

The VOTE Textbook

Student Notes

Chapter 20: Economic Stability

Opening Story: The three bricklayers

Economic Stability is the absence of extreme fluctuations in prices and employment.

A stable economy has three characteristics:

1. It grows at a steady rate.
2. Prices are predictable.
3. The country's available resources are used to their best potential.

Economic instability is caused by a natural or human-made event that interrupts a country's ability to be productive and puts everyone's material well-being suddenly at risk.

Three destabilizing events Gen Z experienced before they turned 20 years old:

1. 9/11 terrorist attacks
2. Financial crisis of 2008
3. COVID-19 pandemic

Some terms used to describe the state of the economy:

- growing and shrinking
- stagnating and recovering
- expanding and contracting
- booming and busting
- surging and crashing
- overheating and cooling
- in a recession

- in a bubble
- in a depression
- hitting a peak
- bottoming out
- stuck in a trough

The Golden Moment

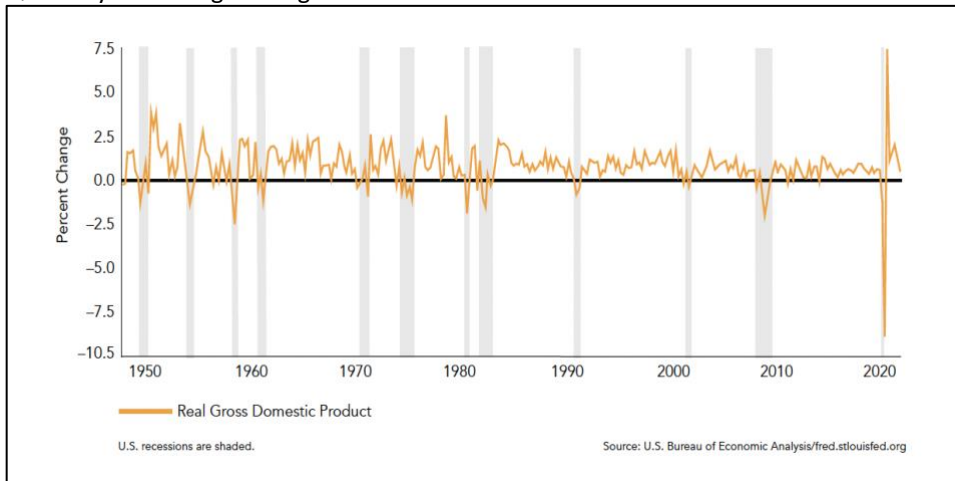
Shared Problem: Inflation and unemployment undermine the well-being of society

Shared Goal: Stable prices and full employment

Imagine the economy as a three-legged stool, with GDP (production), employment (jobs), and prices as the three legs.

Gross Domestic Product (GDP) measures the production of goods and services.

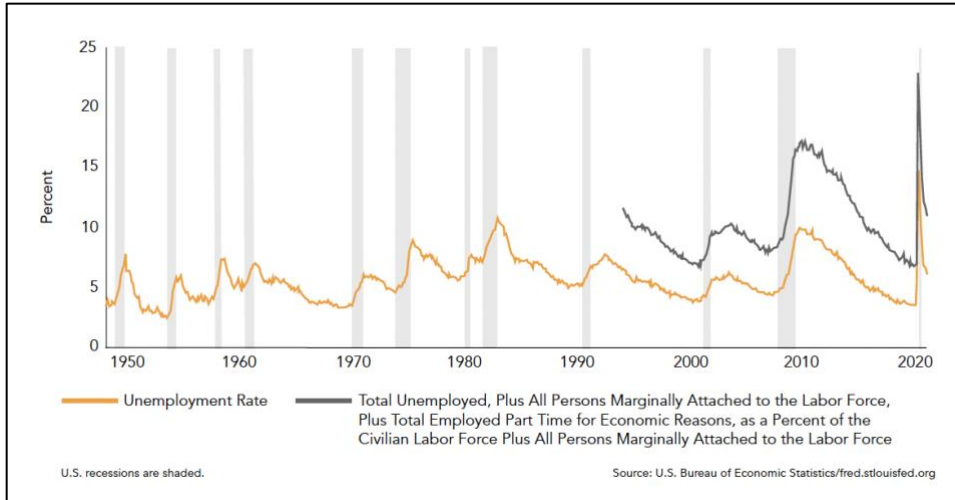
Quarterly Percentage Changes in GDP



The official definition of unemployment has three parts:

1. Wanting a job but not having one
2. Actively seeking work
3. Being eligible and available to take a job

Monthly Percentage Changes in the Unemployment Rate



Frictional and structural unemployment are considered natural, and even healthy for an economy. Economists call the combination of the two the *natural rate of unemployment*.

The goal isn't to eliminate frictional and structural unemployment, but to eliminate cyclical unemployment, which is caused by a downturn in the economy.

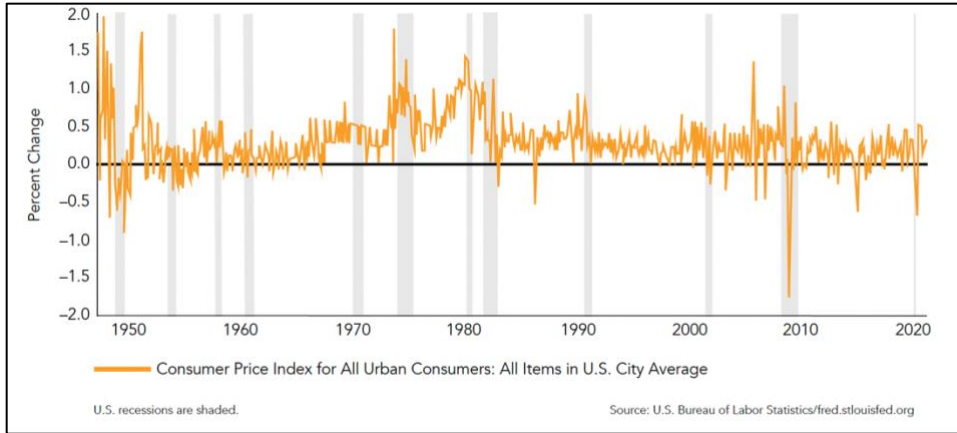
Full employment (FE) means we are using all our land, labor, and capital most efficiently—except for frictional and structural unemployment.

Three Costs of Unemployment

1. Social crises: Increases in crime, substance abuse, depression, domestic violence, and suicide.
2. Lower living standards: Workers lose wages.
3. Slow economic growth: Permanent loss of goods and services.

Prices Changes: People suffer when prices on average unexpectedly go up (inflation) or down (deflation) by more than 2 percent.

Monthly Percentage Changes in the Consumer Price Index



Worst-case scenario is hyperinflation—when prices increase by more than 50 percent in a single month.

Highest Historical Monthly Inflation Rates through 2008

Country	Currency name	Month	Rate (%)	Time required for prices to double
 Hungary	Hungarian pengő	July 1946	4.19×10^{16}	14.82 hours
 Zimbabwe	Zimbabwe dollar	November 2008	7.96×10^{10}	24.35 hours
 Yugoslavia	Yugoslav dinar	January 1994	3.13×10^8	1.39 days
 Germany	German papiermark	October 1923	29,500	3.65 days
 Greece	Greek drachma	October 1944	13,800	4.21 days
 China	Chinese yuan	April 1949	5,070	5.27 days

Three Costs of Unanticipated Inflation

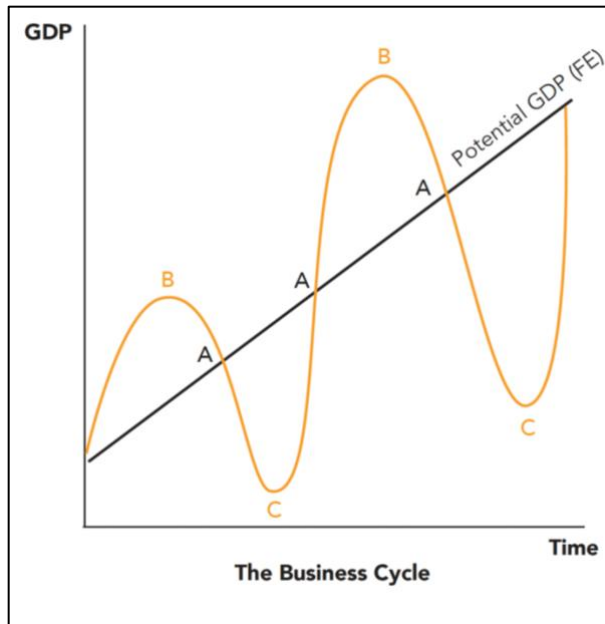
1. Lending crisis: Lenders are unwilling to make loans.
2. Lower standard of living: People on fixed incomes suffer.
3. Slow economic growth: Fewer long-term contracts and less long-term planning.

Unexpected deflation is just as damaging to the economy as unexpected inflation, and causes borrowing crisis, lower standard of living, and slow economic growth.

The Misery Index: Inflation + Unemployment. When they occur at the same time, it is called *stagflation*.

Shared Tools: The Business Cycle

It describes the ups and downs of the economy.



The black line represents the country's potential GDP (FE). The orange line represents the actual GDP in a given period of time (*the business cycle*).

There are gaps on the black line except at the A points, which are where our actual GDP is the same as our potential GDP.

No one wants the economy to overheat and cause inflation (points B) or plunge into recession and cause unemployment (points C).

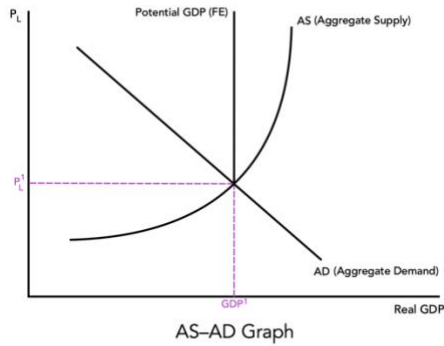
Each of the perspectives tries to solve the problems of inflation and unemployment with two types of policies:

1. Monetary policy relates to changes in the money supply (think money).
2. Fiscal policy relates to changes in government spending and taxes (think budget).

Conventional Tools: Fixing Recessionary Gaps and Expansionary Gaps

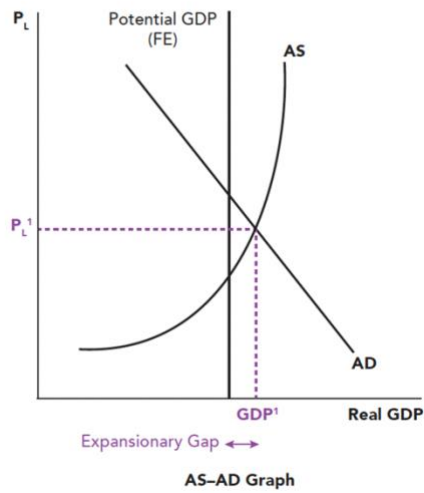
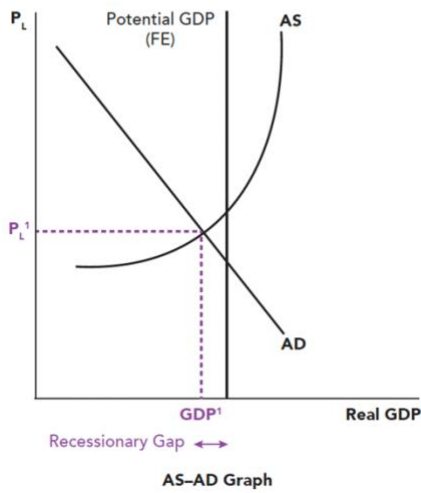
The goal is full employment and stable prices.

The sweet spot!



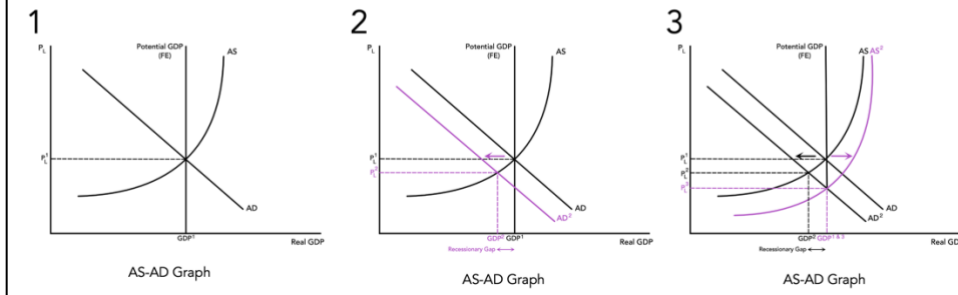
Underperformance and overperformance are both problems. The sweet spot tells us that we are living up to our economic potential as a nation.

Recessionary Gap and Expansionary Gap



Classical Theory: Recessionary Gap Self-Correction

1. Full employment (all is well)
2. AD decreases, prices and wages decrease
3. Suppliers respond to lower costs by supplying more, hiring more workers, and pushing the economy back to full employment



Classical Theory Conclusion: Say's Law

“Supply creates its own demand.” – John-Baptiste Say

- In the long run, the economy will self-correct.
- Therefore, whether the economy goes up or down, we should leave it alone (*laissez-faire*).

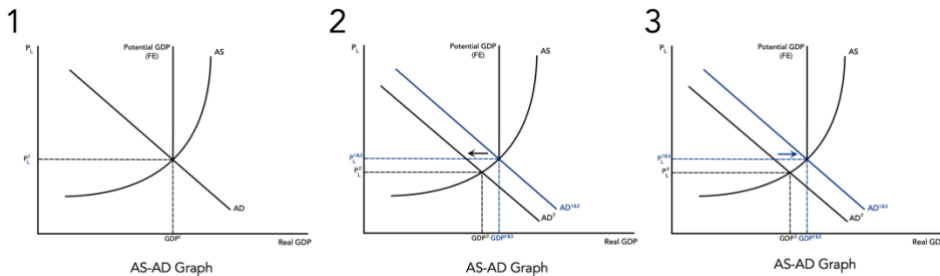
This was the conventional wisdom until 1929, when the U.S. stock market crashed and sent the economy into a tailspin that became the Great Depression.

Liberal (Keynesian) Ideas

- The economy may self-correct in the long run, but...
- “In the long run, we are all dead!” – John Maynard Keynes
- Say's law doesn't hold.
- Demand is the engine of growth.
- Government can actively stabilize the economy through fiscal and monetary policy (called stabilization policy).

Liberal (Keynesian) Model – Recessionary Gap

1. Full employment (all is well)
2. AD decreases and firms don't start supplying (AD continues to shift left).
3. Use government stimulus to shift AD right
 - Decrease taxes on lower- and middle-income people
 - Increase government spending
 - Lower interest rates



* To correct an expansionary gap, do the opposite.

Liberal Summary

Keynesian "Bubble-Up" Economics

Fiscal policies -- Government
(Expansionary or contractionary)

- Δ Income tax rates for poor and middle class
- Δ Government spending

Monetary policy -- The Fed
(Loose or tight)

Set target for interest rates
Adjust money supply to accommodate that range.

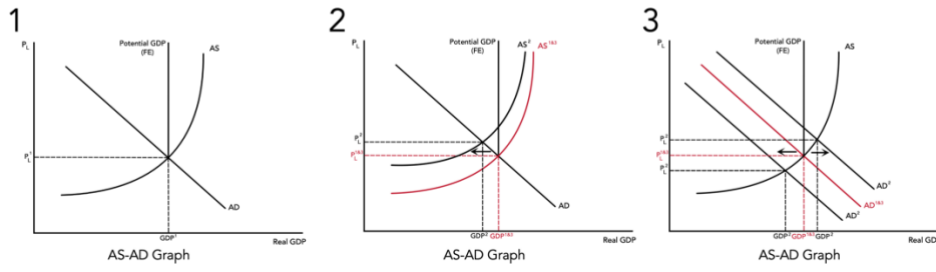
Δ = change

Conservative (Modern Classical) Ideas

- Without government interference, the economy self-corrects in the long run.
- Say's law holds.
- Supply is the engine of growth
- Get rid of government interference, and then leave it alone.

Conservative (Supply-Side) Model – Recessionary Gap

1. Full employment (all is well) - Government interferes with AS (imposes high taxes and regulations)
2. Government interference: - Government interferes with AD (manipulates the money supply)
3. Actively get rid of government and then leave it alone
 - Decrease across-the-board taxes
 - Decrease regulations



Conservative Summary

Supply-Side "Trickle-Down" Economics

Fiscal policies

(Laissez-faire)

- ↓ Income tax rates for all
- ↓ Corporate taxes
- ↓ Capital gains tax rates
- ↓ Government regulations

↓ = lower

Monetary policies

(Laissez-faire)

Abolish the Fed

Return to the gold standard or have competing currencies.

or

Limit the Fed

Set a growth rate for the money supply and then leave it alone.


Radical Tools: Production for Profit and Production for Use

Radicals use the six core points as tools to analyze economic issues.

- Ownership
- Governance
- Meeting people's basic material needs
- Production
- Sustainability
- Communities

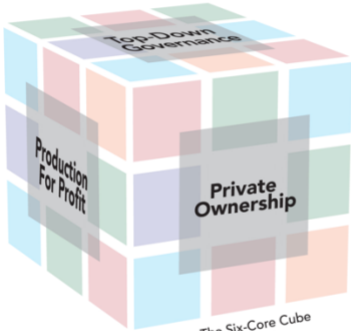
Radicals select the core point that makes the most sense for a particular issue.
For the economic stability, it is production.

Drill down into production in capitalism:

Workplace Exploitation + Capitalist Competition	}	<p>The Pressure for Bad leads to The Visible Suffering</p> <p>... and is represented by the Six-Core Cube of capitalism, which can never be solved.</p> 
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The Unsolvable Six-Core Cube of Capitalism

1. Private Ownership
2. Top-Down Governance
3. Individuals at Risk
4. Production for Profit
5. Unsustainable Growth
6. Unhealthy Communities



The Six-Core Cube
of Capitalism

Why unsolvable?
It is built around six core points that are rotten to the core!

Production for Profit: Firms make things that bring them the most profit, regardless of whether those products are necessary, useful, or beneficial.

Production for Profit

- The primary goal of production is to make money.
- The success of every endeavor is measured in profit, not well-being.
- Win-lose competition is normalized and celebrated.



The Visible Suffering of Capitalism

- Hunger and malnourishment
- Harmful products
- Mass poverty
- Homelessness
- Extreme income inequality
- Pollution and climate crisis
- Inaccessible, low-quality health care
- Destructive market domination
- Impoverished elders
- Exploding public and private debt
- Damaging trade relationships
- **High prices and no jobs**

Drill down into production in democratic socialism:

Workplace Justice
+
Coordination Among Competitors

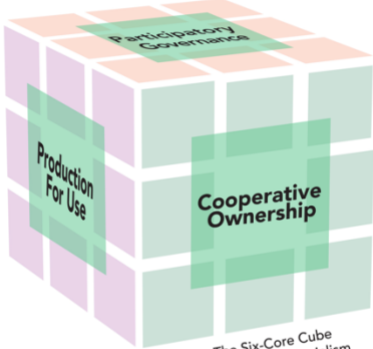
The Pressure for Good
leads to
The Invisible Synergy

...and is represented by the
Six-Core Cube of democratic
socialism, which can be solved.



The Solvable Six-Core Cube of Democratic Socialism

1. Cooperative Ownership
2. Participatory Governance
3. Social Safeguards
4. Production for Use
5. Sustainable Development
6. Healthy Communities



Why solvable?
It is built around six core points that are beneficial to the core!

Production for Use: Firms make things that improve people's lives, rather than producing only to make a profit.

Production for Use

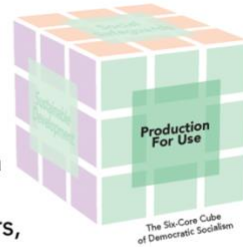
- The primary goal of production is to make products that are necessary, useful, and beneficial.
- The measure of success of every endeavor is the increased well-being of society, not profit.
- Win-win solutions are normalized and celebrated.



Radical Ideas

1. Federal Jobs Guarantee

The federal government guarantees a job that pays a living wage to every citizen who wants one. During hard times, workers shift from private to public sectors, and shift back again when the economy recovers.



2. Networking Hubs

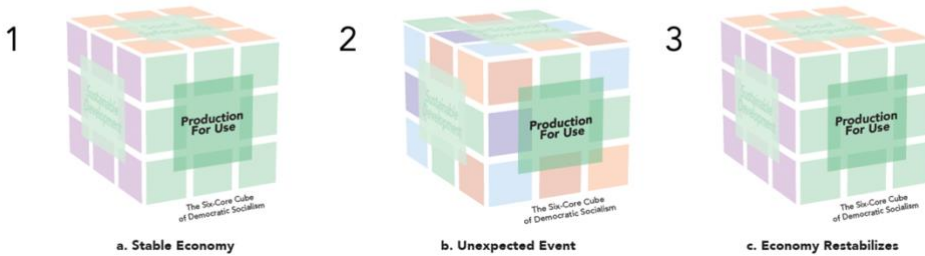
These are matchmaking services that help worker-owned firms connect with strategic partners. In good times and bad, firms forge mutually beneficial collaborations with competitors across related industries.

3. Public Banking

Tax revenues at each level of government are deposited in public banks and used to make loans that develop the economy in a sustainable way. (Credit unions are used for personal banking.)

Radical (Socialist) Theory

1. Full employment (all is well)
2. Instability ensues; firms downsize; well-being at risk
3. A commitment to the six core points of democratic socialism in conjunction with federal jobs guarantee, networking hubs, and public banking act as automatic stabilizers and bring the economy back into balance.



Radical Summary

Socialist "Ripple-Out" Economics

Fiscal Policies

(Prioritize people over profit)

- ✓ Federal jobs guarantee
- ✓ Networking hubs

✓ = commitment

Monetary Policies

(Prioritize people over profit)

Use public banking

Operate public banks at the federal, state, regional, and local levels.

The Invisible Synergy of Democratic Socialism

- Abundant, healthy food
- Safe and helpful products
- Prosperity
- Housing for all
- Equitable income distribution
- Clean environment
- Universal, first-rate health care
- Fair and positive competition
- Secure and dignified retirement
- A thriving, debt-free society
- Mutually beneficial trade relationships
- **Jobs and stable prices**

THE BLAME GAME		
What causes economic instability?		
<p style="color: red; font-weight: bold; margin: 0;">Conservative</p> <p style="color: red; margin: 10px 0;">Too much government interference in capitalism</p> <p style="color: red; margin: 10px 0;">We need free-market capitalism.</p> <p style="color: red; margin: 10px 0;">“Trickle Down”</p>	<p style="color: blue; font-weight: bold; margin: 0;">Liberal</p> <p style="color: blue; margin: 10px 0;">Not enough government intervention in capitalism</p> <p style="color: blue; margin: 10px 0;">We need fair-market capitalism.</p> <p style="color: blue; margin: 10px 0;">“Bubble Up”</p>	<p style="color: green; font-weight: bold; margin: 0;">Radical</p> <p style="color: green; margin: 10px 0;">The drive for profit in capitalism</p> <p style="color: green; margin: 10px 0;">We need democratic socialism.</p> <p style="color: green; margin: 10px 0;">“Ripple Out”</p>

Three-in-One Activity, Parts A, B, & C: “Are You the Next Great Economic Thinker?”

Are You the Next Great Economic Thinker?		
Your Ideas	Changes to Your Ideas?	R/L/C Perspective or New?
1.		
2.		
3.		

Your Signature and Today's Date

Part A: My 3 ideas for fixing unemployment (in the first column).

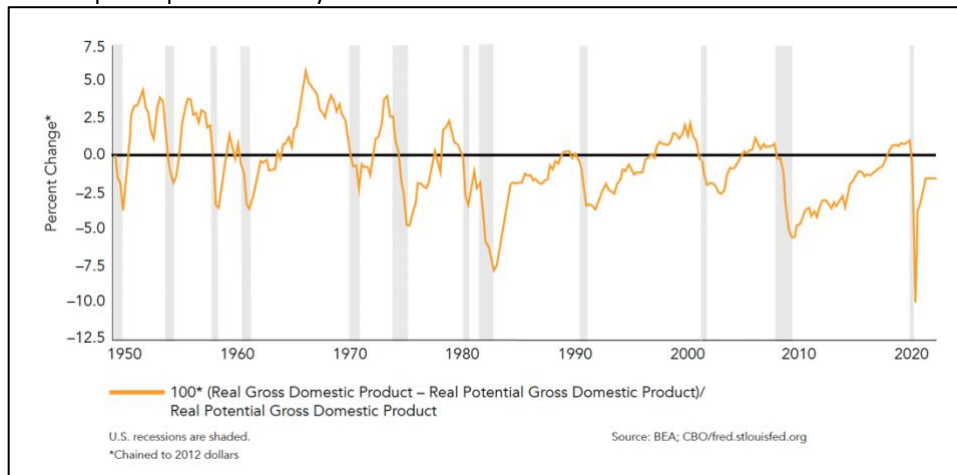
Part B: Do I want to change my ideas (in the second column)?

Part C: Do any of my ideas echo the radical, liberal, or conservative perspectives or do I have a new idea (in the third column)?

Discussion Story: Financial Crisis of 2008

Understanding Economic Stability

The Output Gap over Seventy Years



Presidential Ping Pong: Since Reagan, U.S. presidents have gone back and forth between Keynesian and supply-side economics.

The U.S. has never had a democratic socialist president, so for now presidential ping pong only represents the liberal and conservative perspectives.

Voices on Economic Stability

Radical

Response to discussion story: The obsessive drive for profit led to the collapse of the economy, and millions lost homes, jobs, and savings. In capitalism, it will happen again.

Voice: Pages 1086-1090

Summary: Page 1091

Talking Points: Page 1092

COLOR THE PERSPECTIVES!
(Radical answer key)

Radical
Liberal
Conservative

Federal jobs guarantee

Increase government spending

Across-the-board tax cuts

Use the Fed to increase the money supply

Support worker-owned firms

Cut taxes only on the poor and middle-class

Public banking

Eliminate government regulations

Constrain the money supply

Liberal

Response to discussion story: The profit motive creates untold wealth, but without strong and effective government oversight to rein it in, the economy will fail again.

Voice: Pages 1193-1197

Summary: Page 1098

Talking Points: Page 1099

COLOR THE PERSPECTIVES!
(Liberal answer key)

Radical
Liberal
Conservative

Federal jobs guarantee

Increase government spending

Across-the-board tax cuts

Use the Fed to increase the money supply

Support worker-owned firms

Public banking

Cut taxes only on the poor and middle-class

Eliminate government regulations

Constrain the money supply

Conservative

Response to discussion story: Government meddling creates false price signals, and when the boom goes bust its “fixes” lead us inevitably into the next cycle of ups and downs.

Voice: Pages 1100-1104

Summary: Page 1105

Talking Points: Page 1106

COLOR THE PERSPECTIVES!
(Conservative answer key)

Radical
Liberal
Conservative

Federal jobs guarantee

Increase government spending

Across-the-board tax cuts

Use the Fed to increase the money supply

Support worker-owned firms

Public banking

Cut taxes only on the poor and middle-class

Eliminate government regulations

Constrain the money supply

Shared Outcome: Full employment and stable prices.