American Government

2e.

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SENIOR CONTRIBUTING AUTHORS

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16.1 What Is Public Policy?

Learning Objectives

By the end of this section, you will be able to:

- Explain the concept of public policy
- Discuss examples of public policy in action

It is easy to imagine that when designers engineer a product, like a car, they do so with the intent of satisfying the consumer. But the design of any complicated product must take into account the needs of regulators, transporters, assembly line workers, parts suppliers, and myriad other participants in the manufacture and shipment process. And manufacturers must also be aware that consumer tastes are fickle: A gas-guzzling sports car may appeal to an unmarried twenty-something with no children; but what happens to product satisfaction when gas prices fluctuate, or the individual gets married and has children?

In many ways, the process of designing domestic policy isn't that much different. The government, just like auto companies, needs to ensure that its citizen-consumers have access to an array of goods and services. And just as in auto companies, a wide range of actors is engaged in figuring out how to do it. Sometimes, this process effectively provides policies that benefit citizens. But just as often, the process of policymaking is muddied by the demands of competing interests with different opinions about society's needs or the role that government should play in meeting them. To understand why, we begin by thinking about what we mean by the term "public policy."

PUBLIC POLICY DEFINED

One approach to thinking about **public policy** is to see it as the broad strategy government uses to do its job. More formally, it is the relatively stable set of purposive governmental actions that address matters of concern to some part of society.[2] This description is useful in that it helps to explain both what public policy is and what it isn't. First, public policy is a guide to legislative action that is more or less fixed for long periods of time, not just short-term fixes or single legislative acts. Policy also doesn't happen by accident, and it is rarely formed simply as the result of the campaign promises of a single elected official, even the president. While elected officials are often important in shaping policy, most policy outcomes are the result of considerable debate, compromise, and refinement that happen over years and are finalized only after input from multiple institutions within government as well as from interest groups and the public.

Consider the example of health care expansion. A follower of politics in the news media may come away thinking the reforms implemented in 2010 were as sudden as they were sweeping, having been developed in the final weeks before they were enacted. The reality is that expanding health care access had actually been a priority of the Democratic Party for several decades. What may have seemed like a policy developed over a period of months was in fact formed after years of analysis, reflection upon existing policy, and even trial implementation of similar types of programs at the state level. Even before passage of the ACA (2010), which expanded health care coverage to millions, and of the HCERA (2010), more than 50 percent of all health care expenditures in the United States already came from federal government programs such as Medicare and Medicaid. Several House and Senate members from both parties along with First Lady Hillary Clinton had proposed significant expansions in federal health care policy during the Democratic administration of Bill Clinton, providing a number of different options for any eventual health care overhaul.[3] Much of what became the ACA was drawn from proposals originally developed at the state level, by none other than Obama's 2012 Republican presidential opponent Mitt Romney when he was governor of Massachusetts.[4]

In addition to being thoughtful and generally stable, public policy deals with issues of concern to some large segment of society, as opposed to matters of interest only to individuals or a small group of people.

Governments frequently interact with individual actors like citizens, corporations, or other countries. They may even pass highly specialized pieces of legislation, known as private bills, which confer specific privileges on individual entities. But public policy covers only those issues that are of interest to larger segments of society or that directly or indirectly affect society as a whole. Paying off the loans of a specific individual would not be public policy, but creating a process for loan forgiveness available to certain types of borrowers (such as those who provide a public service by becoming teachers) would certainly rise to the level of public policy.

A final important characteristic of public policy is that it is more than just the actions of government; it also includes the behaviors or outcomes that government action creates. Policy can even be made when government refuses to act in ways that would change the status quo when circumstances or public opinion begin to shift.[5] For example, much of the debate over gun safety policy in the United States has centered on the unwillingness of Congress to act, even in the face of public opinion that supports some changes to gun policy. In fact, one of the last major changes occurred in 2004, when lawmakers' inaction resulted in the expiration of a piece of legislation known as the Federal Assault Weapons Ban (1994).[6]

PUBLIC POLICY AS OUTCOMES

Governments rarely want to keep their policies a secret. Elected officials want to be able to take credit for the things they have done to help their constituents, and their opponents are all too willing to cast blame when policy initiatives fail. We can therefore think of policy as the formal expression of what elected or appointed officials are trying to accomplish. In passing the HCERA (2010), Congress declared its policy through an act that directed how it would appropriate money. The president can also implement or change policy through an executive order, which offers instructions about how to implement law under his or her discretion (**Figure 16.2**). Finally, policy changes can come as a result of court actions or opinions, such as *Brown v. Board of Education of Topeka* (1954), which formally ended school segregation in the United States.[7]

Figure 16.2 President Obama signs a 2009 executive order to accelerate the federal government's recruitment and hiring of returning veterans. Executive orders are an expression of public policy undertaken at the discretion of the president.

Typically, elected and even high-ranking appointed officials lack either the specific expertise or tools needed to successfully create and implement public policy on their own. They turn instead to the vast government bureaucracy to provide policy guidance. For example, when Congress passed the Clean Water Act (1972), it dictated that steps should be taken to improve water quality throughout the country. But

it ultimately left it to the bureaucracy to figure out exactly how ‘clean’ water needed to be. In doing so, Congress provided the Environmental Protection Agency (EPA) with discretion to determine how much pollution is allowed in U.S. waterways.

There is one more way of thinking about policy outcomes: in terms of winners and losers. Almost by definition, public policy promotes certain types of behavior while punishing others. So, the individuals or corporations that a policy favors are most likely to benefit, or win, whereas those the policy ignores or punishes are likely to lose. Even the best-intended policies can have unintended consequences and may even ultimately harm someone, if only those who must pay for the policy through higher taxes. A policy designed to encourage students to go to liberal arts colleges may cause trade school enrollment to decline. Strategies to promote diversity in higher education may make it more difficult for qualified white or male applicants to get accepted into competitive programs. Efforts to clean up drinking water supplies may make companies less competitive and cost employees their livelihood. Even something that seems to help everyone, such as promoting charitable giving through tax incentives, runs the risk of lowering tax revenues from the rich (who contribute a greater share of their income to charity) and shifting tax burdens to the poor (who must spend a higher share of their income to achieve a desired standard of living). And while policy pronouncements and bureaucratic actions are certainly meant to rationalize policy, it is whether a given policy helps or hurts constituents (or is perceived to do so) that ultimately determines how voters will react toward the government in future elections.

Finding a Middle Ground

The Social Safety Net

During the Great Depression of the 1930s, the United States created a set of policies and programs that constituted a social safety net for the millions who had lost their jobs, their homes, and their savings (**Figure 16.3**). Under President Franklin Delano Roosevelt, the federal government began programs like the Work Progress Administration and Civilian Conservation Corps to combat unemployment and the Home Owners' Loan Corporation to refinance Depression-related mortgage debts. As the effects of the Depression eased, the government phased out many of these programs. Other programs, like Social Security or the minimum wage, remain an important part of the way the government takes care of the vulnerable members of its population. The federal government has also added further social support programs, like Medicaid, Medicare, and the Special Supplemental Nutrition Program for Women, Infants, and Children, to ensure a baseline or minimal standard of living for all, even in the direst of times.

Figure 16.3 In 1937, during the Great Depression, families in Calipatria, California, waited in line for relief checks, part of the federal government's newly introduced social safety net. (credit: modification of work by the Library of Congress)

In recent decades, however, some have criticized these safety net programs for inefficiency and for incentivizing welfare dependence. They deride "government leeches" who use food stamps to buy lobster or other seemingly inappropriate items. Critics deeply resent the use of taxpayer money to relieve social problems like unemployment and poverty; workers who may themselves be struggling to put food on the table or pay the mortgage feel their hard-earned money should not support other families. "If I can get by without government support," the reasoning goes, "those welfare families can do the same. Their poverty is not my problem."

So where should the government draw the line? While there have been some instances of welfare fraud, the welfare reforms of the 1990s have made long-term dependence on the federal government less likely as the welfare safety net was pushed to the states. And with the income gap between the richest and the poorest at its highest level in history, this topic is likely to continue to receive much discussion in the coming years.

Where is the middle ground in the public policy argument over the social safety net? How can the government protect its most vulnerable citizens without placing an undue burden on others?

Link to Learning

Explore **historical data on United States budgets and spending (https://openstax.org/l/29WH1940)** from 1940 to the present from the Office of Management and Budget.

16.2 Categorizing Public Policy

Learning Objectives

By the end of this section, you will be able to:

- Describe the different types of goods in a society
- Identify key public policy domains in the United States
- Compare the different forms of policy and the way they transfer goods within a society

The idea of public policy is by its very nature a politically contentious one. Among the differences between American liberals and conservatives are the policy preferences prevalent in each group. Modern liberals tend to feel very comfortable with the idea of the government shepherding progressive social and economic reforms, believing that these will lead to outcomes more equitable and fair for all members of society. Conservatives, on the other hand, often find government involvement onerous and overreaching. They feel society would function more efficiently if oversight of most "public" matters were returned to the private sphere. Before digging too deeply into a discussion of the nature of public policy in the United States, let us look first at why so many aspects of society come under the umbrella of public policy to begin with.

DIFFERENT TYPES OF GOODS

Think for a minute about what it takes to make people happy and satisfied. As we live our daily lives, we experience a range of physical, psychological, and social needs that must be met in order for us to be happy and productive. At the very least, we require food, water, and shelter. In very basic subsistence societies, people acquire these through farming crops, digging wells, and creating shelter from local materials (see **Figure 16.4**). People also need social interaction with others and the ability to secure goods they acquire, lest someone else try to take them. As their tastes become more complex, they may find it advantageous to exchange their items for others; this requires not only a mechanism for barter but also a system of transportation. The more complex these systems are, the greater the range of items people can access to keep them alive and make them happy. However, this increase in possessions also creates a stronger need to secure what they have acquired.

Figure 16.4 This Library of Congress photo shows an early nineteenth-century subsistence farm in West Virginia, which once included crops, livestock, and an orchard. (credit: modification of work by the Library of Congress)

Economists use the term *goods* to describe the range of commodities, services, and systems that help us satisfy our wants or needs. This term can certainly apply to the food you eat or the home you live in, but it can also describe the systems of transportation or public safety used to protect them. Most of the goods you interact with in your daily life are *private goods*, which means that they can be owned by a particular person or group of people, and are excluded from use by others, typically by means of a price. For example, your home or apartment is a private good reserved for your own use because you pay rent or make mortgage payments for the privilege of living there. Further, private goods are finite and can run out if overused, even if only in the short term. The fact that private goods are excludable and finite makes them tradable. A farmer who grows corn, for instance, owns that corn, and since only a finite amount of corn exists, others may want to trade their goods for it if their own food supplies begin to dwindle.

Proponents of **free-market economics** believe that the market forces of supply and demand, working without any government involvement, are the most effective way for markets to operate. One of the basic principles of free-market economics is that for just about any good that can be privatized, the most efficient means for exchange is the marketplace. A well-functioning market will allow producers of goods to come together with consumers of goods to negotiate a trade. People facilitate trade by creating a currency—a common unit of exchange—so they do not need to carry around everything they may want to trade at all times. As long as there are several providers or sellers of the same good, consumers can negotiate with them to find a price they are willing to pay. As long as there are several buyers for a seller's goods, providers can negotiate with them to find a price buyers are willing to accept. And, the logic goes, if prices begin to rise too much, other sellers will enter the marketplace, offering lower prices.

A second basic principle of free-market economics is that it is largely unnecessary for the government to protect the value of private goods. Farmers who own land used for growing food have a vested interest in protecting their land to ensure its continued production. Business owners must protect the reputation of their business or no one will buy from them. And, to the degree that producers need to ensure the quality of their product or industry, they can accomplish that by creating a group or association that operates outside government control. In short, industries have an interest in self-regulating to protect their own value. According to free-market economics, as long as everything we could ever want or need is a private good, and so long as every member of society has some ability to provide for themselves and their families, public policy regulating the exchange of goods and services is really unnecessary.

Some people in the United States argue that the self-monitoring and self-regulating incentives provided by the existence of private goods mean that sound public policy requires very little government action.

Known as **libertarians**, these individuals believe government almost always operates less efficiently than the private sector (the segment of the economy run for profit and not under government control), and that government actions should therefore be kept to a minimum.

Even as many in the United States recognize the benefits provided by private goods, we have increasingly come to recognize problems with the idea that all social problems can be solved by exclusively private ownership. First, not all goods can be classified as strictly private. Can you really consider the air you breathe to be private? Air is a difficult good to privatize because it is not excludable—everyone can get access to it at all times—and no matter how much of it you breathe, there is still plenty to go around. Geographic regions like forests have environmental, social, recreational, and aesthetic value that cannot easily be reserved for private ownership. Resources like migrating birds or schools of fish may have value if hunted or fished, but they cannot be owned due to their migratory nature. Finally, national security provided by the armed forces protects all citizens and cannot reasonably be reserved for only a few.

These are all examples of what economists call *public goods*, sometimes referred to as collective goods. Unlike private property, they are not excludable and are essentially infinite. Forests, water, and fisheries, however, are a type of public good called *common goods*, which are not excludable but may be finite. The problem with both public and common goods is that since no one owns them, no one has a financial interest in protecting their long-term or future value. Without government regulation, a factory owner can feel free to pollute the air or water, since he or she will have no responsibility for the pollution once the winds or waves carry it somewhere else (see **Figure 16.5**). Without government regulation, someone can hunt all the migratory birds or deplete a fishery by taking all the fish, eliminating future breeding stocks that would maintain the population. The situation in which individuals exhaust a common resource by acting in their own immediate self-interest is called the *tragedy of the commons*.

Figure 16.5 Air pollution billows from a power plant before the installation of emission control equipment for the removal of sulfur dioxide and particulate matter. Can you see why uncontrolled pollution is an example of the “tragedy of the commons”?

A second problem with strict adherence to free-market economics is that some goods are too large, or too expensive, for individuals to provide them for themselves. Consider the need for a marketplace: Where does the marketplace come from? How do we get the goods to market? Who provides the roads and bridges? Who patrols the waterways? Who provides security? Who ensures the regulation of the currency? No individual buyer or seller could accomplish this. The very nature of the exchange of private goods requires a system that has some of the openness of public or common goods, but is maintained by either groups of individuals or entire societies.

Economists consider goods like cable TV, cellphone service, and private schools to be toll goods. *Toll goods* are similar to public goods in that they are open to all and theoretically infinite if maintained, but they are paid for or provided by some outside (nongovernment) entity. Many people can make use of them, but only if they can pay the price. The name “toll goods” comes from the fact that, early on, many toll roads

were in fact privately owned commodities. Even today, states from Virginia to California have allowed private companies to build public roads in exchange for the right to profit by charging tolls.[8]

So long as land was plentiful, and most people in the United States lived a largely rural subsistence lifestyle, the difference between private, public, common, and toll goods was mostly academic. But as public lands increasingly became private through sale and settlement, and as industrialization and the rise of mass production allowed monopolies and oligopolies to become more influential, support for public policies regulating private entities grew. By the beginning of the twentieth century, led by the Progressives, the United States had begun to search for ways to govern large businesses that had managed to distort market forces by monopolizing the supply of goods. And, largely as a result of the Great Depression, people wanted ways of developing and protecting public goods that were fairer and more equitable than had existed before. These forces and events led to the increased regulation of public and common goods, and a move for the public sector—the government—to take over of the provision of many toll goods.

CLASSIC TYPES OF POLICY

Public policy, then, ultimately boils down to determining the distribution, allocation, and enjoyment of public, common, and toll goods within a society. While the specifics of policy often depend on the circumstances, two broad questions all policymakers must consider are a) who pays the costs of creating and maintaining the goods, and b) who receives the benefits of the goods? When private goods are bought and sold in a market place, the costs and benefits go to the participants in the transaction. Your landlord benefits from receipt of the rent you pay, and you benefit by having a place to live. But non-private goods like roads, waterways, and national parks are controlled and regulated by someone other than the owners, allowing policymakers to make decisions about who pays and who benefits.

In 1964, Theodore Lowi argued that it was possible to categorize policy based upon the degree to which costs and benefits were concentrated on the few or diffused across the many. One policy category, known as **distributive policy**, tends to collect payments or resources from many but concentrates direct benefits on relatively few. Highways are often developed through distributive policy. Distributive policy is also common when society feels there is a social benefit to individuals obtaining private goods such as higher education that offer long-term benefits, but the upfront cost may be too high for the average citizen.

One example of the way distributive policy works is the story of the Transcontinental Railroad. In the 1860s, the U.S. government began to recognize the value of building a robust railroad system to move passengers and freight around the country. A particular goal was connecting California and the other western territories acquired during the 1840s war with Mexico to the rest of the country. The problem was that constructing a nationwide railroad system was a costly and risky proposition. To build and support continuous rail lines, private investors would need to gain access to tens of thousands of miles of land, some of which might be owned by private citizens. The solution was to charter two private corporations—the Central Pacific and Union Pacific Railroads—and provide them with resources and land grants to facilitate the construction of the railroads (see **Figure 16.6**).[9] Through these grants, publicly owned land was distributed to private citizens, who could then use it for their own gain. However, a broader public gain was simultaneously being provided in the form of a nationwide transportation network.

Figure 16.6 In an example of distributive policy, the Union Pacific Railroad was given land and resources to help build a national railroad system. Here, its workers construct the Devil's Gate Bridge in Utah in 1869.

The same process operates in the agricultural sector, where various federal programs help farmers and food producers through price supports and crop insurance, among other forms of assistance. These programs help individual farmers and agriculture companies stay afloat and realize consistent profits. They also achieve the broader goal of providing plenty of sustenance for the people of the United States, so that few of us have to "live off the land."

Milestone

The Hoover Dam: The Federal Effort to Domesticate the Colorado River

As westward expansion led to development of the American Southwest, settlers increasingly realized that they needed a way to control the frequent floods and droughts that made agriculture difficult in the region. As early as 1890, land speculators had tried diverting the Colorado River for this purpose, but it wasn't until 1922 that the U.S. Bureau of Reclamation (then called the Reclamation Service) chose the Black Canyon as a good location for a dam to divert the river. Since it would affect seven states (as well as Mexico), the federal government took the lead on the project, which eventually cost $49 million and more than one hundred lives. The dam faced significant opposition from members of other states, who felt its massive price tag (almost $670 million in today's dollars[10]) benefitted only a small group, not the whole nation. However, in 1928, Senator Hiram Johnson and Representative Phil Swing, both Republicans from California, won the day. Congress passed the Boulder Canyon Project Act, authorizing the construction of one of the most ambitious engineering feats in U.S. history. The Hoover Dam (**Figure 16.7**), completed in 1935, served the dual purposed of generating hydroelectric power and irrigating two million acres of land from the resulting reservoir (Lake Mead).

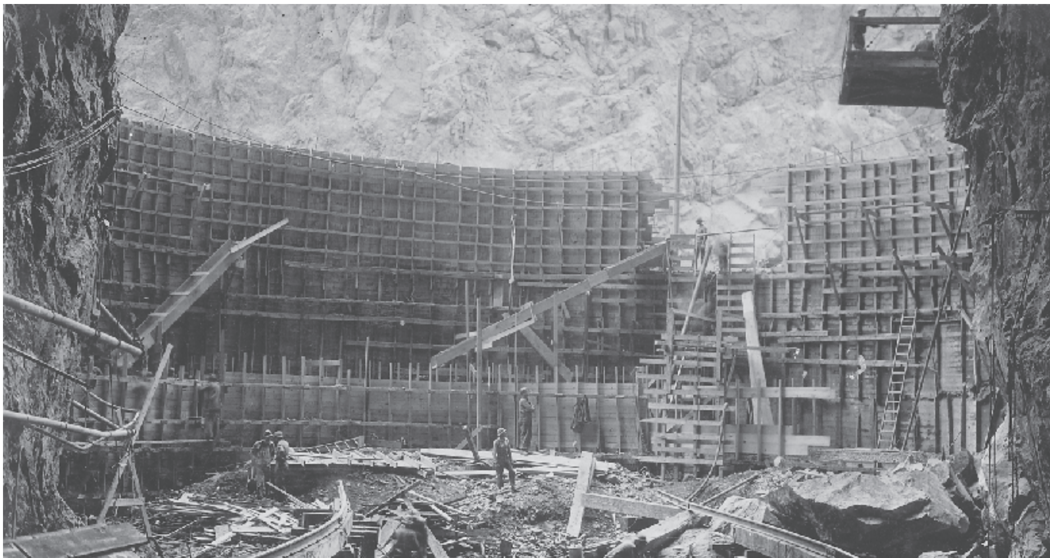

Figure 16.7 Workers construct the Hoover Dam, a distributive policy project, in Nevada in 1932.

Was the construction of the Hoover Dam an effective expression of public policy? Why or why not?

Link to Learning

Visit this **site (https://openstax.org/l/29HoovDam)** to see how the U.S. Bureau of Reclamation (USBR) presented the construction of the Hoover Dam. How would you describe the bureau's perspective?

American Rivers is an advocacy group whose goal is to protect and restore rivers, including the Colorado River. How does this group's view of the **Hoover Dam (https://openstax.org/l/29Amerivs)** differ from that of the USBR?

Other examples of distributive policy support citizens' efforts to achieve "the American Dream." American society recognizes the benefits of having citizens who are financially invested in the country's future.

Among the best ways to encourage this investment are to ensure that citizens are highly educated and have the ability to acquire high-cost private goods such as homes and businesses. However, very few people have the savings necessary to pay upfront for a college education, a first home purchase, or the start-up costs of a business. To help out, the government has created a range of incentives that everyone in the country pays for through taxes but that directly benefit only the recipients. Examples include grants (such as Pell grants), tax credits and deductions, and subsidized or federally guaranteed loans. Each of these programs aims to achieve a policy outcome. Pell grants exist to help students graduate from college, whereas Federal Housing Administration mortgage loans lead to home ownership.

While distributive policy, according to Lowi, has diffuse costs and concentrated benefits, **regulatory policy** features the opposite arrangement, with concentrated costs and diffuse benefits. A relatively small number of groups or individuals bear the costs of regulatory policy, but its benefits are expected to be distributed broadly across society. As you might imagine, regulatory policy is most effective for controlling or protecting public or common resources. Among the best-known examples are policies designed to protect public health and safety, and the environment. These regulatory policies prevent manufacturers or businesses from maximizing their profits by excessively polluting the air or water, selling products they know to be harmful, or compromising the health of their employees during production.

In the United States, nationwide calls for a more robust regulatory policy first grew loud around the turn of the twentieth century and the dawn of the Industrial Age. Investigative journalists—called *muckrakers* by politicians and business leaders who were the focus of their investigations—began to expose many of the ways in which manufacturers were abusing the public trust. Although various forms of corruption topped the list of abuses, among the most famous muckraker exposés was *The Jungle*, a 1906 novel by Upton Sinclair that focused on unsanitary working conditions and unsavory business practices in the meat-packing industry.[11] This work and others like it helped to spur the passage of the Pure Food and Drug Act (1906) and ultimately led to the creation of government agencies such as the U.S. Food and Drug Administration (FDA).[12] The nation's experiences during the depression of 1896 and the Great Depression of the 1930s also led to more robust regulatory policies designed to improve the transparency of financial markets and prevent monopolies from forming.

A final type of policy is **redistributive policy**, so named because it redistributes resources in society from one group to another. That is, according to Lowi, the costs are concentrated and so are the benefits, but different groups bear the costs and enjoy the benefits. Most redistributive policies are intended to have a sort of "Robin Hood" effect; their goal is to transfer income and wealth from one group to another such that everyone enjoys at least a minimal standard of living. Typically, the wealthy and middle class pay into the federal tax base, which then funds need-based programs that support low-income individuals and families. A few examples of redistributive policies are Head Start (education), Medicaid (health care), Temporary Assistance for Needy Families (TANF, income support), and food programs like the Supplementary Nutritional Aid Program (SNAP). The government also uses redistribution to incentivize specific behaviors or aid small groups of people. Pell grants to encourage college attendance and tax credits to encourage home ownership are other examples of redistribution.

16.3 Policy Arenas

Learning Objectives

By the end of this section, you will be able to:

- Identify the key domestic arenas of public policy
- Describe the major social safety net programs
- List the key agencies responsible for promoting and regulating U.S. business and industry

In practice, public policy consists of specific programs that provide resources to members of society, create regulations that protect U.S. citizens, and attempt to equitably fund the government. We can broadly categorize most policies based on their goals or the sector of society they affect, although many, such as food stamps, serve multiple purposes. Implementing these policies costs hundreds of billions of dollars each year, and understanding the goals of this spending and where the money goes is of vital importance to citizens and students of politics alike.

SOCIAL WELFARE POLICY

The U.S. government began developing a social welfare policy during the Great Depression of the 1930s. By the 1960s, social welfare had become a major function of the federal government—one to which most public policy funds are devoted—and had developed to serve several overlapping functions. First, social welfare policy is designed to ensure some level of equity in a democratic political system based on competitive, free-market economics. During the Great Depression, many politicians came to fear that the high unemployment and low-income levels plaguing society could threaten the stability of democracy, as was happening in European countries like Germany and Italy. The assumption in this thinking is that democratic systems work best when poverty is minimized. In societies operating in survival mode, in contrast, people tend to focus more on short-term problem-solving than on long-term planning. Second, social welfare policy creates an automatic stimulus for a society by building a **safety net** that can catch members of society who are suffering economic hardship through no fault of their own. For an individual family, this safety net makes the difference between eating and starving; for an entire economy, it could prevent an economic recession from sliding into a broader and more damaging depression.

One of the oldest and largest pieces of social welfare policy is **Social Security**, which cost the United States about $845 billion in 2014 alone.[13] These costs are offset by a 12.4 percent payroll tax on all wages up to $118,500; employers and workers who are not self-employed split the bill for each worker, whereas the self-employed pay their entire share.[14] Social Security was conceived as a solution to several problems inherent to the Industrial Era economy. First, by the 1920s and 1930s, an increasing number of workers were earning their living through manual or day-wage labor that depended on their ability to engage in physical activity (**Figure 16.8**). As their bodies weakened with age or if they were injured, their ability to provide for themselves and their families was compromised. Second, and of particular concern, were urban widows. During their working years, most American women stayed home to raise children and maintain the household while their husbands provided income. Should their husbands die or become injured, these women had no wage-earning skills with which to support themselves or their families.

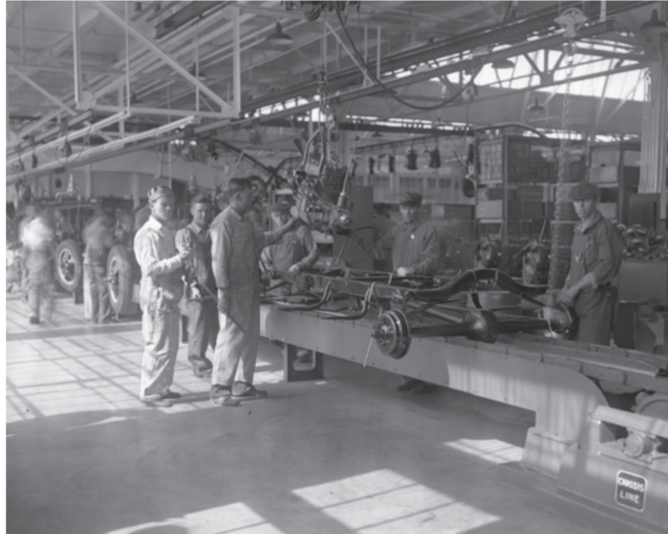

Figure 16.8 In 1930, when this Ford automotive plant opened in Long Beach, California, American workers had few economic protections to rely on if they were injured or could not maintain such physical activity as they aged.

Social Security addresses these concerns with three important tools. First and best known is the retirement benefit. After completing a minimum number of years of work, American workers may claim a form of pension upon reaching retirement age. It is often called an **entitlement** program since it guarantees benefits to a particular group, and virtually everyone will eventually qualify for the plan given the relatively low requirements for enrollment. The amount of money a worker receives is based loosely on his or her lifetime earnings. Full retirement age was originally set at sixty-five, although changes in legislation have increased it to sixty-seven for workers born after 1959.[15] A valuable added benefit is that, under certain circumstances, this income may also be claimed by the survivors of qualifying workers, such as spouses and minor children, even if they themselves did not have a wage income.

A second Social Security benefit is a disability payout, which the government distributes to workers who become unable to work due to physical or mental disability. To qualify, workers must demonstrate that the injury or incapacitation will last at least twelve months. A third and final benefit is Supplemental Security Income, which provides supplemental income to adults or children with considerable disability or to the elderly who fall below an income threshold.

During the George W. Bush administration, Social Security became a highly politicized topic as the Republican Party sought to find a way of preventing what experts predicted would be the impending collapse of the Social Security system (**Figure 16.9**). In 1950, the ratio of workers paying into the program to beneficiaries receiving payments was 16.5 to 1. By 2013, that number was 2.8 to 1 and falling. Most predictions in fact suggest that, due to continuing demographic changes including slower population growth and an aging population, by 2033, the amount of revenue generated from payroll taxes will no longer be sufficient to cover costs. The Bush administration proposed avoiding this by privatizing the program, in effect, taking it out of the government's hands and making individuals' benefits variable instead of defined. The effort ultimately failed, and Social Security's long-term viability continues to remain uncertain. Numerous other plans for saving the program have been proposed, including raising the retirement age, increasing payroll taxes (especially on the wealthy) by removing the $118,500 income cap, and reducing payouts for wealthier retirees. None of these proposals have been able to gain traction, however.

Figure 16.9 President George W. Bush discusses Social Security in Florida at the outset of his second term in 2005.

While Social Security was designed to provide cash payments to sustain the aged and disabled, Medicare and Medicaid were intended to ensure that vulnerable populations have access to health care. **Medicare**, like Social Security, is an entitlement program funded through payroll taxes. Its purpose is to make sure that senior citizens and retirees have access to low-cost health care they might not otherwise have, because most U.S. citizens get their health insurance through their employers. Medicare provides three major forms of coverage: a guaranteed insurance benefit that helps cover major hospitalization, fee-based supplemental coverage that retirees can use to lower costs for doctor visits and other health expenses, and a prescription drug benefit. Medicare faces many of the same long-term challenges as Social Security, due to the same demographic shifts. Medicare also faces the problem that health care costs are rising significantly faster than inflation. In 2014, Medicare cost the federal government almost $597 billion.[16]

Medicaid is a formula-based, health insurance program, which means beneficiaries must demonstrate they fall within a particular income category. Individuals in the Medicaid program receive a fairly comprehensive set of health benefits, although access to health care may be limited because fewer providers accept payments from the program (it pays them less for services than does Medicare). Medicaid differs dramatically from Medicare in that it is partially funded by states, many of which have reduced access to the program by setting the income threshold so low that few people qualify. The ACA (2010) sought to change that by providing more federal money to the states if they agreed to raise minimum income requirements. Many states have refused, which has helped to keep the overall costs of Medicaid lower, even though it has also left many people without health coverage they might receive if they lived elsewhere. Total costs for Medicaid in 2014 were about $492 billion, about $305 billion of which was paid by the federal government.[17]

Collectively, Social Security, Medicare, and Medicaid make up the lion's share of total federal government spending, almost 50 percent in 2014 and more than 50 percent in 2015. Several other smaller programs also provide income support to families. Most of these are formula-based, or means-tested, requiring citizens to meet certain maximum income requirements in order to qualify. A few examples are TANF, SNAP (also called food stamps), the unemployment insurance program, and various housing assistance programs. Collectively, these programs add up to a little over $480 billion.

SCIENCE, TECHNOLOGY, AND EDUCATION

After World War II ended, the United States quickly realized that it had to address two problems to secure its fiscal and national security future. The first was that more than ten million servicemen and women needed to be reintegrated into the workforce, and many lacked appreciable work skills. The second problem was that the United States' success in its new conflict with the Soviet Union depended on the rapid development of a new, highly technical military-industrial complex. To confront these challenges, the U.S. government passed several important pieces of legislation to provide education assistance to workers and research dollars to industry. As the needs of American workers and industry have changed, many of these programs have evolved from their original purposes, but they still remain important pieces of the public policy debate.

Much of the nation's science and technology policy benefits its military, for instance, in the form of research and development funding for a range of defense projects. The federal government still promotes research for civilian uses, mostly through the National Science Foundation, the National Institutes of Health, the National Aeronautics and Space Administration (NASA), and the National Oceanic and Atmospheric Administration. Recent debate over these agencies has focused on whether government funding is necessary or if private entities would be better suited. For example, although NASA continues to develop a replacement for the now-defunct U.S. space shuttle program (**Figure 16.10**), much of its workload is currently being performed by private companies working to develop their own space launch, resupply, and tourism programs.

Figure 16.10 NASA launches the space shuttle *Discovery* from the Kennedy Space Center in 2007. Should the private sector fund space exploration programs rather than the government? (credit: NASA)

The problem of trying to direct and fund the education of a modern U.S. workforce is familiar to many students of American government. Historically, education has largely been the job of the states. While they have provided a very robust K–12 public education system, the national government has never moved to create an equivalent system of national higher education academies or universities as many other countries have done. As the need to keep the nation competitive with others became more pressing, however, the U.S. government did step in to direct its education dollars toward creating greater equity and ease of access to the existing public and private systems.

The overwhelming portion of the government's education money is spent on student loans, grants, and work-study programs. Resources are set aside to cover job-retraining programs for individuals who lack private-sector skills or who need to be retrained to meet changes in the economy's demands for the labor force. National policy toward elementary and secondary education programs has typically focused on increasing resources available to school districts for nontraditional programs (such as preschool and special needs), or helping poorer schools stay competitive with wealthier institutions.

BUSINESS STIMULUS AND REGULATION

A final key aspect of domestic policy is the growth and regulation of business. The size and strength of the economy is very important to politicians whose jobs depend on citizens' believing in their own future prosperity. At the same time, people in the United States want to live in a world where they feel safe from unfair or environmentally damaging business practices. These desires have forced the government to perform a delicate balancing act between programs that help grow the economy by providing benefits to the business sector and those that protect consumers, often by curtailing or regulating the business sector.

Two of the largest recipients of government aid to business are agriculture and energy. Both are multi-billion dollar industries concentrated in rural and/or electorally influential states. Because voters are affected by the health of these sectors every time they pay their grocery or utility bill, the U.S. government

has chosen to provide significant agriculture and energy subsidies to cover the risks inherent in the unpredictability of the weather and oil exploration. Government subsidies also protect these industries' profitability. These two purposes have even overlapped in the government's controversial decision to subsidize the production of ethanol, a fuel source similar to gasoline but generated from corn.

When it comes to regulation, the federal government has created several agencies responsible for providing for everything from worker safety (OSHA, the Occupational Safety and Health Administration), to food safety (FDA), to consumer protection, where the recently created Bureau of Consumer Protection ensures that businesses do not mislead consumers with deceptive or manipulative practices. Another prominent federal agency, the EPA, is charged with ensuring that businesses do not excessively pollute the nation's air or waterways. A complex array of additional regulatory agencies governs specific industries such as banking and finance, which are detailed later in this chapter.

Link to Learning

The policy areas we've described so far fall far short of forming an exhaustive list. This **site (https://openstax.org/l/29PoliAgen)** contains the major topic categories of substantive policy in U.S. government, according to the Policy Agendas Project. View subcategories by clicking on the major topic categories.

16.4 Policymakers

Learning Objectives

By the end of this section, you will be able to:

- Identify types of policymakers in different issue areas
- Describe the public policy process

Many Americans were concerned when Congress began debating the ACA. As the program took shape, some people felt the changes it proposed were being debated too hastily, would be implemented too quickly, or would summarily give the government control over an important piece of the U.S. economy—the health care industry. Ironically, the government had been heavily engaged in providing health care for decades. More than 50 percent of all health care dollars spent were being spent by the U.S. government well before the ACA was enacted. As you have already learned, Medicare was created decades earlier. Despite protesters' resistance to government involvement in health care, there is no keeping government out of Medicare; the government IS Medicare.

What many did not realize is that few if any of the proposals that eventually became part of the ACA were original. While the country was worried about problems like terrorism, the economy, and conflicts over gay rights, armies of individuals were debating the best ways to fix the nation's health care delivery. Two important but overlapping groups defended their preferred policy changes: policy advocates and policy analysts.

POLICY ADVOCATES

Take a minute to think of a policy change you believe would improve some condition in the United States. Now ask yourself this: "Why do I want to change this policy?" Are you motivated by a desire for justice? Do you feel the policy change would improve your life or that of members of your community? Is your sense of morality motivating you to change the status quo? Would your profession be helped? Do you feel

that changing the policy might raise your status?

Most people have some policy position or issue they would like to see altered (see **Figure 16.11**). One of the reasons the news media are so enduring is that citizens have a range of opinions on public policy, and they are very interested in debating how a given change would improve their lives or the country's. But despite their interests, most people do little more than vote or occasionally contribute to a political campaign. A few people, however, become **policy advocates** by actively working to propose or maintain public policy.

Figure 16.11 In 2010, members of PETA (People for the Ethical Treatment of Animals) demonstrate against a local zoo. As policy advocates, PETA's members often publicize their position on how animals should be treated.

One way to think about policy advocates is to recognize that they hold a normative position on an issue, that is, they have a conviction about what should or ought to be done. The best public policy, in their view, is one that accomplishes a specific goal or outcome. For this reason, advocates often begin with an objective and then try to shape or create proposals that help them accomplish that goal. Facts, evidence, and analysis are important tools for convincing policymakers or the general public of the benefits of their proposals. Private citizens often find themselves in advocacy positions, particularly if they are required to take on leadership roles in their private lives or in their organizations. The most effective advocates are usually hired professionals who form lobbying groups or think tanks to promote their agenda.

A lobbying group that frequently takes on advocacy roles is AARP (formerly the American Association of Retired Persons) (**Figure 16.12**). AARP's primary job is to convince the government to provide more public resources and services to senior citizens, often through regulatory or redistributive politics. Chief among its goals are lower health care costs and the safety of Social Security pension payments. These aims put AARP in the Democratic Party's electoral coalition, since Democrats have historically been stronger advocates for Medicare's creation and expansion. In 2002, for instance, Democrats and Republicans were debating a major change to Medicare. The Democratic Party supported expanding Medicare to include free or low-cost prescription drugs, while the Republicans preferred a plan that would require seniors to purchase drug insurance through a private insurer. The government would subsidize costs, but many seniors would still have substantial out-of-pocket expenses. To the surprise of many, AARP supported the Republican proposal.

This OpenStax book is available for free at http://cnx.org/content/col26739/1.4

Figure 16.12 First Lady Michelle Obama shows her AARP membership card on her fiftieth birthday in January 2014. AARP is a major policy advocate for older people and retirees.

While Democrats argued that their position would have provided a better deal for individuals, AARP reasoned that the Republican plan had a much better chance of passing. The Republicans controlled the House and looked likely to reclaim control of the Senate in the upcoming election. Then-president George W. Bush was a Republican and would almost certainly have vetoed the Democratic approach. AARP's support for the legislation helped shore up support for Republicans in the 2002 midterm election and also help convince a number of moderate Democrats to support the bill (with some changes), which passed despite apparent public disapproval. AARP had done its job as an advocate for seniors by creating a new benefit it hoped could later be expanded, rather than fighting for an extreme position that would have left it with nothing.[18]

Not all policy advocates are as willing to compromise their positions. It is much easier for a group like AARP to compromise over the amount of money seniors will receive, for instance, than it is for an evangelical religious group to compromise over issues like abortion, or for civil rights groups to accept something less than equality. Nor are women's rights groups likely to accept pay inequality as it currently exists. It is easier to compromise over financial issues than over our individual views of morality or social justice.

POLICY ANALYSTS

A second approach to creating public policy is a bit more objective. Rather than starting with what ought to happen and seeking ways to make it so, **policy analysts** try to identify all the possible choices available to a decision maker and then gauge their impacts if implemented. The goal of the analyst isn't really to encourage the implementation of any of the options; rather, it is to make sure decision makers are fully informed about the implications of the decisions they do make.

Understanding the financial and other costs and benefits of policy choices requires analysts to make strategic guesses about how the public and governmental actors will respond. For example, when policymakers are considering changes to health care policy, one very important question is how many people will participate. If very few people had chosen to take advantage of the new health care plans available under the ACA marketplace, it would have been significantly cheaper than advocates proposed, but it also would have failed to accomplish the key goal of increasing the number of insured. But if people

who currently have insurance had dropped it to take advantage of ACA's subsidies, the program's costs would have skyrocketed with very little real benefit to public health. Similarly, had all states chosen to create their own marketplaces, the cost and complexity of ACA's implementation would have been greatly reduced.

Because advocates have an incentive to understate costs and overstate benefits, policy analysis tends to be a highly politicized aspect of government. It is critical for policymakers and voters that policy analysts provide the most accurate analysis possible. A number of independent or semi-independent think tanks have sprung up in Washington, DC, to provide assessments of policy options. Most businesses or trade organizations also employ their own policy-analysis wings to help them understand proposed changes or even offer some of their own. Some of these try to be as impartial as possible. Most, however, have a known bias toward policy advocacy. The Cato Institute, for example, is well known and highly respected policy analysis group that both liberal and conservative politicians have turned to when considering policy options. But the Cato Institute has a known libertarian bias; most of the problems it selects for analysis have the potential for private sector solutions. This means its analysts tend to include the rosiest assumptions of economic growth when considering tax cuts and to overestimate the costs of public sector proposals.

Link to Learning

The **RAND Corporation (https://openstax.org/l/29RANDCorp)** has conducted objective policy analysis for corporate, nonprofit, and government clients since the mid-twentieth century. What are some of the policy areas it has explored?

Both the Congress and the president have tried to reduce the bias in policy analysis by creating their own theoretically nonpartisan policy branches. In Congress, the best known of these is the **Congressional Budget Office**, or CBO. Authorized in the 1974 Congressional Budget and Impoundment Control Act, the CBO was formally created in 1975 as a way of increasing Congress's independence from the executive branch. The CBO is responsible for scoring the spending or revenue impact of all proposed legislation to assess its net effect on the budget. In recent years, it has been the CBO's responsibility to provide Congress with guidance on how to best balance the budget (see **Figure 16.13**). The formulas that the CBO uses in scoring the budget have become an important part of the policy debate, even as the group has tried to maintain its nonpartisan nature.

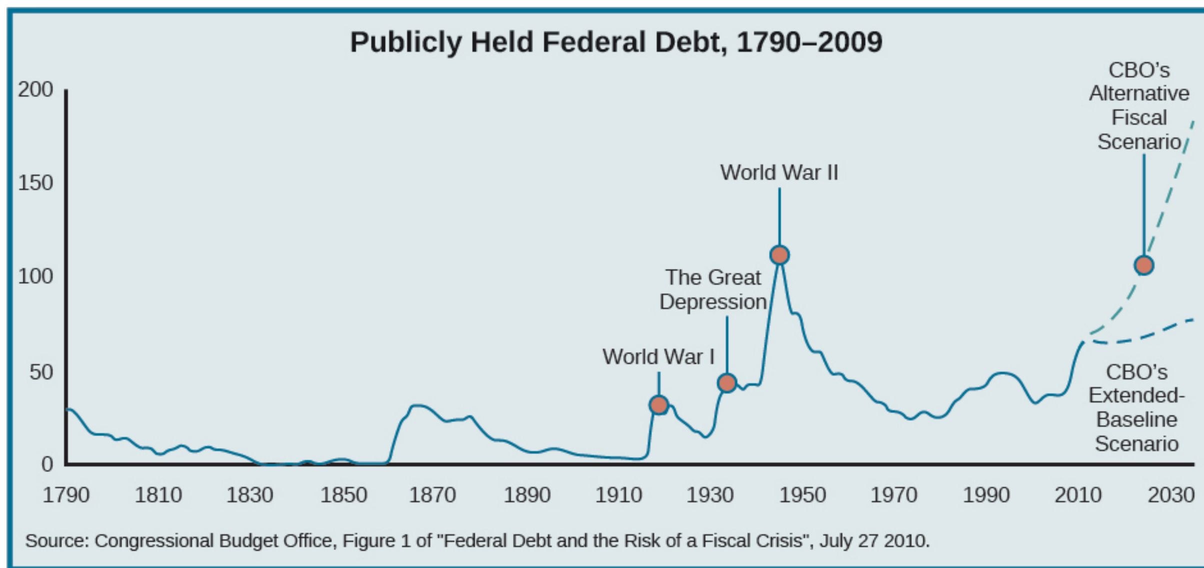

Figure 16.13 The Congressional Budget Office (CBO) is responsible for studying the impact of all proposed legislation to assess its net effect on the budget and tracking federal debt. For example, this 2010 CBO chart shows federal debt held by the public as a percentage of gross domestic product from 1790 through 2010 and projected to 2035.

In the executive branch, each individual department and agency is technically responsible for its own policy analysis. The assumption is that experts in the Federal Communications Commission or the Federal Elections Commission are best equipped to evaluate the impact of various proposals within their policy domain. Law requires that most regulatory changes made by the federal government also include the opportunity for public input so the government can both gauge public opinion and seek outside perspectives.

Executive branch agencies are usually also charged with considering the economic impact of regulatory action, although some agencies have been better at this than others. Critics have frequently singled out the EPA and OSHA for failing to adequately consider the impact of new rules on business. Within the White House itself, the Office of Management and Budget (OMB) was created to "serve the President of the United States in implementing his [or her] vision" of policy. Policy analysis is important to the OMB's function, but as you can imagine, it frequently compromises its objectivity during policy formulation.

Link to Learning

How do the **OMB (https://openstax.org/l/29WHgov)** and the **CBO (https://openstax.org/l/29CBOgov)** compare when it comes to impartiality?

Get Connected!

Preparing to Be a Policymaker

What is your passion? Is there an aspect of society you think should be changed? Become a public policy advocate for it! One way to begin is by petitioning the Office of the President. In years past, citizens wrote letters to express grievances or policy preferences. Today, you can visit We the People, the White House online petitions platform (Figure 16.14). At this government site, you can search for petitions related to your cause or post your own. If your petition gets enough signatures, the White House will issue a response. The petitions range from serious to silly, but the process is an important way to speak out about the policies that are important to you.

Figure 16.14 The White House petition website encourages citizens to participate in the democratic process.

Follow-up activity: Choose an issue you are passionate about. Visit ***We the People (https://openstax.org/l/29WHpet)*** *to see if there is already a petition there concerning your chosen issue. If so, join the community promoting your cause. If not, create your own petition and try to gather enough signatures to receive an official response.*

THE POLICY PROCESS

The policy process contains four sequential stages: (1) agenda setting, (2) policy enactment, (3) policy implementation, and (4) evaluation. Given the sheer number of issues already processed by the government, called the continuing agenda, and the large number of new proposals being pushed at any one time, it is typically quite difficult to move a new policy all the way through the process.

Agenda setting is the crucial first stage of the public policy process. Agenda setting has two subphases: problem identification and alternative specification. Problem identification identifies the issues that merit discussion. Not all issues make it onto the governmental agenda because there is only so much attention that government can pay. Thus, one of the more important tasks for a policy advocate is to frame his or her issue in a compelling way that raises a persuasive dimension or critical need.[19] For example, health care reform has been attempted on many occasions over the years. One key to making the topic salient has been to frame it in terms of health care access, highlighting the percentage of people who do not have health insurance.

Alternative specification, the second subphase of agenda setting, considers solutions to fix the difficulty raised in problem identification. For example, government officials may agree in the problem subphase that the increase in childhood obesity presents a societal problem worthy of government attention. However, the solution can be complex, and people who otherwise agree might come into conflict over what the best answer is. Alternatives might range from reinvestment in school physical education programs and health education classes, to taking soda and candy machines out of the schools and requiring good nutrition in school lunches. Agenda setting ends when a given problem has been selected, a solution has been paired with that problem, and the solution goes to the decision makers for a vote. Acid rain provides another nice illustration of agenda setting and the problems and solutions subphases. Acid rain is a widely recognized problem that did not make it on to the governmental policy agenda until Congress passed the Air Quality Act of 1967, long after environmental groups started asking for laws to regulate pollution.

In the second policy phase, enactment, the elected branches of government typically consider one specific solution to a problem and decide whether to pass it. This stage is the most visible one and usually garners the most press coverage. And yet it is somewhat anticlimatic. By the time a specific policy proposal (a solution) comes out of agenda setting for a yes/no vote, it can be something of a foregone conclusion that it will pass.

Once the policy has been enacted—usually by the legislative and/or executive branches of the government, like Congress or the president at the national level or the legislature or governor of a state—government agencies do the work of actually implementing it. On a national level, policy implementation can be either top-down or bottom-up. In **top-down implementation**, the federal government dictates the specifics of the policy, and each state implements it the same exact way. In **bottom-up implementation**, the federal government allows local areas some flexibility to meet their specific challenges and needs.[20]

Evaluation, the last stage of the process, should be tied directly to the policy's desired outcomes. Evaluation essentially asks, "How well did this policy do what we designed it to do?" The answers can sometimes be surprising. In one hotly debated case, the United States funded abstinence-only sex education for teens with the goal of reducing teen pregnancy. A 2011 study published in the journal *PLoS One*, however, found that abstinence-only education actually *increased* teen pregnancy rates.[21] The information from the evaluation stage can feed back into the other stages, informing future decisions and creating a public policy cycle.

16.5 Budgeting and Tax Policy

Learning Objectives

By the end of this section, you will be able to:

- Discuss economic theories that shape U.S. economic policy
- Explain how the government uses fiscal policy tools to maintain a healthy economy
- Analyze the taxing and spending decisions made by Congress and the president
- Discuss the role of the Federal Reserve Board in monetary policy

A country spends, raises, and regulates money in accordance with its values. In all, the federal government's budget for 2016 was $3.8 trillion. This chapter has provided a brief overview of some of the budget's key areas of expenditure, and thus some insight into modern American values. But these values are only part of the budgeting story. Policymakers make considerable effort to ensure that long-term priorities are protected from the heat of the election cycle and short-term changes in public opinion. The decision to put some policymaking functions out of the reach of Congress also reflects economic philosophies about the best ways to grow, stimulate, and maintain the economy. The role of politics in drafting the annual budget is indeed large (**Figure 16.15**), but we should not underestimate the challenges elected officials face as a result of decisions made in the past.

Figure 16.15 Strategists discuss the budget in the Roosevelt Room of the White House in 2009.

APPROACHES TO THE ECONOMY

Until the 1930s, most policy advocates argued that the best way for the government to interact with the economy was through a hands-off approach formally known as ***laissez-faire*** economics. These policymakers believed the key to economic growth and development was the government's allowing private markets to operate efficiently. Proponents of this school of thought believed private investors were better equipped than governments to figure out which sectors of the economy were most likely to grow and which new products were most likely to be successful. They also tended to oppose government efforts to establish quality controls or health and safety standards, believing consumers themselves would punish bad behavior by not trading with poor corporate citizens. Finally, laissez-faire proponents felt that keeping government out of the business of business would create an automatic cycle of economic growth and contraction. Contraction phases in which there is no economic growth for two consecutive quarters, called **recessions**, would bring business failures and higher unemployment. But this condition, they believed, would correct itself on its own if the government simply allowed the system to operate.

The Great Depression challenged the laissez-faire view, however. When President Franklin Roosevelt came to office in 1933, the United States had already been in the depths of the Great Depression for several years, since the stock market crash of 1929. Roosevelt sought to implement a new approach to economic regulation known as Keynesianism. Named for its developer, the economist John Maynard Keynes, **Keynesian economics** argues that it is possible for a recession to become so deep, and last for so long, that the typical models of economic collapse and recovery may not work. Keynes suggested that economic growth was closely tied to the ability of individuals to consume goods. It didn't matter how or where investors wanted to invest their money if no one could afford to buy the products they wanted to make. And in periods of extremely high unemployment, wages for newly hired labor would be so low that new workers would be unable to afford the products they produced.

Keynesianism counters this problem by increasing government spending in ways that improve consumption. Some of the proposals Keynes suggested were payments or pension for the unemployed and retired, as well as tax incentives to encourage consumption in the middle class. His reasoning was that these individuals would be most likely to spend the money they received by purchasing more goods, which in turn would encourage production and investment. Keynes argued that the wealthy class of producers and employers had sufficient capital to meet the increased demand of consumers that government incentives would stimulate. Once consumption had increased and capital was flowing again, the government would reduce or eliminate its economic stimulus, and any money it had borrowed to create it could be repaid from higher tax revenues.

Keynesianism dominated U.S. fiscal or spending policy from the 1930s to the 1970s. By the 1970s, however, high inflation began to slow economic growth. There were a number of reasons, including higher oil prices and the costs of fighting the Vietnam War. However, some economists, such as Arthur Laffer,

began to argue that the social welfare and high tax policies created in the name of Keynesianism were overstimulating the economy, creating a situation in which demand for products had outstripped investors' willingness to increase production.[22] They called for an approach known as **supply-side economics**, which argues that economic growth is largely a function of the productive capacity of a country. Supply-siders have argued that increased regulation and higher taxes reduce the incentive to invest new money into the economy, to the point where little growth can occur. They have advocated reducing taxes and regulations to spur economic growth.

MANDATORY SPENDING VS. DISCRETIONARY SPENDING

The desire of Keynesians to create a minimal level of aggregate demand, coupled with a Depression-era preference to promote social welfare policy, led the president and Congress to develop a federal budget with spending divided into two broad categories: mandatory and discretionary (see **Figure 16.16**). Of these, **mandatory spending** is the larger, consisting of about $2.5 trillion of the projected 2017 budget, or roughly 59 percent of all federal expenditures.[23]

The overwhelming portion of mandatory spending is earmarked for entitlement programs guaranteed to those who meet certain qualifications, usually based on age, income, or disability. These programs, discussed above, include Medicare and Medicaid, Social Security, and major income security programs such as unemployment insurance and SNAP. The costs of programs tied to age are relatively easy to estimate and grow largely as a function of the aging of the population. Income and disability payments are a bit more difficult to estimate. They tend to go down during periods of economic recovery and rise when the economy begins to slow down, in precisely the way Keynes suggested. A comparatively small piece of the mandatory spending pie, about 14 percent, is devoted to benefits designated for former federal employees, including military retirement and many Veterans Administration programs.

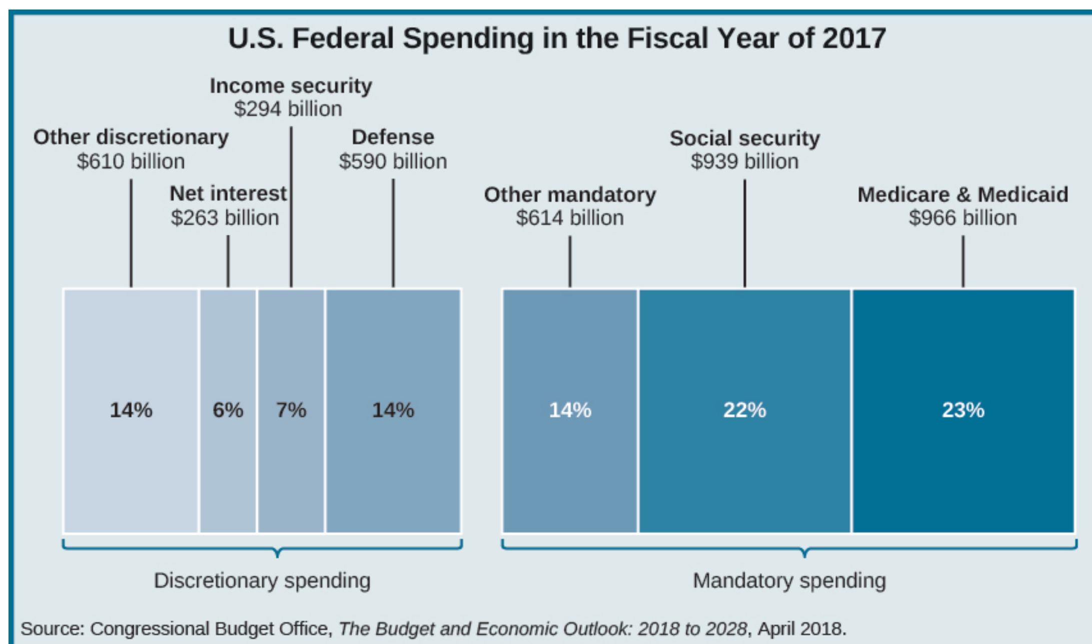

Figure 16.16 This chart of U.S. federal spending for 2015 shows the proportions of mandatory and discretionary spending, about 60 percent and 40 percent, respectively.

Congress is ultimately responsible for setting the formulas for mandatory payouts, but as we saw in the earlier discussion regarding Social Security, major reforms to entitlement formulas are difficult to enact. As a result, the size and growth of mandatory spending in future budgets are largely a function of previous legislation that set the formulas up in the first place. So long as supporters of particular programs can block changes to the formulas, funding will continue almost on autopilot. Keynesians support this mandatory

spending, along with other elements of social welfare policy, because they help maintain a minimal level of consumption that should, in theory, prevent recessions from turning into depressions, which are more severe downturns.

Portions of the budget not devoted to mandatory spending are categorized as **discretionary spending** because Congress must pass legislation to authorize money to be spent each year. About 50 percent of the approximately $1.2 trillion set aside for discretionary spending each year pays for most of the operations of government, including employee salaries and the maintenance of federal buildings. It also covers science and technology spending, foreign affairs initiatives, education spending, federally provided transportation costs, and many of the redistributive benefits most people in the United States have come to take for granted.[24] The other half of discretionary spending—and the second-largest component of the total budget—is devoted to the military. (Only Social Security is larger.) Defense spending is used to maintain the U.S. military presence at home and abroad, procure and develop new weapons, and cover the cost of any wars or other military engagements in which the United States is currently engaged (**Figure 16.17**).

Figure 16.17 The war in Afghanistan, ongoing since 2001, has cost the United States billions of dollars in discretionary military spending authorized by Congress every year.

In theory, the amount of revenue raised by the national government should be equal to these expenses, but with the exception of a brief period from 1998 to 2000, that has not been the case. The economic recovery from the 2007–2009 recession, and budget control efforts implemented since then, have managed to cut the annual **deficit**—the amount by which expenditures are greater than revenues—by more than half. However, the amount of money the U.S. government needed to borrow to pay its bills in 2016 was still in excess of $400 billion[25]. This was in addition to the country's almost $19 trillion of total **debt**—the amount of money the government owes its creditors—at the end of 2015, according to the Department of the Treasury.

Balancing the budget has been a major goal of both the Republican and Democratic parties for the past several decades, although the parties tend to disagree on the best way to accomplish the task. One frequently offered solution, particularly among supply-side advocates, is to simply cut spending. This has proven to be much easier said than done. If Congress were to try to balance the budget only through discretionary spending, it would need to cut about one-third of spending on programs like defense, higher education, agriculture, police enforcement, transportation, and general government operations. Given the

number and popularity of many of these programs, it is difficult to imagine this would be possible. To use spending cuts alone as a way to control the deficit, Congress will almost certainly be required to cut or control the costs of mandatory spending programs like Social Security and Medicare—a radically unpopular step.

TAX POLICY

The other option available for balancing the budget is to increase revenue. All governments must raise revenue in order to operate. The most common way is by applying some sort of tax on residents (or on their behaviors) in exchange for the benefits the government provides (**Figure 16.18**). As necessary as taxes are, however, they are not without potential downfalls. First, the more money the government collects to cover its costs, the less residents are left with to spend and invest. Second, attempts to raise revenues through taxation may alter the behavior of residents in ways that are counterproductive to the state and the broader economy. Excessively taxing necessary and desirable behaviors like consumption (with a sales tax) or investment (with a capital gains tax) will discourage citizens from engaging in them, potentially slowing economic growth. The goal of tax policy, then, is to determine the most effective way of meeting the nation's revenue obligations without harming other public policy goals.

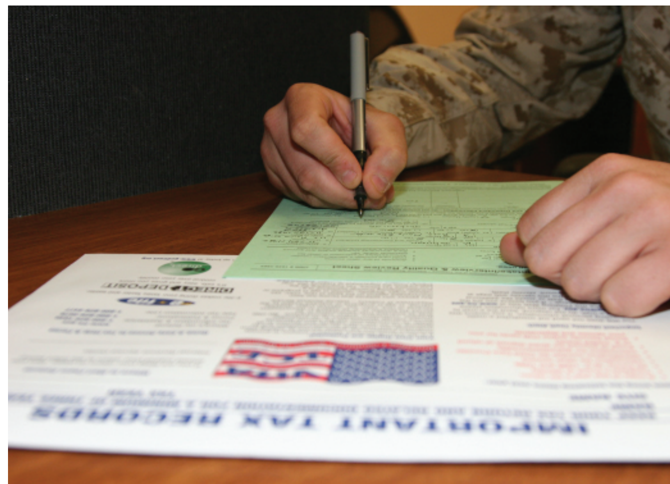

Figure 16.18 A U.S. marine fills out an income tax form. Income taxes in the United States are progressive taxes.

As you would expect, Keynesians and supply-siders disagree about which forms of tax policy are best. Keynesians, with their concern about whether consumers can really stimulate demand, prefer **progressive taxes** systems that increase the effective tax rate as the taxpayer's income increases. This policy leaves those most likely to spend their money with more money to spend. For example, in 2015, U.S. taxpayers paid a 10 percent tax rate on the first $18,450 of income, but 15 percent on the next $56,450 (some income is excluded).[26] The rate continues to rise, to up to 39.6 percent on any taxable income over $464,850. These brackets are somewhat distorted by the range of tax credits, deductions, and incentives the government offers, but the net effect is that the top income earners pay a greater portion of the overall income tax burden than do those at the lowest tax brackets. According to the Pew Research Center, based on tax returns in 2014, 2.7 percent of filers made more than $250,000. Those 2.7 percent of filers paid 52 percent of the income tax paid.[27]

Supply-siders, on the other hand, prefer **regressive tax** systems, which lower the overall rate as individuals make more money. This does not automatically mean the wealthy pay less than the poor, simply that the percentage of their income they pay in taxes will be lower. Consider, for example, the use of **excise taxes** on specific goods or services as a source of revenue.[28] Sometimes called "sin taxes" because they tend to be applied to goods like alcohol, tobacco, and gasoline, excise taxes have a regressive quality, since the amount of the good purchased by the consumer, and thus the tax paid, does not increase at the

same rate as income. A person who makes $250,000 per year is likely to purchase more gasoline than a person who makes $50,000 per year (**Figure 16.19**). But the higher earner is not likely to purchase *five times more* gasoline, which means the proportion of his or her income paid out in gasoline taxes is less than the proportion for a lower-earning individual.

Figure 16.19 A gas station shows fuel prices over $3.00 a gallon in 2005, shortly after Hurricane Katrina disrupted gas production in the Gulf of Mexico. Taxes on gasoline that are based on the quantity purchased are regressive taxes.

Another example of a regressive tax paid by most U.S. workers is the payroll tax that funds Social Security. While workers contribute 7.65 percent of their income to pay for Social Security and their employers pay a matching amount, in 2015, the payroll tax was applied to only the first $118,500 of income. Individuals who earned more than that, or who made money from other sources like investments, saw their overall tax rate fall as their income increased.

In 2015, the United States raised about $3.2 trillion in revenue. Income taxes ($1.54 trillion), payroll taxes on Social Security and Medicare ($1.07 trillion), and excise taxes ($98 billion) make up three of the largest sources of revenue for the federal government. When combined with corporate income taxes ($344 billion), these four tax streams make up about 95 percent of total government revenue. The balance of revenue is split nearly evenly between revenues from the Federal Reserve and a mix of revenues from import tariffs, estate and gift taxes, and various fees or fines paid to the government (**Figure 16.20**). The Tax Cuts and Jobs Act, which was passed in December 2017 by the Republican-controlled Congress and significantly reduced the income tax rate paid by corporations, has led to a widening budget deficit. November 2018 featured the largest single-month deficit in the history of the country, with $411 billion in spending and only $206 billion in receipts, and the annual budget shortfall is approaching $1 trillion.[29]

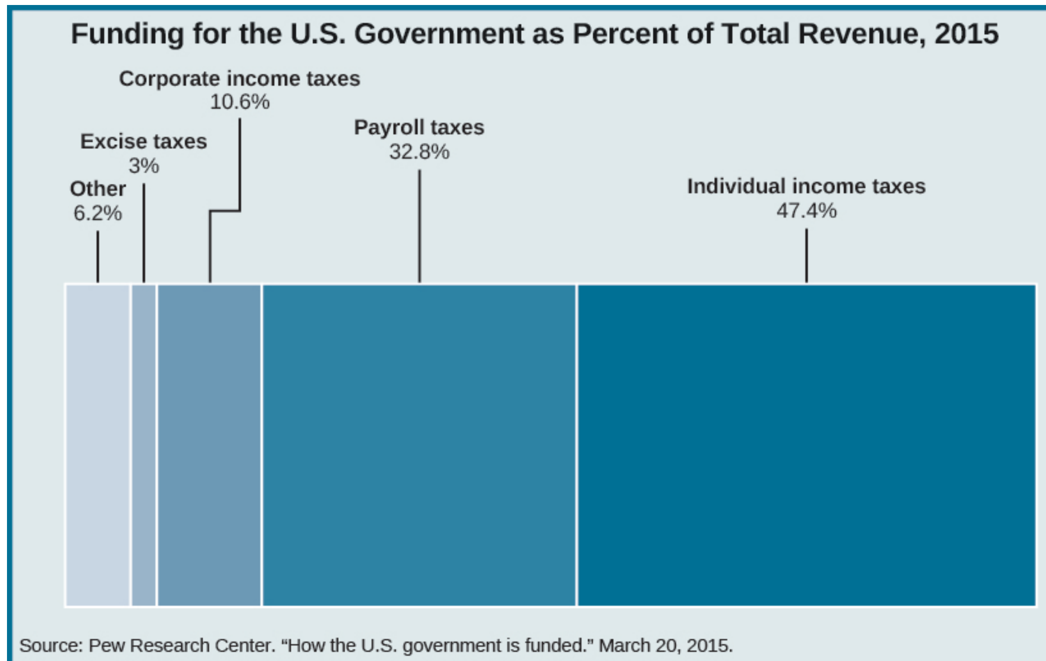

Figure 16.20

THE FEDERAL RESERVE BOARD AND INTEREST RATES

Financial panics arise when too many people, worried about the solvency of their investments, try to withdraw their money at the same time. Such panics plagued U.S. banks until 1913 (**Figure 16.21**), when Congress enacted the Federal Reserve Act. The act established the Federal Reserve System, also known as the Fed, as the central bank of the United States. The Fed's three original goals to promote were maximum employment, stable prices, and moderate long-term interest rates.[30] All of these goals bring stability. The Fed's role is now broader and includes influencing monetary policy (the means by which the nation controls the size and growth of the money supply), supervising and regulating banks, and providing them with financial services like loans.

Figure 16.21 Investors crowd Wall Street during the Bankers Panic of 1907.

The Federal Reserve System is overseen by a board of governors, known as the Federal Reserve Board. The president of the United States appoints the seven governors, each of whom serves a fourteen-year term (the terms are staggered). A chair and vice chair lead the board for terms of four years each. The most important work of the board is participating in the Federal Open Market Committee to set monetary policy, like interest rate levels and macroeconomic policy. The board also oversees a network of twelve regional Federal Reserve Banks, each of which serves as a "banker's bank" for the country's financial institutions.

Insider Perspective

The Role of the Federal Reserve Chair

If you have read or watched the news for the past several years, perhaps you have heard the names Janet Yellen, Ben Bernanke, or Alan Greenspan. Bernanke, Greenspan, and Yellen are all recent past chairs of the board of governors of the Federal Reserve System; Jerome Powell is the current chair (**Figure 16.22**). The role of the Fed chair is one of the most important in the country. By raising or lowering banks' interest rates, the chair has the ability reduce inflation or stimulate growth. The Fed's dual mandate is to keep inflation low (under 2 percent) and unemployment low (below 5 percent), but efforts to meet these goals can often lead to contradictory monetary policies.

(a)

(b)

Figure 16.22 Economist Alan Greenspan (a) was chair of the board of governors of the Federal Reserve System from 1987 to 2006, the second-longest tenure of any chair. Janet Yellen (b) succeeded Ben Bernanke as chair in 2014, after serving as vice chair for four years. Prior to serving on the Federal Reserve Board, Yellen was president and CEO of the Federal Reserve Bank of San Francisco. She was succeeded by Jerome Powell in February 2018.

The Fed, and by extension its chair, have a tremendous responsibility. Many of the economic events of the past five decades, both good and bad, are the results of Fed policies. In the 1970s, double-digit inflation brought the economy almost to a halt, but when Paul Volcker became chair in 1979, he raised interest rates and jump-started the economy. After the stock market crash of 1987, then-chair Alan Greenspan declared, "The Federal Reserve, consistent with its responsibilities as the nation's central bank, affirmed today its readiness to…support the economic and financial system."[31] His lowering of interest rates led to an unprecedented decade of economic growth through the 1990s. In the 2000s, consistently low interest rates and readily available credit contributed to the sub-prime mortgage boom and subsequent bust, which led to a global economic recession beginning in 2008.

Should the important tasks of the Fed continue to be pursued by unelected appointees like those profiled in this box, or should elected leaders be given the job? Why?

Link to Learning

Do you think you have what it takes to be chair of the Federal Reserve Board? Play this **game (https://openstax.org/l/29ChrtheFed)** and see how you fare!

Key Terms

bottom-up implementation a strategy in which the federal government allows local areas some flexibility to meet their specific challenges and needs in implementing policy

Congressional Budget Office the congressional office that scores the spending or revenue impact of all proposed legislation to assess its net effect on the budget

debt the total amount the government owes across all years

deficit the annual amount by which expenditures are greater than revenues

discretionary spending government spending that Congress must pass legislation to authorize each year

distributive policy a policy that collect payments or resources broadly but concentrates direct benefits on relatively few

entitlement a program that guarantees benefits to members of a specific group or segment of the population

excise taxes taxes applied to specific goods or services as a source of revenue

free-market economics a school of thought that believes the forces of supply and demand, working without any government intervention, are the most effective way for markets to operate

Keynesian economics an economic policy based on the idea that economic growth is closely tied to the ability of individuals to consume goods

laissez-faire an economic policy that assumes the key to economic growth and development is for the government to allow private markets to operate efficiently without interference

libertarians people who believe that government almost always operates less efficiently than the private sector and that its actions should be kept to a minimum

mandatory spending government spending earmarked for entitlement programs guaranteeing support to those who meet certain qualifications

Medicaid a health insurance program for low-income citizens

Medicare an entitlement health insurance program for older people and retirees who no longer get health insurance through their work

policy advocates people who actively work to propose or maintain public policy

policy analysts people who identify all possible choices available to a decision maker and assess the potential impact of each

progressive tax a tax that tends to increase the effective tax rate as the wealth or income of the tax payer increases

public policy the broad strategy government uses to do its job; the relatively stable set of purposive governmental behaviors that address matters of concern to some part of society

recession a temporary contraction of the economy in which there is no economic growth for two consecutive quarters

redistributive policy a policy in which costs are born by a relatively small number of groups or

individuals, but benefits are expected to be enjoyed by a different group in society

regressive tax a tax applied at a lower overall rate as individuals' income rises

regulatory policy a policy that regulates companies and organizations in a way that protects the public

safety net a way to provide for members of society experiencing economic hardship

Social Security a social welfare policy for people who no longer receive an income from employment

supply-side economics an economic policy that assumes economic growth is largely a function of a country's productive capacity

top-down implementation a strategy in which the federal government dictates the specifics of public policy and each state implements it the same exact way

Summary

16.1 What Is Public Policy?

Public policy is the broad strategy government uses to do its job, the relatively stable set of purposive governmental behaviors that address matters of concern to some part of society. Most policy outcomes are the result of considerable debate, compromise, and refinement that happen over years and are finalized only after input from multiple institutions within government. Health care reform, for instance, was developed after years of analysis, reflection on existing policy, and even trial implementation at the state level.

People evaluate public policies based on their outcomes, that is, who benefits and who loses. Even the best-intended policies can have unintended consequences and may even ultimately harm someone, if only those who must pay for the policy through higher taxes.

16.2 Categorizing Public Policy

Goods are the commodities, services, and systems that satisfy people's wants or needs. Private goods can be owned by a particular person or group, and are excluded from use by others, typically by means of a price. Free-market economists believe that the government has no role in regulating the exchange of private goods because the market will regulate itself. Public goods, on the other hand, are goods like air, water, wildlife, and forests that no one owns, so no one has responsibility for them. Most people agree the government has some role to play in regulating public goods.

We categorize policy based upon the degree to which costs and benefits are concentrated on the few or diffused across the many. Distributive policy collects from the many and benefits the few, whereas regulatory policy focuses costs on one group while benefitting larger society. Redistributive policy shares the wealth and income of some groups with others.

16.3 Policy Arenas

The three major domestic policy areas are social welfare; science, technology, and education; and business stimulus and regulation. Social welfare programs like Social Security, Medicaid, and Medicare form a safety net for vulnerable populations. Science, technology, and education policies have the goal of securing the United States' competitive advantages. Business stimulus and regulation policies have to balance business' needs for an economic edge with consumers' need for protection from unfair or unsafe practices. The United States spends billions of dollars on these programs.

16.4 Policymakers

The two groups most engaged in making policy are policy advocates and policy analysts. Policy advocates are people who feel strongly enough about something to work toward changing public policy to fix it. Policy analysts, on the other hand, aim for impartiality. Their role is to assess potential policies and predict

their outcomes. Although they are in theory unbiased, their findings often reflect specific political leanings.

The public policy process has four major phases: identifying the problem, setting the agenda, implementing the policy, and evaluating the results. The process is a cycle, because the evaluation stage should feed back into the earlier stages, informing future decisions about the policy.

16.5 Budgeting and Tax Policy

Until the Great Depression of the 1930s, the U.S. government took a *laissez-faire* or hands-off approach to economic policy, assuming that if left to itself, the economy would go through cycles of boom and bust, but would remain healthy overall. Keynesian economic policies, with their emphasis on government spending to increase consumer consumption, helped raise the country out of the Depression.

The goal of federal fiscal policy is to have a balanced budget, in which expenditures and revenues match up. More frequently, the budget has a deficit, a gap between expenditures and revenues. It is very difficult to reduce the budget, which consists of mandatory and discretionary spending, but no one really wants to raise revenue by raising taxes. One way monetary policies can change the economy is through the level of interest rates. The Federal Reserve Board sets these rates and thus guiding monetary policy in the United States.

Review Questions

1. Which of the following is *not* an example of a public policy outcome?

a. the creation of a program to combat drug trafficking
b. the passage of the Affordable Care Act (Obamacare)
c. the passage of tax cuts during the George W. Bush administration
d. none of the above; all are public policy outcomes

2. Public policy ________.

a. is more of a theory than a reality
b. is typically made by one branch of government acting alone
c. requires multiple actors and branches to carry out
d. focuses on only a few special individuals

3. What are some of the challenges to getting a new public policy considered and passed as law?

4. Toll goods differ from public goods in that ________.

a. they provide special access to some and not all
b. they require the payment of a fee up front
c. they provide a service for only the wealthy
d. they are free and available to all

5. Which type of policy directly benefits the most citizens?

a. regulatory policy
b. distributive policy
c. redistributive policy
d. self-regulatory policy

6. Of the types of goods introduced in this section, which do you feel is the most important to the public generally and why? Which public policies are most important and why?

7. Social Security and Medicare are notable for their assistance to which group?

a. the poor
b. young families starting out
c. those in urban areas
d. the elderly

8. Setting aside Social Security and Medicare, other entitlement programs in the U.S. government ________.

a. constitute over half the budget
b. constitute well under one-quarter of the budget
c. are paid for by the states with no cost to the Federal government
d. none of the above

9. What societal ills are social welfare programs designed to address?

10. Which stage of the public policy process includes identification of problems in need of fixing?
a. agenda setting
b. enactment
c. implementation
d. evaluation

11. Policy analysts seek ________.
a. evidence
b. their chosen outputs
c. influence
d. money

12. In the implementation phase of the policy process, is it better to use a top-down approach or a bottom-up approach on Federal policies? Why?

13. A deficit is ________.
a. the overall amount owed by government for past borrowing
b. the annual budget shortfall between revenues and expenditures
c. the cancellation of an entitlement program
d. all the above

14. Entitlement (or mandatory) spending is ________.
a. formula-based spending that goes to individual citizens
b. a program of contracts to aerospace companies
c. focused on children
d. concentrated on education

15. When times are tough economically, what can the government do to get the economy moving again?

Critical Thinking Questions

16. What might indicate that a government is passing the policies the country needs?

17. If you had to define the poverty line, what would you expect people to be able to afford just above that line? For those below that line, what programs should the government offer to improve quality of life?

18. What is the proper role of the government in regulating the private sector so people are protected from unfair or dangerous business practices? Why?

19. Is it realistic to expect the U.S. government to balance its budget? Why or why not?

20. What in your view is the most important policy issue facing the United States? Why is it important and which specific problems need to be solved?

21. What are some suggested solutions to the anticipated Social Security shortfall? Why haven't these solutions tended to gain support?

22. Whose role is more important in a democracy, the policy advocate's or the policy analyst's? Why?

23. Which stage of the policy progress is the most important and why?

Suggestions for Further Study

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