focus on women in development and structural reforms. Dr. Brux's international experience includes work and research in the countries of Burkina Faso and Ghana in West Africa; Mexico, Chile, and Cuba in Latin America; Russia; and Vietnam.

**Janna L. Cowen** received her Ph.D. in economics from the University of Nebraska-Lincoln in 1979; she has been at the University of Wisconsin-River Falls (UW-RF) ever since that time. Her teaching and research interests are in the areas of government regulation of business and labor economics. Dr. Cowen was recognized as the 1987 Teacher of the Year at UW-RF and the 1988 Outstanding Teacher in the Social Sciences.

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