

Public Policy

The Nuts and Bolts of Government

Key Question:

How does the government know what the people need?

Cost-Benefit Analysis of Four Types of Policies p. 99

- **Cost:** Any burden (monetary or non-monetary, real or perceived), that a group must bear.
 - Key point is that the burden resides in the hands of the public (see examples in notes)
- **Benefit:** Any satisfaction (monetary or non-monetary, real or perceived), that a group will enjoy from a policy.
 - Key point is that burden resides in the hands of the government with the people being able to enjoy it (see notes for examples)

Cost-Benefit Analysis of Four Types of Policies p. 99

- Costs and Benefits can be:
 - Widely distributed: spread among many, most, or all citizens
 - Widely distributed costs:
 - Income Tax, Social Security Tax, farm subsidies.
 - Widely distributed benefits:
 - Social Security Benefits, National Security, Clean Air, Federal Highways
 - Narrowly Concentrated: spread among a relatively small number of citizens or groups
 - Narrowly concentrated costs:
 - Factory air emissions standards, capital gains tax on the wealthy, gun control regulations
 - Narrowly concentrated benefits:
 - Farm subsidies, tariffs, exemption from anti-trust legislation

Cost-Benefit Analysis of Four Types of Policies p. 99



- Types of Governmental Policies
- Majoritarian Policies
 - Involves widely distributed costs and widely distributed benefits
 - Examples: Social Security and National Defense
 - Usually not dominated by interest groups
 - Everyone benefits from the policy
 - When the public becomes convinced that the benefits are worth the cost the program becomes a “sacred cow” (permanent)

Cost-Benefit Analysis of Four Types of Policies p. 99

- Interest Group Policies
 - Involves narrowly concentrated costs and narrowly concentrated benefits
 - Examples: tariffs, antitrust exemptions
 - Interest groups fight hard for these policies
 - The groups effected are small enough, and have much to gain, that employing interest groups to fight on their behalf is worth the expense

Cost-Benefit Analysis of Four Types of Policies

p. 100

- Client Policies

- Involves widely distributed costs and narrowly concentrated benefits

- Examples: farm subsidies, airline and trucking regulation, pork barrel bills
 - Interest groups actively involved
 - Costs are widely spread but the group will receive the majority of the benefits
 - Often the costs are not noticed by the consumer (dairy subsidies)
 - Interest groups involved are considered “clients” of the federal agency



Cost-Benefit Analysis of Four Types of Policies p. 100

- Entrepreneurial Policies

- Involves narrowly concentrated costs and widely distributed benefits

- Examples: consumer product safety legislation, ending farm subsidies, deregulation of businesses

- This is an example of the cost paying public fighting against the interest groups

- Most people feel that the benefits are too small to bother fighting for

- Most often policies of this category are defeated by the concerted efforts of the cost paying interest groups

- Occasionally such policies pass through the help of policy entrepreneurs such as Ralph Nader

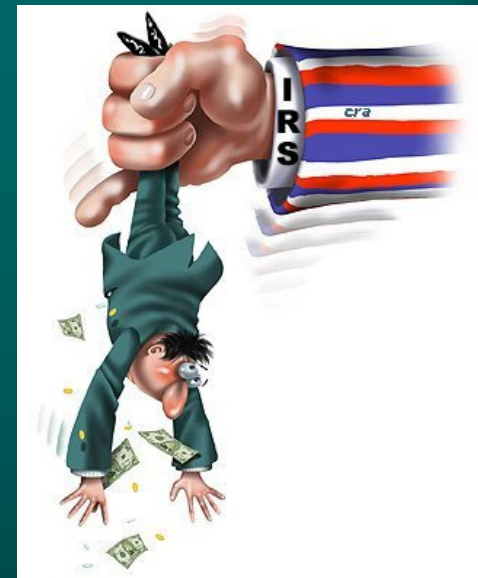
Taxing and Spending p. 101

- Sources of Federal Revenue
- Past sources
 - Tariffs and excise (non-property) taxes were the major source of federal revenue
 - 1894, a 2% income tax was passed but was later ruled unconstitutional by Supreme Court
 - Tax was not proportional to state populations
 - The 16th amendment (1913) removed the proportionality qualification from taxes making income tax legal once again



Taxing and Spending p. 101

- Current sources
 - Individual income taxes (progressive taxes)
 - The rich pay a higher percentage of taxes than the poor
 - 38% of federal revenue
 - Social insurance (payroll) taxes (regressive taxes)
 - Regressive taxes benefit the poor since they are subsidized by the wealthy
 - 32% of federal revenue
 - Corporate taxes
 - 8% of federal revenue
 - Excise taxes
 - 3% of federal revenue
 - Borrowing (public debt)
 - Money borrowed through the sale of securities
 - 15% of federal revenue (increasing)
 - Other
 - 4% of federal revenue



Taxing and Spending p. 101

- Tax Revolt

- The people organize to limit the amount of taxes imposed by the government

- **Proposition 13:** in 1978, the people of California created a constitutional amendment (state constitution not the US constitution) that place a limit on the amount the state could charge for property taxes

- The cap was no greater than 1% of the property value

- Cut the state property tax by an average of 57%

- Also place limits on the government's ability to raise other taxes

- The results of Prop 13 inspired other citizens to demand tax reform both at the state and federal level

- Tax reform became a major topic of political debate and may be responsible for Reagan's election in 1980

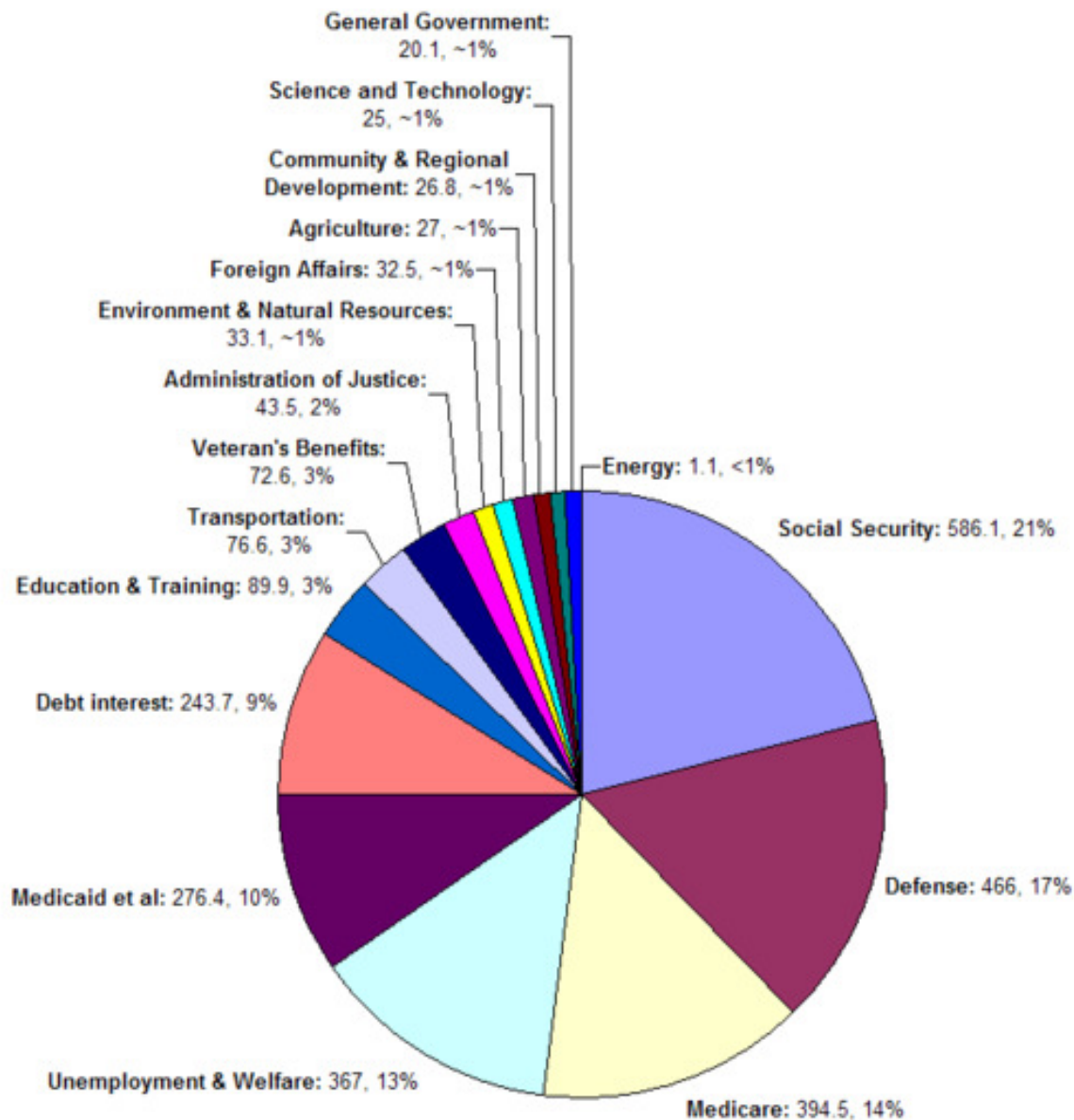
- **Tax reform becomes a reality for the next 30 years (to present day)** [See notes for specific changes]

Taxing and Spending p. 101

- Where / how the money is spent
 - Direct benefit payments to individuals
 - Nondiscretionary: the amount spent is fixed and must be spent each year
 - Examples: Social Security, Medicare, etc.
 - 54% of federal expenditures
 - National defense
 - Discretionary: the amount spent varies each year subject to the federal budget or some other variable
 - 19% of federal expenditures (increasing)
 - Interest (nondiscretionary)
 - Money paid to holders of Treasury Bills
 - 9% of federal expenditures
 - Non-Defense (discretionary)
 - Federal moneys given to states to operate programs
 - 18% of federal expenditures

United States Federal Budget, FY2007

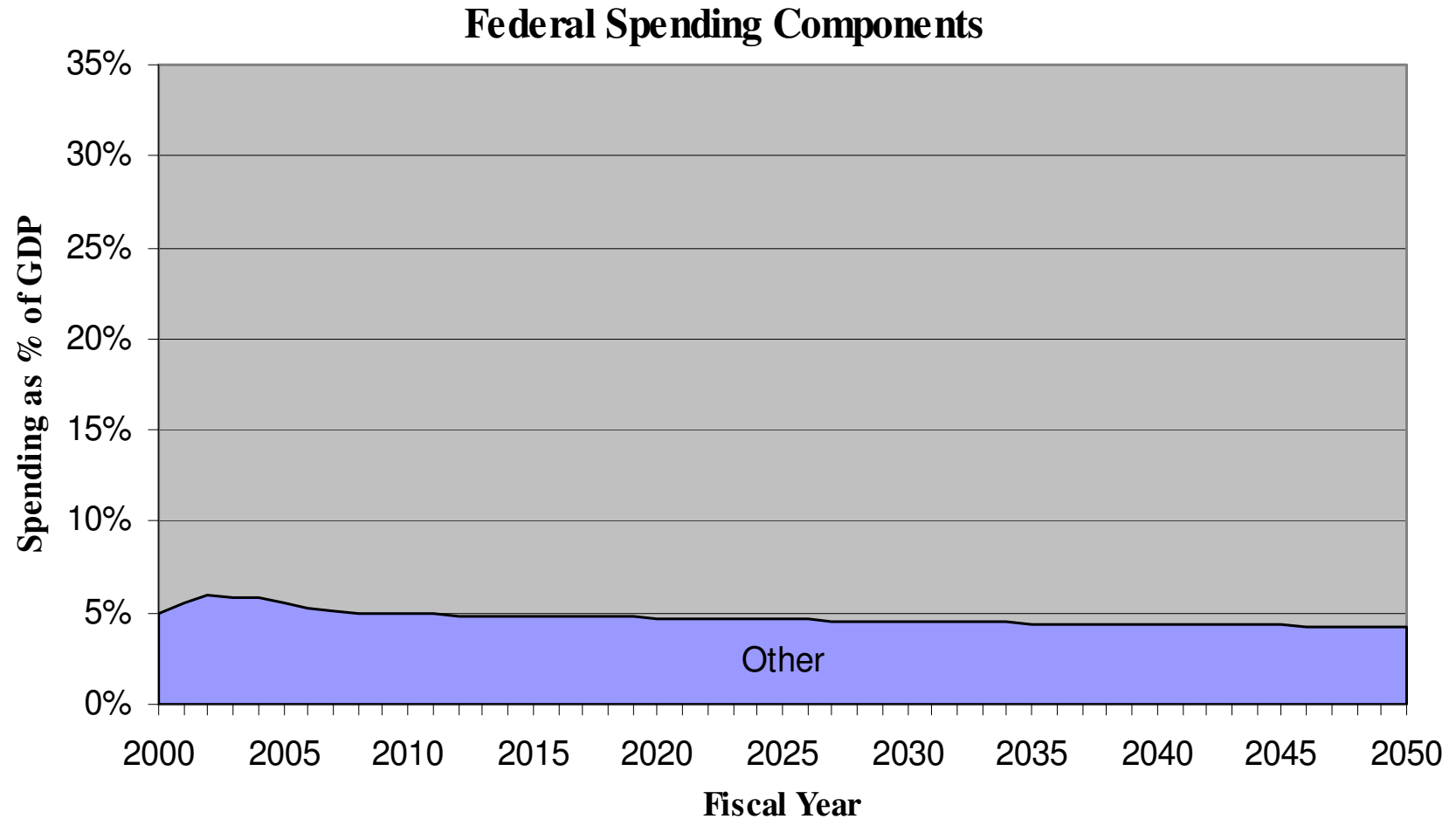
Total Spending (Billions of Dollars)



Taxing and Spending p. 101

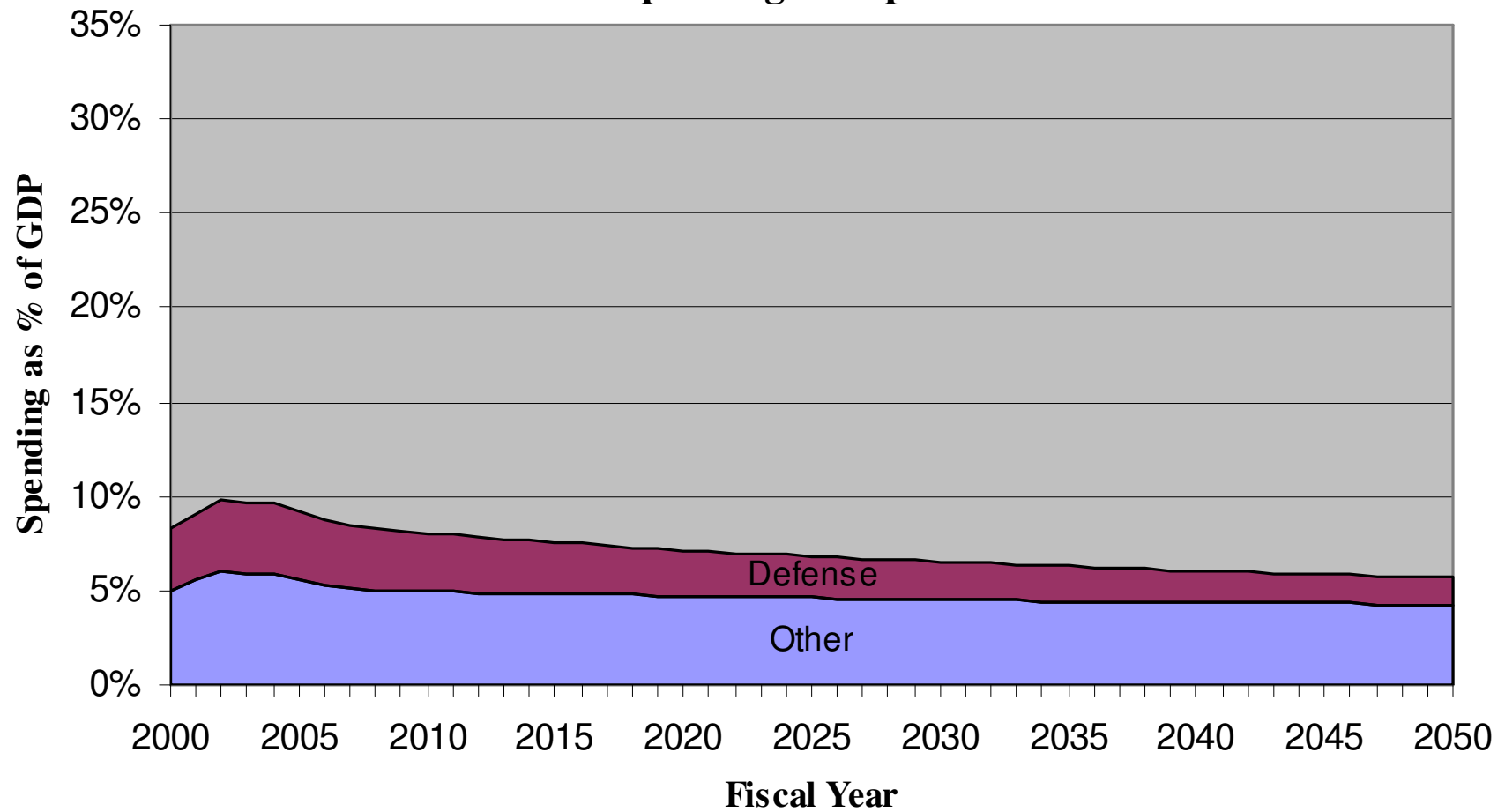
- The problems with **entitlements**
 - **Entitlements:** a government program that guarantees and provides benefits to a specific group
 - Examples: Medicare, Social Security, federal pensions, and interest on national debt
 - Monies promised are automatically spent without the need for Congressional approval
 - Some also have built in increases (COLA cost of living adjustments) that automatically increase the amount spent without the need of Congressional approval
 - **Entitlements account for about 2/3 of the federal budget**
 - **Makes it difficult to balance the budget**

Taxing and Spending p. 101



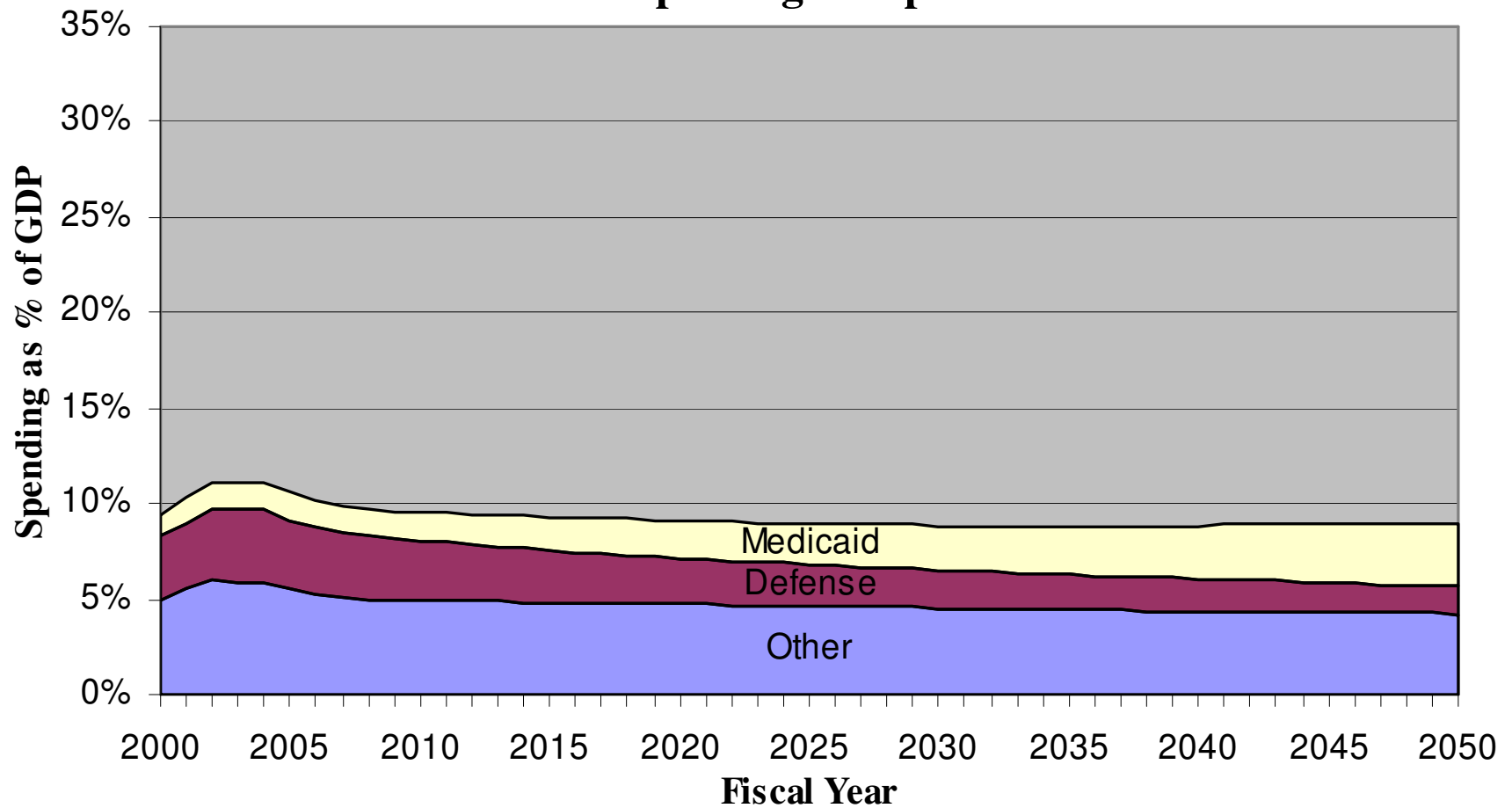
Taxing and Spending p. 101

Federal Spending Components



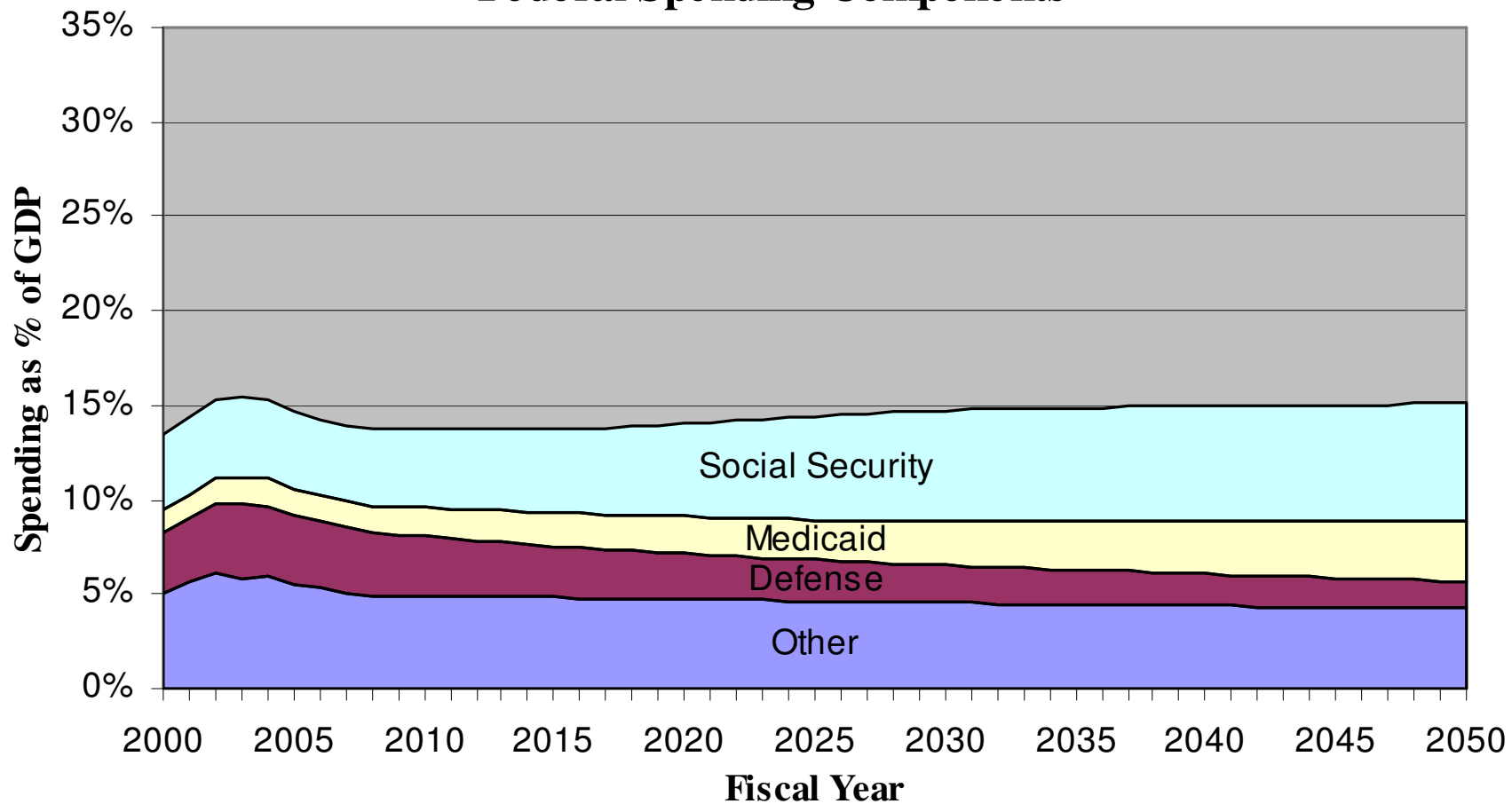
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Federal Spending Components



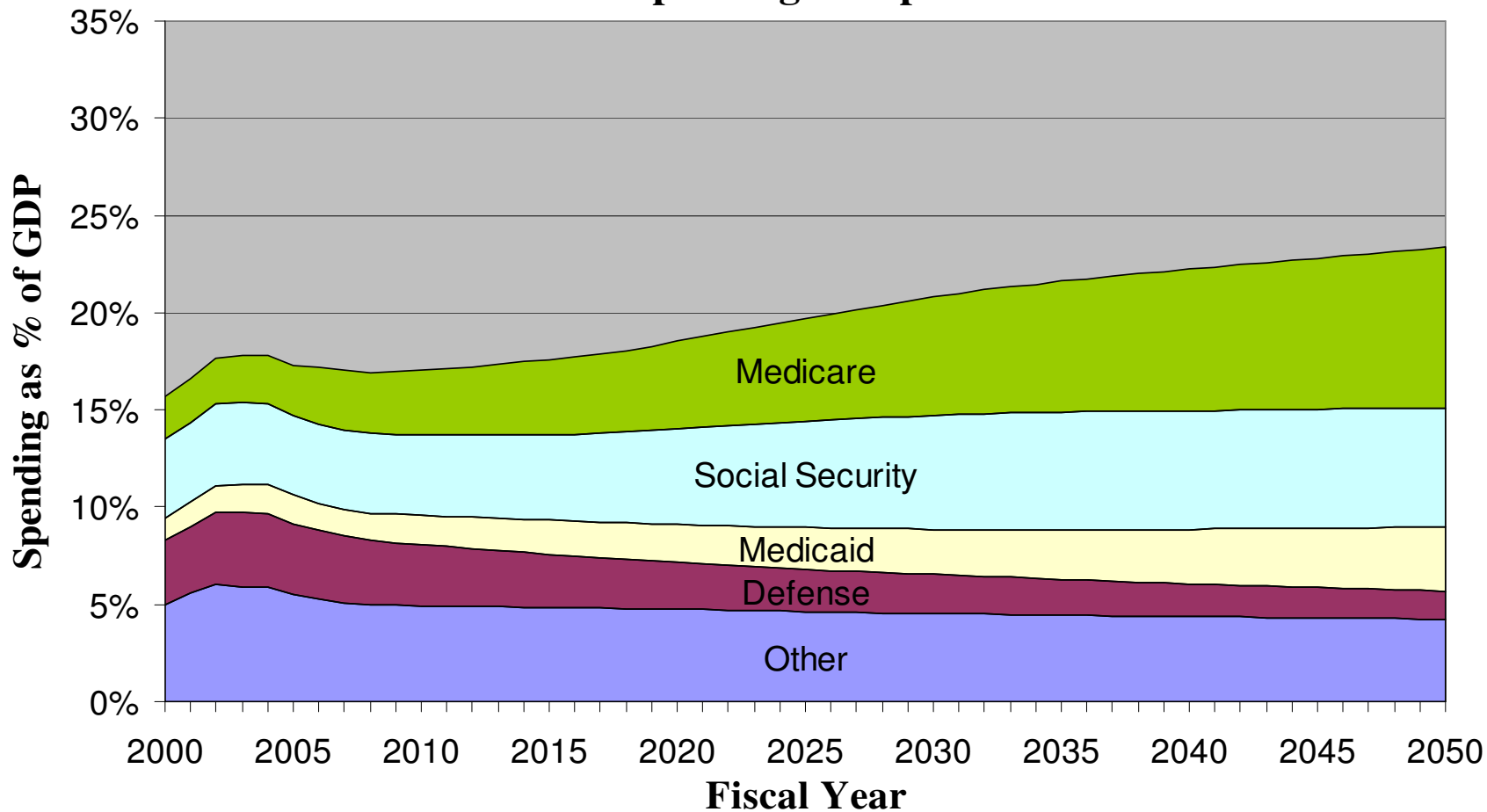
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Federal Spending Components



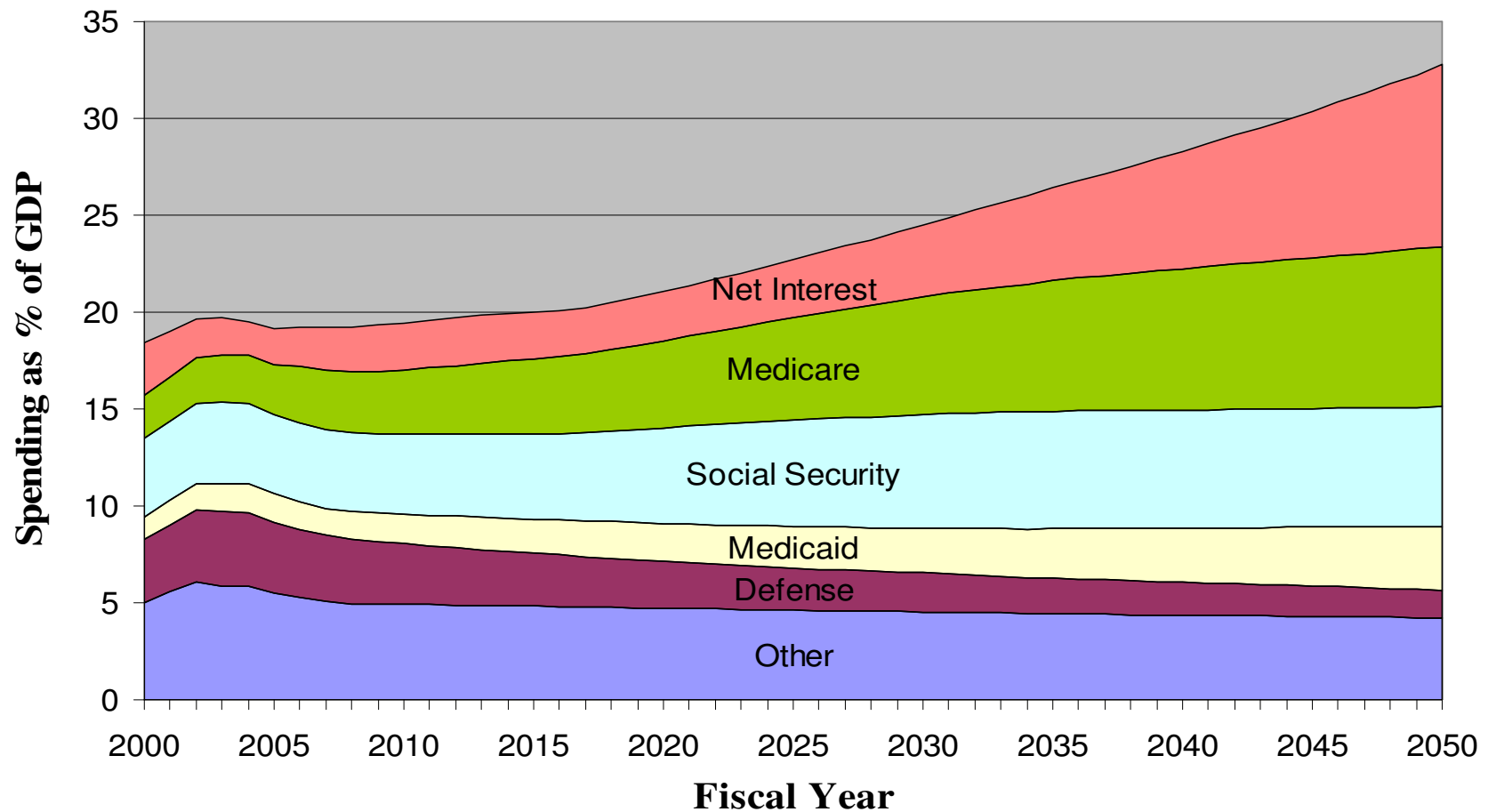
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Federal Spending Components



Taxing and Spending p. 101

Federal Spending (assuming taxes at historical average)



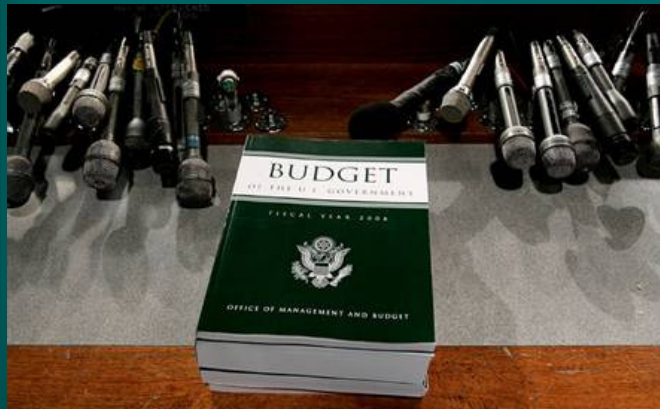
Taxing and Spending p. 102

- The Budget Process
- Executive Branch
 - Agencies prepare their estimated budget needs to the Office of Management and Budget (OMB)
 - Amount requested is based upon the amount granted the previous year adjusted for inflation and additional needs
 - OMB reviews requests and makes recommendations to President
 - President reviews OMB suggestions and then submits a budget to Congress



Taxing and Spending p. 102

- Congress
 - The Congressional Budget Office (CBO) reviews the Presidential budget
 - This is a check on the OMB
 - Standing Committees that deal with budgetary needs
 - House Budget Committee: determines the amount of expected revenue that will be collected
 - Ways and Means Committee: House committee that must approve all taxes, considered the most powerful committee in Congress
 - House Appropriations Committee: responsible for approving all federal spending



Taxing and Spending p. 102

- Political influences on budget
 - Differences between political parties
 - Republicans tend to favor tax cuts for the rich and middle class
 - When there is a budget surplus, they often offer further tax breaks or refunds
 - Democrats tend to favor tax cuts for the poor and increased taxes on the rich
 - When there is a budget surplus, they often use the money on entitlements such as Social Security
 - Interest groups and PAC's effect the budget by encouraging the fed to include their interests when making the federal budget
 - **Iron Triangles:**
 - the relationship between government agencies, special interest groups, and the committees that regulate them
 - They influence the budget in ways that serve their best interest
 - Public Opinion
 - Politicians fund programs to curry favor with the voters or people in their district

Taxing and Spending p. 102

- Presidential Budgetary Action
 - Once the budget is adjusted by Congress, the President must either approve the budget (by signing the bill) or reject it in its entirety (no line-item-veto)
 - **Congress can override the Presidential veto with a 2/3 vote in both houses**
- Deficit Spending
 - Budget Deficit: debt that occurs when government expenses exceed the revenue collected
 - National Debt: the total amount of money owed for past budget deficits, amount is cumulative



Taxing and Spending p. 102

- In the 1980's the gov incurred huge debt due to tax cuts and increases in defense spending
 - Increased by >\$200 billion per year
- Balanced Budget Amendment
 - At various times since the 1980's, both under Reagan and Clinton, the people have called for a Constitutional Amendment to force the government to balance the budget
 - All attempts have so far failed due to the strict requirements for amending the Constitution
 - In 1994, Congress (Rep) forced Clinton to cut spending and thus slowed down the growth of national debt



Taxing and Spending p. 102

- Politics of the national debt
 - “Pay-go”: Bush Sr. proposed a way to contain the growth of national debt by allowing Congress to increase spending ONLY if it offset the spending by making cuts somewhere else
 - The plan expired in 2002 and spending has steadily increased ever since
 - Government shutdown in 1990’s a result of political battles over the budget
 - Current debt >\$8.4 trillion and growing (\$400 billion in 2006)



Managing the Economy p. 103

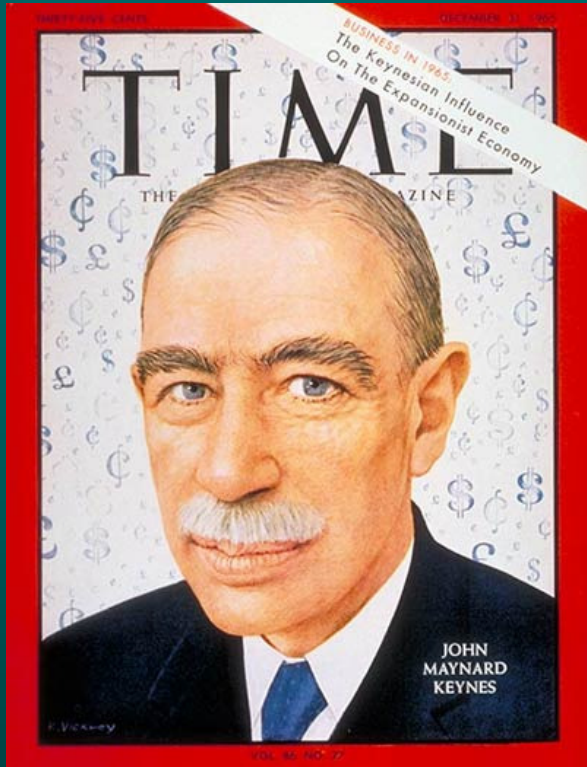
- Types of Economic Policies
- **Fiscal:** the economy is **controlled by Congress and the President** by adjusting taxing and spending
- **Monetary:** the economy is **controlled by the Federal Reserve** by controlling the amount of money that is in circulation
 - The “Fed” can adjust interest rates in order to control inflation (increase or decrease as necessary to keep the economy going)

Managing the Economy p. 103

- History of economic policy
 - Constitution: gave Congress the power to regulate foreign and interstate commerce
 - Business excesses: industrialization led to abuses of power by businesses, Congress curbs the excesses by expanding regulatory powers (trust-busting, industry regulations, creation of commissions)
 - Great Depression: economic collapse led to even greater regulation by Congress



Managing the Economy p. 103



- Keynesian Economics
 - British economist that suggested that the government could manipulate the economic health of the economy by increasing spending during troubled times and decreasing spending during boom times
 - Inspired the passage of the Employment Act of 1946 which made the government responsible for maintaining high employment rates
 - Negative: once spending levels increase, it is hard to cut it (growing entitlements)

Managing the Economy p. 103



- Supply-Side Economics

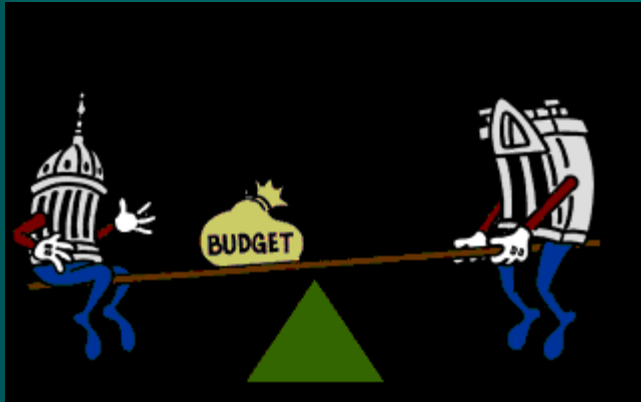
- Economic theory that proposes that cuts in taxes will produce business investments that will compensate for the loss of money due to the lower tax rate
 - Tax rates are lower
 - Business will boom
 - Unemployment will decrease
 - Incomes increase
 - More money will find its way into the Treasury
- Fiscal policy of Pres. Reagan
- Negative: tax cuts without spending cuts will lead to increased national debt

Managing the Economy p. 103

- Monetarism
 - Economic philosophy based on the belief that the economy can be controlled by regulating the money supply (monetary policy)
 - The “Fed” can reduce the money supply (by raising interest rates) to reduce inflation, or it can increase the money supply (lower interest rates) to stimulate the economy and encourage spending
 - Negatives: none, this appears to be the safest approach and is usually used in combination with the other economic policies mentioned



Managing the Economy p. 104



- Push for a balanced budget amendment
 - Increasing national debt leads to desire to “reign” in Congress by placing limits on Congressional spending
 - Expenditures cannot exceed income
 - Proponents argue that a balanced budget amendment would remove the bias or politics of making spending cuts
 - Opponents argue that such a plan goes against the Constitution and would place too many limits on Congress, making it unable to adjust during a crisis
 - Propose in 1992 but failed to pass
 - The line-item-veto would allow the President to eliminate wasteful spending on bills

Managing the Economy p. 104

- “Pay-go”: Bush plan to control spending by requiring the government to cut spending in one area of the budget if it wished to increase spending in another
 - The plan, coupled with an expanding economy led to a balanced budget in the late 1990’s
 - The expiration of the plan, coupled with the war in Iraq, led to a large increase in the national debt
- Trade policy: adjusting the economy by stimulating or reducing trade
 - Increasing trade deficits (imports exceed exports)
 - Desire for Protectionism: controlling the import of goods in order to “protect” US businesses
 - There has been an increase in desire for free trade agreements (moving away from protectionism)
 - GATT General Agreements on Tariffs and Trade
 - NAFTA North American Free Trade Area
 - WTO World Trade Organization
 - MFN Most Favored Nation status (China)

Government Regulation of Business p. 105

- Regulations: rules imposed by government on business to achieve some desired goal, such as clean air regulations.
- Types of Regulations
 - Economic: government controls on behavior of business
 - Social: government controls designed to correct the negative side effects of capitalism such as imposing safety regulations to decrease worker injuries

Government Regulation of Business p. 105

- History of Government Regulation
 - Industrial Era (late 19th – 20th century)
 - Industrialization had many negative side effects such as unsafe working environments, unsafe/unhealthy products, bribery of politicians, and the formation of business trusts designed to destroy all competition
 - Antitrust Policies Develop
 - The poor behavior of trusts led to government antitrust regulations “trust-busting”
 - Not all monopolies are bad, antitrust policies were designed to restore competition
 - Sherman Antitrust Act (1890)
 - Clayton Act (1914)
 - Federal Trade Commission Act (1914): FTC designed to restore competition through its legislative, judicial, and executive powers

Government Regulation of Business p. 105

- Recent Trends in Business Regulation
 - Antitrust organizations (FTC and others) have been intentionally understaffed in order to slow down regulation (*example of Presidential power over commissions*)
 - Growth in corporate mergers with little response from the federal government (*what role does political affiliation play in this?*)
 - Antitrust lawsuit against Microsoft was an exception (*Why?*)
 - Business argues that mergers are necessary to stave off competition from foreign markets
 - In 2000, the energy crisis in the West led to calls for more government regulation over energy providers, the government refused, claiming that competition would find a solution

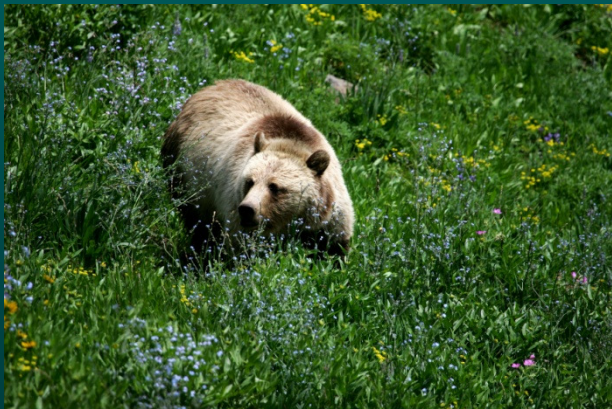
Government Regulation of Business p. 106

- Arguments in favor of regulation
 - Prevents formation of unhealthy monopolies
 - Consumers are protected from unsafe/unhealthy products
 - Consumers are protected from unsafe practices
 - Workers are protected from unsafe working conditions
 - Protects the disenfranchised from large corporations and their practices
 - Controls energy costs

Government Regulation of Business p. 106

- Arguments against regulation
 - The market economy/competition makes regulation unnecessary
 - Regulation is inefficient
 - Businesses need to hire staff in order to comply with the regulations
 - This make US businesses less competitive with their foreign counterparts
 - Regulation kills jobs
 - Businesses are less competitive leading to fewer jobs in order to cut costs
 - Regulation increases prices
 - The cost of complying with regulations is passed on to the consumer
 - Many regulations are unreasonable
 - Some regulation impose unreasonable limits (see notes for specifics)

Environmental Policy p. 107



- American Environmental Policy
 - Effected by federalism
 - Balance between the needs of the state v. federal government
 - State wants to protect the environment and jobs
 - Feds want to protect the environment and to establish a uniform policy
 - Key Issues
 - Universal agreement that the environment must be protected
 - Argument is over how to do it with the least amount of impact on the economy
 - Balancing of interests
 - Clean environment v. cost of regulations and the loss of jobs

Environmental Policy p. 107

- Key legislation
- National Environmental Policy Act, 1969
 - Requires environmental impact reports before major construction projects may begin
- Air Quality Act, 1967 and Clean Air Acts, 1960's-1990's
 - Establishes emissions standards for cars and factories
 - Clean Air Act of 1990 is especially harsh
 - Example of federal encroachment on state matters



Environmental Policy p. 107



- The Clean Water Acts, 1970's-1980's
- Creation of Environmental Protection Agency (EPA), 1970
- Creation of the Superfund, 1980
 - Funds the cleanup of toxic waste dumps
- Types of environmental policies (see notes for cost/benefit specifics and examples)
 - Entrepreneurial
 - Majoritarian
 - Interest Group
 - Client Group

Deregulation p. 108

- Deregulation or regulatory reform: the cutting of government regulations
- Examples of deregulation
 - Airlines
 - Prior to 1978 the airline industry was heavily regulated
 - Rates were set by the Civil Aeronautics Board (CAB)
 - 1978 airlines were deregulated by Congress as a result:
 - Many companies went bankrupt
 - Smaller cities lost airline service (too little profit)
 - Fear that airline safety has diminished
 - Airline prices are much lower and more people have access to air travel

Deregulation p. 108

- Telecommunications
 - Telecommunications Act, 1996
 - Increased competition between phone, cable, and other communication companies
 - Created new companies
 - Lowered rates for the consumer by providing other options
 - Current trend, cable companies also offer phone service, internet, etc.
- Positives of Deregulation
 - Improved efficiency, service, and prices
 - Encourages competition
 - Encourages the development of new technologies
 - Lowers government involvement in industry
 - Companies are able to lower their operating costs and pass the savings on to the consumer

Government Subsidies p. 109

- Subsidies: governmental financial support
- Main forms of subsidies
 - Cash
 - Temporary assistance to needy families
 - Tax Incentives / Tax Breaks
 - Home mortgage interest payments are tax deductible
 - Credit Subsidies
 - VA home or federal student loans provided by the government
 - Benefit-in-kind
 - Non-cash benefits such as food stamps, Medicaid, Medicare
- Purpose of subsidies
 - To encourage a particular type of private sector action
 - Tax deduction encourages people to buy homes or to go to college
 - Most subsidies do not go to individuals but to corporations (corporate welfare)

Government Subsidies p. 109

- The politics of subsidies
 - Conflict?: the public hates subsidies, yet most people receive them in some form or another
 - Subsidies are hard to eliminate
 - The public has become dependent on them (social security)
 - The public is unaware that a subsidy exists (dairy subsidies)



Government Subsidies p. 109

- Subsidies that promote commerce
 - Subsidies to business and industry
 - Oil companies: tax breaks encourage oil production to decrease US dependence on foreign oil
 - Airlines received federal aid after 9/11 so that they wouldn't go out of business
 - Subsidies to Agriculture
 - Federal government provides loans and cash payments to farmers
 - Sometimes farmers are paid to not grow crops in order to prevent surpluses
 - Criticisms
 - >30% of farm subsidies go to farming corporations (Agribusiness)
 - Consumers pay higher prices for food in order to pay subsidies
 - Accusations of corporate welfare

Government Subsidies p. 109

- Social Welfare Subsidies
 - Means Test: a test to determine the need of benefits
 - Social Security
 - Aid given to the elderly, survivors, and the disabled
 - Does not require a means test
 - Paid out of payroll taxes (see notes for specifics)
 - Medicare
 - Federal medical coverage for the elderly
 - Does not require a means test
 - Paid out of payroll taxes
 - Unemployment Insurance
 - Payments to the unemployed
 - No means test

Government Subsidies p. 109

- Supplemental Security Income (SSI)
 - Cash payments to disabled people whose income is below a certain amount
 - Requires a means test
- Food Stamps
 - Coupons given to the poor in order to buy food
 - Requires a means test
- Medicaid
 - Federal medical coverage for the poor
 - Requires a means test

Government Subsidies p. 110

- The Social Security Debate
 - Birth rates increased steadily during the Baby Boom Era (1950's-1960's)
 - Birth rates have been declining since then
 - People are living longer thus they are expected to utilize the benefits for a longer period of time
 - A problem of statistics:
 - In 1935, there were 16 workers for every 1 person on SS
 - Today, there are just 3
 - In 2020, it is estimated that the number will decrease to 2
 - There will be more money coming out of the fund than going in

Government Subsidies p. 110

- Proposed solutions to the SS problem
 - Increase the age of the recipients from 65 to 67 or 70
 - Adopt means of testing the recipients to verify their need
 - Reduce the annual COLA increase in SS (*automatic*)
 - Reduce benefits
 - Increase the amount of income that is subject to the SS tax (currently only the first 90,000 earned is subject to SS tax)
 - Allow workers to invest their SS withholdings privately in hopes of earning greater returns

Government Subsidies p. 110

- Welfare and the politics of welfare reform
 - Republicans blame social problems for the “welfare mess”
 - Welfare Reform Bill of 1996
 - Transferred many of the Federal Welfare programs to the states for management
 - Funding is handled through **Block Grants**
 - Limits Welfare benefits to 5 years
 - Recipients must secure employment within two years of receiving benefits
 - Food stamp recipients must work
 - Tried to prohibit aliens from receiving benefits (changed due to political issues)
 - Teen mothers are now required to live with their parents and attend school in order to receive benefits

Health Care Policy p. 111

- Federal health care programs
 - Medicare
 - Medicaid
 - Research Efforts (through college research grants)
- Problems
 - Rising costs
 - Many people are uninsured: the working poor and unemployed cannot afford the high cost of insurance
 - High cost of malpractice insurance
 - Unnecessary procedures (designed to protect doctors from malpractice suits)
 - Bureaucracy creates greater operating costs (paperwork)
 - Lack of other healthcare options

Health Care Policy p. 111

- Health care reform
 - Proposals under Clinton (failed to pass)
 - Mandatory healthcare benefits (employers would foot the cost)
 - Nationalized healthcare provided by the government to all
 - Require people to buy individual insurance (privatization) rather than have employers provide it
 - Reasons for failure
 - The messenger (Hillary Clinton)
 - The programs would increase individual expenses
 - Politics of Congress
 - Labeled as “socialized medicine”
 - Pressure from interest groups
 - Prescription drug benefits package was added to Medicare under President Bush

Foreign Policy p. 112

- Key Players
 - Foreign policy is shared by the President and Congress
 - The President has the primary responsibility of organizing foreign policy
 - Supporting members
 - Secretary of State: cabinet official responsible for foreign affairs
 - Other cabinet officials provide input based on their areas of interest
 - National Security Council (NCS)
 - Coordinates national security policies
 - Members include the President, VP, Sec of State, Sec of Defense, Head of the CIA, the National Security Advisor and others as needed

Foreign Policy p. 112

- Supporting members cont.
 - Department of Homeland Security
 - Coordinates anti-terrorist efforts
 - State Department
 - Handles the day-to-day operations (Bureaucracy)
 - US Information Agency
 - Responsible for America's foreign image
 - Director of National Intelligence
 - New position created after failure of intelligence agencies to prevent 9/11 attacks
 - Oversees and coordinates the actions of US intelligence agencies
 - Central Intelligence Agency (CIA)
 - National Security Agency (NSA)
 - Conducts international surveillance

Foreign Policy p. 113

- Influences on foreign policy
 - Public opinion
 - Majority of society unaware and uninterested in US foreign policy unless there is a crisis
 - Interest groups
 - Promote policies that favor their interests (see notes for examples)
 - Lobbyists for foreign nations
 - Promote policies that favor their nations
 - Provide campaign funding for Congressmen
 - Political parties
 - Generally foreign policy has been bipartisan but instances such as the War in Iraq can divide the parties
 - Congress
 - Provides a “check” on Presidential FP actions
 - In the past the Pres has been given great freedom the that is ending