

EDITION

14

BENJAMIN GINSBERG

THEODORE J. LOWI

MARGARET WEIR

CAROLINE J. TOLBERT

ANDREA L. CAMPBELL

MEGAN MING FRANCIS

ROBERT J. SPITZER

Essentials



CHAPTER 14

Domestic Policy

Chapter Goals

- Describe how the government uses monetary, fiscal, regulatory, and trade policies to influence the economy.
- Describe the arguments for and against government intervention into the economy.
- Trace the history of government programs designed to promote economic security.
- Describe how education, health, and housing policies try to advance equality of opportunity.
- Explain how contributory, noncontributory, and tax expenditure programs benefit different groups of Americans.

Domestic Policy

*Congress has not
unlimited powers
to provide for the
general welfare,
but only those
specifically
enumerated.
~Thomas Jefferson~*



Domestic Policy

- Domestic policy consists of all the laws, government planning, and government actions that affect the lives of American citizens.
- Policies are created in response to public problems or public demand for government action.
- The policymaking process is initiated when policymakers become aware—through the media or from their constituents—of a problem that needs to be addressed by the legislature and the president.

Domestic Policy

- The process of policymaking includes five steps:
 - Agenda Building
 - Policy Formulation
 - Policy Adoption
 - Policy Implementation
 - Policy Evaluation
- As the proposed policy is formulated and debated during the adoption process, the views of the public, interest groups, and the government are heard.

Domestic Policy

- **Agenda Building**
 - Policy makers get information from the media and advocacy groups.
 - The agenda gets attention as a result of a crisis, technological change, or mass media campaign, as well as through political pressure from lobbying groups and media personalities.
 - Congress becomes aware that an issue requires congressional action.
- **Policy Formulation**
 - Policy proposals are discussed among government officials and public.
 - Legislation is written with input from the various groups that have an interest in the issue. (Health Care, immigration, environment)

Domestic Policy

- **Policy Adoption**
 - A specific policy is chosen among the various proposal.
 - Bill is sent to Congress for debate.
 - Passed or rejected by the house of representatives and senate.
- **Policy Implementation**
 - New law must be implemented by the bureaucracy, adjudicated by the courts, enforced by the executive authority.
- **Policy Evaluation**
 - After a policy is implemented, it is evaluated for effectiveness.
 - Various groups conduct studies to determine what happens after the policy has been in place for a given time.
 - Depending on its perceived success or failures of the policy, a new series of initiatives may be undertaken to improve the policy.

Domestic Policy

- Any discussion dealing with the Domestic policies of the United States must center on the main drivers of federal attention and spending.
- The main drivers of U.S. Domestic policy is:
 - Social Security / Medicare / Medicaid
 - Taxation / Monetary Policy
 - Poverty and Welfare
 - Various social safety net programs

Fiscal Policy

Economic History:

- The American economy is based on free enterprise and free choice.
- America founded as a commercial nation where free people can freely interchange with each other in a free market.
- American economy based on private property rights, enforcement of contracts, stable and enforced system of law operated by a moral and ethical people.
- The U.S. Constitution as the primary economic driver by protecting intellectual property rights by empowering congress to issue patents/copyrights to authors and inventors.

Fiscal Policy

- **Fiscal policy:** the government's use of taxing, monetary, and spending powers to manipulate the economy.
- Fiscal policy is used to counteract the business cycle.
 - The Business Cycle in a free-market system is where the economy goes through cycles of expansion and contraction.
 - The government uses taxation, spending and regulations in an attempt to stimulate the economy or to counter **inflation**.

Fiscal Policy

Fiscal Policy

- Dominated by Congress and the President.
- Attempt to ease or limit the political impact of the ups and down of the American economy.
- Government uses various levels of taxation and government spending.
- *Limited concern for the taxpayer or future national solvency.*

Fiscal Policy: Taxation

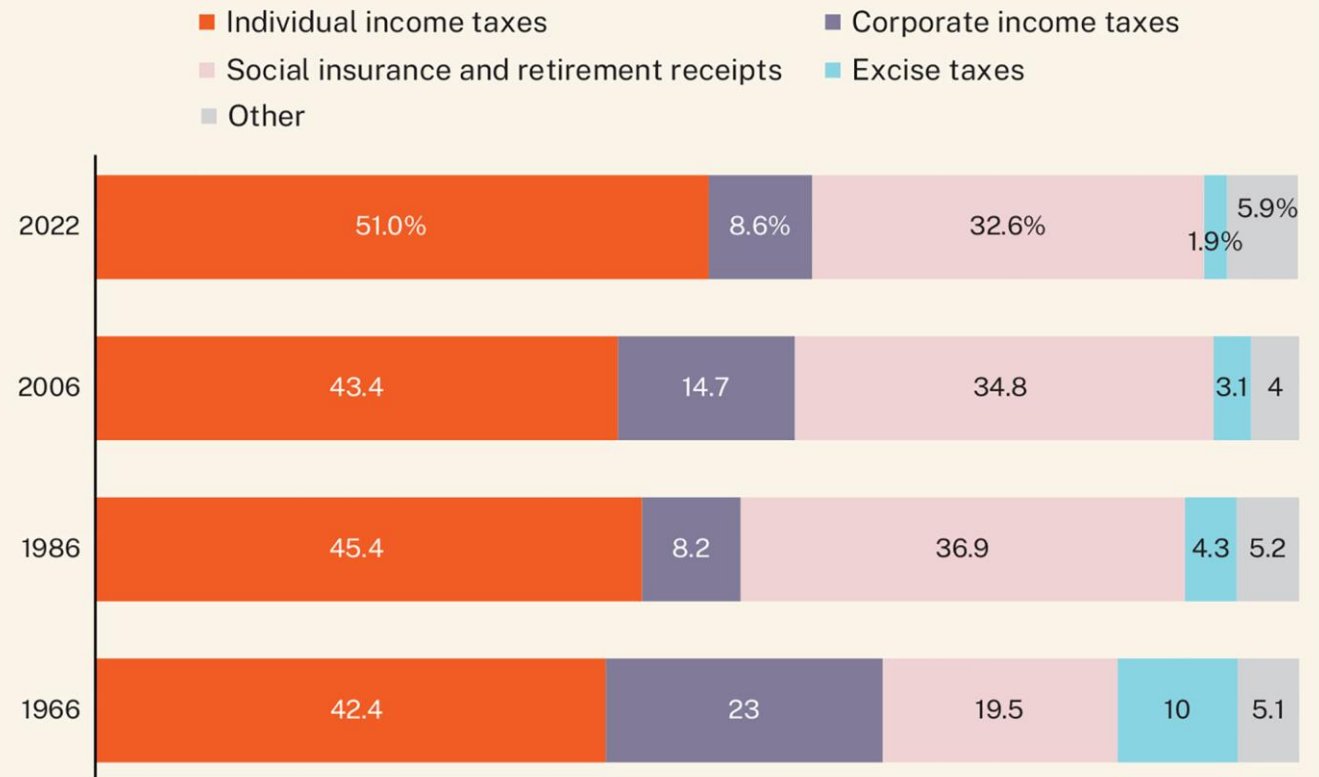
- In the 1800s, much of government revenue came from **tariffs**, or taxes on imported goods.
- Today it comes from other taxes, especially the income tax.
 - Taxes levied on most sources of income to be used for the functioning of the government.
 - Social Security and Medicare taxes are assessed on wages and salaries called payroll or FICA
 - Taxes are levied on corporation and on assets left behind by wealthy Americans.
 - Excise taxes levied on gasoline and certain goods.

Fiscal Policy: Income Tax

- The income tax system is **progressive** (the rate of taxation hits upper income brackets more heavily). This contrasts with more **regressive** taxes, like the Social Security tax, that burden lower-income brackets more heavily.
- The purpose of a progressive income tax is to raise revenue and reduce disparities in wealth (**redistribution**).
- It rewards investment by allowing deductions of business expenditures from taxes.
- Tax rates start at 10% all the way up to 37%.
- Investment income and capital gains is tax at a different level.

Federal Revenues by Type of Tax

FIGURE 14.1 | Federal Revenues by Type of Tax



NOTE: Data for 2022 are estimated.

SOURCE: Office of Management and Budget, "Table 2.2 — Percentage Composition of Receipts by Source: 1934–2027," www.whitehouse.gov/omb/budget/historical-tables (accessed 9/22/22).

Fiscal Policy: Spending and Budgeting

- Government spending to stimulate the economy is financed through borrowing and not through taxation.
- Every year, the government must set a budget. Most years of late, the government has run a **budget deficit**.
 - Budget deficit are caused when government spends more money than it receives.
 - U.S. Treasury bonds are sold to private individuals, corporations, pension plans, and foreign governments as a means to financed increased government spending.

Fiscal Policy: Spending and Budgeting

- Over time, that budget deficit adds to the **national debt**.
 - As of October 2022, the total budget deficit is \$31 Trillion, or \$93,000 per citizen.
www.usdebtclock.org / <https://usgovernmentspending.com>
 - Total liabilities of the United States is close to \$250 Trillion.
 - In 2021 Global GDP was \$96 Trillion.
www.Worldbank.org

Fiscal Policy: Spending and Budgeting

- The Public Debt in Perspective
 - Gross Domestic Product (GDP) – Dollar value of all goods and services that are produced by a country each year.
 - The GDP of the U.S. is \$24 trillion dollars.
 - The U.S. makes up 24% of Global GDP.
 - The current Debt to GDP ratio in the U.S is 140%.
 - US Debt of \$20 Trillion Visualized in Stacks of Physical Cash
<https://youtu.be/XqUwr-Nkq9g>
- Both Congress and the President are involved in budgeting, with the Office of Management and Budget (OMB) and Congressional Budget Office (CBO) playing key roles.

Monetary Policy

- **Monetary policies** are efforts to regulate the economy through the manipulation of the supply of money and credit.
- A loose monetary policy, in which more money is created, encourages economic growth.
- A tight monetary policy, in which less money is created, may be the only effective way of ending an inflationary spiral.
- America's most powerful institution in this area of monetary policy is the Federal Reserve Board, which sits atop the **Federal Reserve System.**

The Federal Reserve System Explained

The Federal Reserve System is a system of 12 Federal Reserve banks that facilitates exchanges of cash, checks, and credit; regulates member banks; and uses monetary policies to fight inflation and deflation.

Every national bank must be a member of this system and follow national banking rules.

The Federal Reserve Board (“the Fed”) comprises seven members appointed by the president.

- Members must be confirmed by the Senate.
- The Fed is responsible for ensuring high employment and price stability.

Chair of The Federal Reserve: Jerome Powell



Regulation and Antitrust Policy

The government is also involved in regulation and **antitrust policy**.

- Antitrust policy is specifically the government's efforts to regulate large businesses that have established **monopolies** in some market.
- A **monopoly** is a single firm in a market that controls all the goods and services of that market, leading to an absence of competition.
- Economic regulation increased in the twentieth century, although **deregulation** gained popularity in the 1980s and 1990s, especially among the Republican presidents of the decade.

Should the Government Intervene in the Economy?

- Until 1929, most Americans believed government should do little in managing the economy. The country was guided by **laissez-faire capitalism**.
 - Advocated by Adam Smith, The Wealth of Nations
 - Free competition will direct the actions of individuals and business.
 - Government regulations and intervention causes dislocation in the market that has a cost to the economy.
 - In the modern world, some regulations are required for health, safety, and labor.
 - The Great Depression altered public opinion. Led to the election of FDR who championed an activist federal government to combat the Great Depression.

Should the Government Intervene in the Economy? Keynes

- **Keynesian** economics argue that government can stimulate the economy by increasing public spending or cutting taxes.
 - Advocated by John Maynard Keynes.
 - Economic theory based on C.I.G-economic demand is based on Consumer Spending, Investments by Business, and Government spending.
 - Believed that government intervention is needed during a recession or depression as a means to avert low employment rates caused by slow economic activity.
 - Supported the use of government spending and taxation as a means to help stabilize the economy.
 - The government stimulates demand; this creates increased production, which pulls the economy out of recession.

CARES Act Funding



Stefani Reynolds/UPI Credit: UPI/Alamy Live News

Should the Government Intervene in the Economy?

Other Philosophies

Rejection of Keynesian philosophy in the 1980s.

- Advocated for **Supply-side economics** where reducing marginal taxes will produce the best economic results, markets should be free from government intervention.
- Reagan administration advocate of supply side economics.
- Reducing government regulations and taxes will allow business to produce more products and hire more employees.
- Increased supply of goods and services will drive down prices through competition.
- Increased economic activities will produce more government revenue through increased taxes paid by business and individuals.

Spending and Regulation

- The political class have long battled over government spending.
- Free market politician argue the government is too big and that spending is excessive. Big government politician argue that the government helps provide important support to citizens.
- Regulations follows a similar pattern, with some political actors more in favor of government regulation of business than others.
- Spending cuts poll well, until people are asked about specific expensive (and usually popular) programs. Because neither political party wishes to cut these programs, and because tax increases have been difficult to enact, budget deficits continue to grow.

American Side by Side: Global Tax Rates

Average Income Tax and Social Security Contribution Rate on Average Wage, 2019–20			
	SINGLE-PERSON, NO CHILD	ONE-EARNER MARRIED COUPLE, TWO CHILDREN	TAX REVENUE AS A PERCENTAGE OF GDP
Australia	24%	24%	29%*
France	27	21	46
Germany	40	20	39
Japan	22	21	32*
Mexico	11	11	17
Republic of Korea	15	13	28
Sweden	25	25	43
Turkey	29	27	23
United Kingdom	23	23	33
United States	24	13	25

Foundation of the Welfare State

The welfare state got its start back in the 1930s when the system of private and local charities collapsed in the face of widespread economic destitution lead the federal government to create the social policies to ensure the social wellbeing of Americans.



Joseph Barnell/SuperStock

The Modern Welfare System: Contributory Programs

One category of welfare programs can be thought of as “mandatory savings.”

- **The welfare state** – collection of policy the nation enacts in order to promote and protect the economic and well-being of its citizens.
- **Contributory programs:** social programs financed in whole or in part by taxation or other mandatory contributions by their present or future recipients.
- **Social Security:** a contributory welfare program into which working Americans contribute a portion of their wages and from which they receive cash benefits after retirement or if they become disabled.

The Modern Welfare System: Contributory Programs

- Social Security benefits and costs are adjusted by indexing.
- **Indexing:** a periodic process of adjusting social benefits or wages to account for increases in the cost of living
- **Unemployment insurance:** helps replace lost wages but at a low level
- **Medicare:** a form of national health insurance for the elderly and disabled.
 - History of government run health care was first introduced in Germany in 1883 where employers and employees paid into an insurance fund verified by the government, with employers being fined for noncompliance.
 - The German health care model has been imported to all parts of the planet.

The Modern Welfare System: Noncontributory Programs

- Noncontributory programs are also known as “social assistance programs.”
- **Noncontributory programs** are social programs that provide assistance to people on the basis of demonstrated need rather than any contribution they have made. (SSI)
- Programs in this category are widely called “welfare.”
- Potential beneficiaries must demonstrate their need via **means testing**.

The Modern Welfare System: Medicaid

Medicaid is a federally and state-financed, state-operated program providing medical services to low-income people.

- Established in 1965, it is the largest single expansion of noncontributory assistance in American history.
- Used by more than 60 Million people with cost close to 500 million dollars.
- Medicaid spending exploded because over its history the program has expanded to make more individuals and families eligible for health insurance.
- In 2020 the Federal government spent 1.6 Trillion dollars for health care, with Florida spending 39 billion dollars.

<https://usgovernmentspending.com/>

The Modern Welfare System: Other Noncontributory Programs

- *Supplemental Security Income (SSI)* provides uniform minimum benefits for elderly, blind, and disabled people.
- *Temporary Aid to Needy Families (TANF)* provides assistance to families with children.
 - Benefits vary widely from one state to the next.
- **Supplemental Nutrition Assistance Program (SNAP)** is the largest antipoverty program, which provides recipients with a debit card for food at most grocery stores; formerly known as food stamps.
- Collectively these programs provide what are called **in-kind benefits** (noncash goods and services provided to needy individuals and families).

Equality of Opportunity

Part of the purpose of the welfare state is to try to provide equality of opportunity to Americans.

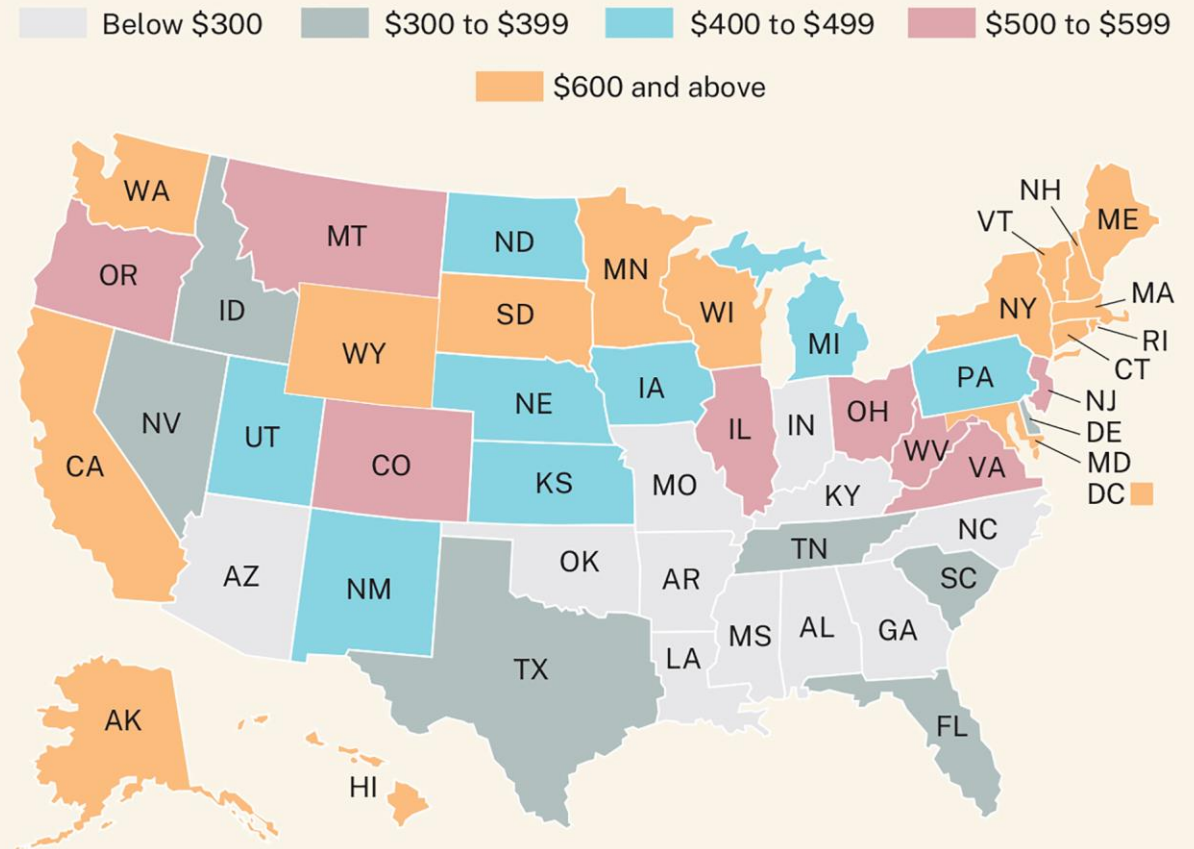
Equality of opportunity: a widely shared American ideal that all people should have the freedom to use whatever talents and wealth they have to reach their fullest potential.

The key policies for doing so are:

- Education policies
- Health policies
- Housing policies

The Modern Welfare State: TANF Spending

FIGURE 14.2 | Maximum Monthly TANF Benefits



SOURCE: Ali Safawi and Cindy Reyes, “States Must Continue Recent Momentum to Further Improve TANF Benefit Levels,” Center on Budget and Policy Priorities, December 2, 2021, www.cbpp.org/research/family-income-support/states-must-continue-recent-momentum-to-further-improve-tanf-benefit (accessed 1/27/22).

Education Policy

- Education policies are the single most important force in ensuring individual success.
- Education is handled mostly by the state and local governments, but the federal government began to take a larger role in education policy after World War II.
 - GI Bill of Rights of 1944
 - National Defense Education Act of 1958
 - Elementary and Secondary Education Act of 1965
- Today, the federal government accounts for 10 percent of all spending on K-12 education; state and localities each account for 45 percent.

Education Policy in Recent Years

2001's No Child Left Behind (NCLB) Act marked a major shift in federal involvement in K–12 education policy:

- Combined the goals of higher standards and equality of opportunity
- Aimed to improve standards through stronger federal requirements for student testing and school accountability
- Every child in grades 3 through 8 had to be tested yearly for proficiency in math and reading.
- Ultimately generated significant controversy and was criticized by teachers and states

Education Policy in Since Obama

- During President Obama's tenure, education was once again decentralized toward the states:
- Waivers for the No Child Left Behind Act came with conditions.
- A bipartisan bill, called the *Every Student Succeeds Act*, ultimately replaced NCLB.
- The Obama administration was a strong proponent of charter schools, which are publicly funded schools that are free from many of the rules and regulations of the school district in which they're located.
- Support for charter schools continued under President Trump.

Higher Education Policy

- Most higher education has historically been funded by the states, but federal programs have made a big difference in promoting equal access to higher education.
- The GI Bill of 1944 put higher education in reach of a whole generation of World War II veterans.
- In 1972 Congress created the Pell Grant program, which offers grants directly to lower-income students.
- However, states have sharply reduced funding for higher education since the mid-1970s, and Pell Grants have not increased to match inflation, thus the growing costs of higher education once again threatens to put college out of reach for many lower-income students.

Health Policies

- The federal government is also involved in health policy.
- The U.S. Public Health Service has been in existence since 1798, but it played only a small part in public health policy until the mid-1900s.
 - headed by the U.S. surgeon general
 - Includes the National Institutes of Health (NIH) and Centers for Disease Control and Prevention (CDC)
- Health policies aimed at helping people in poverty include Medicaid and the Children's Health Insurance Program (CHIP).

Opposing The Affordable Care Act



Health Policies: The Affordable Care Act

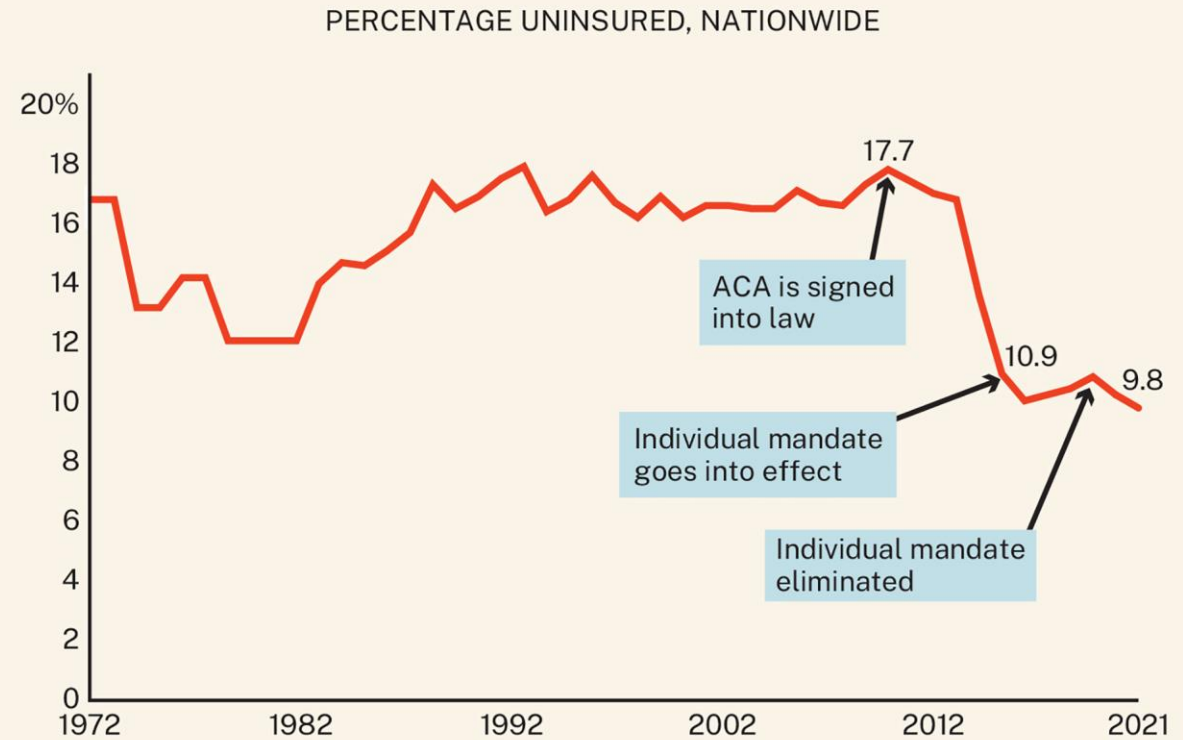
The Affordable Care Act (ACA) was enacted in 2010.

Three key features of the ACA:

- Creation of new state-based insurance exchanges and regulations prohibiting insurers from denying coverage
- Individual mandate: required individuals to purchase health insurance or risk paying a fine (this provision was subsequently repealed by Congress)
- Government subsidies; expansion of Medicaid and the Children's Health Insurance Program (CHIP)
 - Designed to help the uninsured, small businesses, and low-income people purchase health insurance

Health Insurance Coverage, 1972-2020

FIGURE 14.3 | Health Insurance Coverage, 1972–2021



SOURCES: 1972–2007: Centers for Disease Control and Prevention, “Trends in Health Care Coverage and Insurance for 1968–2011,” November 6, 2015, www.cdc.gov/nchs/health_policy/trends_hc_1968_2011.htm (accessed 8/9/18); 2008–2018: U.S. Census Bureau, “Trends in Health Care Coverage Status and Type of Coverage by State — Persons under 65: 2008–2019,” Table HIC-6, www.census.gov/data/tables/time-series/demo/health-insurance/historical-series/hic.html (accessed 1/27/22); Katherine Keisler-Starkey and Lisa N. Bunch, “Health Insurance Coverage in the United States: 2020,” U.S. Census Bureau, September 2021, www.census.gov/content/dam/Census/library/publications/2021/demo/p60-274.pdf (accessed 7/30/22).

Housing Policies Promote Stability

- Access to quality, affordable housing provides individuals and families with stability.
- Specific federal housing policies have evolved.
 - Public housing projects were replaced in the 1980s with vouchers that provide recipients with support to rent in the private market.
 - Critics argue that vouchers provide too little money, and only one-quarter of eligible families receive them.
- Some federal housing policies had a discriminatory effect, perpetuating residential segregation by race. This includes “redlining” and “restrictive covenants.”

Who Gets What from Social Policy?

Beneficiaries of social policy:

- Elderly
- Middle and upper classes
- Working poor
- Nonworking poor
- Minorities, women, and children

Who Gets What from Social Policy? The Elderly

- The elderly are the beneficiaries of two generous policies: Social Security and Medicare.
- Social Security has dramatically reduced poverty among the elderly since its inception.
 - It is considered the most effective antipoverty program in the United States.
- Both Social Security and Medicare are politically strong.
 - This is in part because the elderly vote at such high rates and have developed strong lobbying organizations.

Who Gets What from Social Policy? Middle and Upper Classes

- The middle and upper classes also benefit from social welfare programs.
- Social Security helps the middle class by relieving them of the costs associated with caring for elderly relatives.
- The middle-class benefits from the “shadow welfare state” of tax expenditures.
 - The majority of *tax expenditure* benefits go to middle- and upper-income households.
 - This includes state and local tax deductions, home mortgage deductions, and charitable contribution deductions.

Who Gets What from Social Policy? The Working Poor

- The working poor often do not benefit from the shadow welfare state.
- They do not hold jobs that offer health insurance or pensions.
- They are likely to rent rather than own a home, so they have no mortgage deduction.
- The working poor benefit from three major programs.
 - The Affordable Care Act (ACA): health insurance subsidies
 - The Earned Income Tax Credit (EITC): tax relief and a modest wage supplement
 - The Supplemental Nutrition Assistance Program (SNAP): food assistance

The Supplemental Nutrition Assistance Program



Derek Davis/Portland Press Herald via Getty Images

Who Gets What from Social Policy? The Nonworking Poor

- The nonworking poor primarily benefit from the TANF program.
- They may also receive benefits from SNAP and Medicaid.
 - Able-bodied adults who are not caring for children are not eligible for assistance other than food stamps.
- In 2022 The federal government spend \$640 billion on various welfare program, with Florida spending \$5 billion on the social safety net. www.usgovernmentspending.com

Who Gets What from Social Policy? Race, Age, and Gender

Minorities are disproportionately poor.

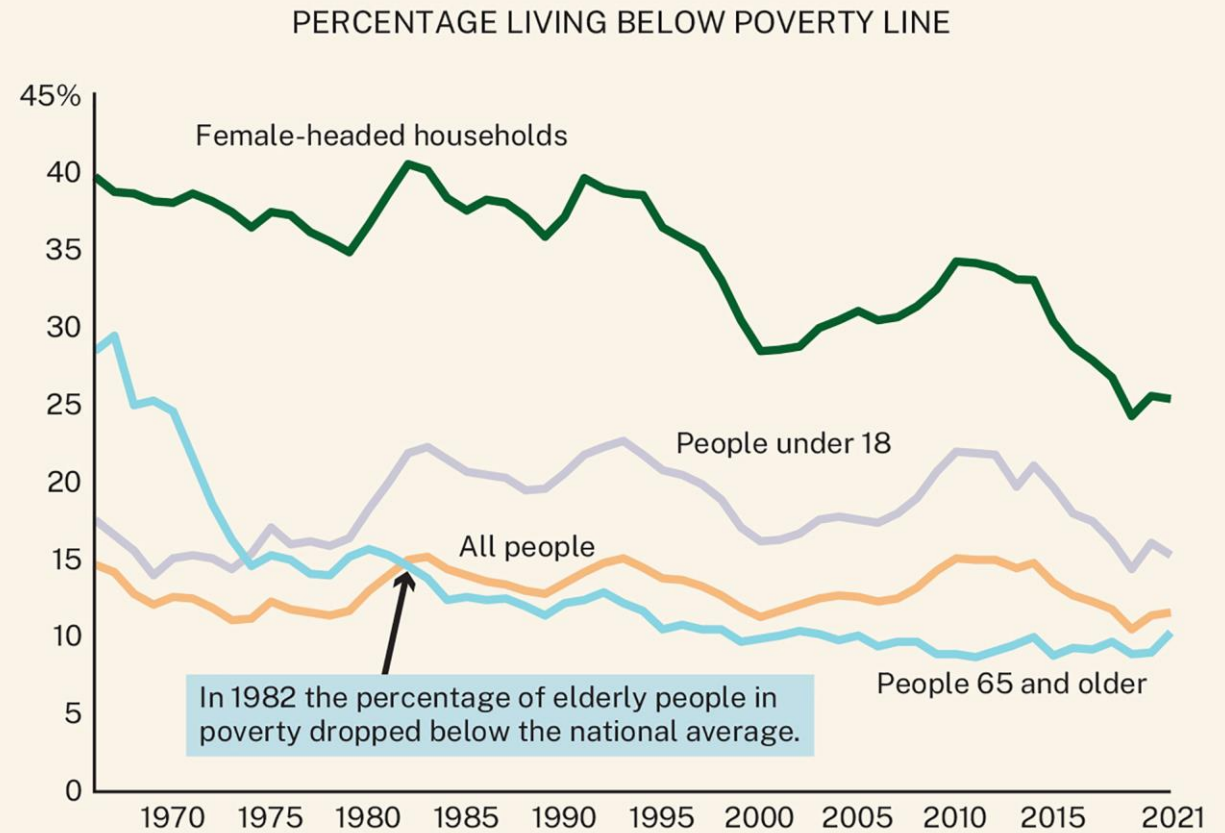
- The poverty rate for Black Americans is 19.5 percent.
- The poverty rate for Latinos is 17 percent.
- The poverty rate for non-Hispanic whites is 8.2 percent.

Women and children are also more likely to be in poverty. Single mothers are twice as likely to be poor as the average American.

The rate of child poverty has increased in recent years.

Poverty Levels in the United States

FIGURE 14.4 | Poverty Levels in the United States, 1966–2021



SOURCES: U.S. Census Bureau, Historical Poverty Tables, “Table 2. Poverty Status of People by Family Relationship, Race, and Hispanic Origin: 1959 to 2021” and “Table 3. Poverty Status of People, by Age, Race, and Hispanic Origin: 1969 to 2021,” www.census.gov/data/tables/time-series/demo/income-poverty/historical-poverty-people.html (accessed 9/23/22).

The Modern Welfare System: Tax Expenditures

The United States also provides social welfare benefits through tax breaks.

Tax expenditures are credits, deductions, and preferential tax rates that act as the *shadow welfare state*.

- This includes employer-funded health insurance and retirement plans.
- Homeowners can deduct home mortgage interest.
- These breaks mainly benefit middle- and upper-income people.

Note: The concept of tax expenditures is based on the ruling class belief the all money belongs to government and if you are allowed to keep your money and as such did not send it to a government treasury, then the bureaucracy considers it to have been an expenditure of government.

Poverty in America

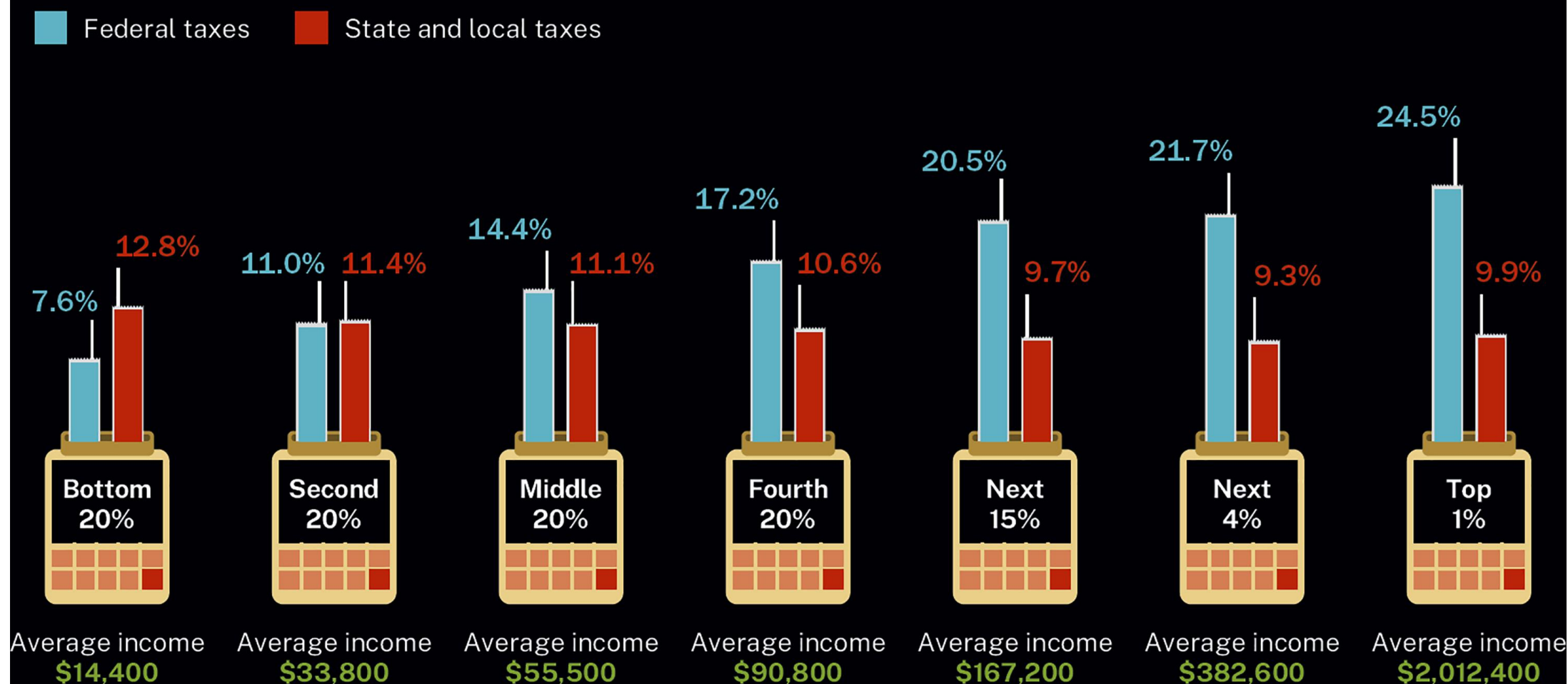
- Despite the wealth of the United States as a whole, a significant number of Americans live in poverty or are homeless.
- The poverty threshold represents the income needed to maintain a specified standard of living, with the purchasing-power value increased year by year based on the general increase in prices.
- The official poverty level is based on pretax income, including cash, and does not take into consideration in-kind subsidies (food stamps, housing, and so on).
- Income Transfers is the traditional solution in most countries, which include various methods of transferring income from hardworking upper-income individuals to relatively poorer individuals of society.
- The Low-Income Population
 - In 2019, 34 million Americans were classified as poor. www.usafact.org
 - In 2022 the official poverty level for a family of four was about \$28,000.
<https://aspe.hhs.gov/topics/poverty-economic-mobility/poverty-guidelines>

Readings from faculty Website

- www.usdebtclock.org
- <https://usgovernmentspending.com>
- <https://youtu.be/XqUwr-Nkq9g>
- <https://www.smithsonianmag.com/history/bismarck-tried-end-socialisms-grip-offering-government-healthcare-180964064>

Who Are Americans: Who Pays the Most in Taxes? Part 1

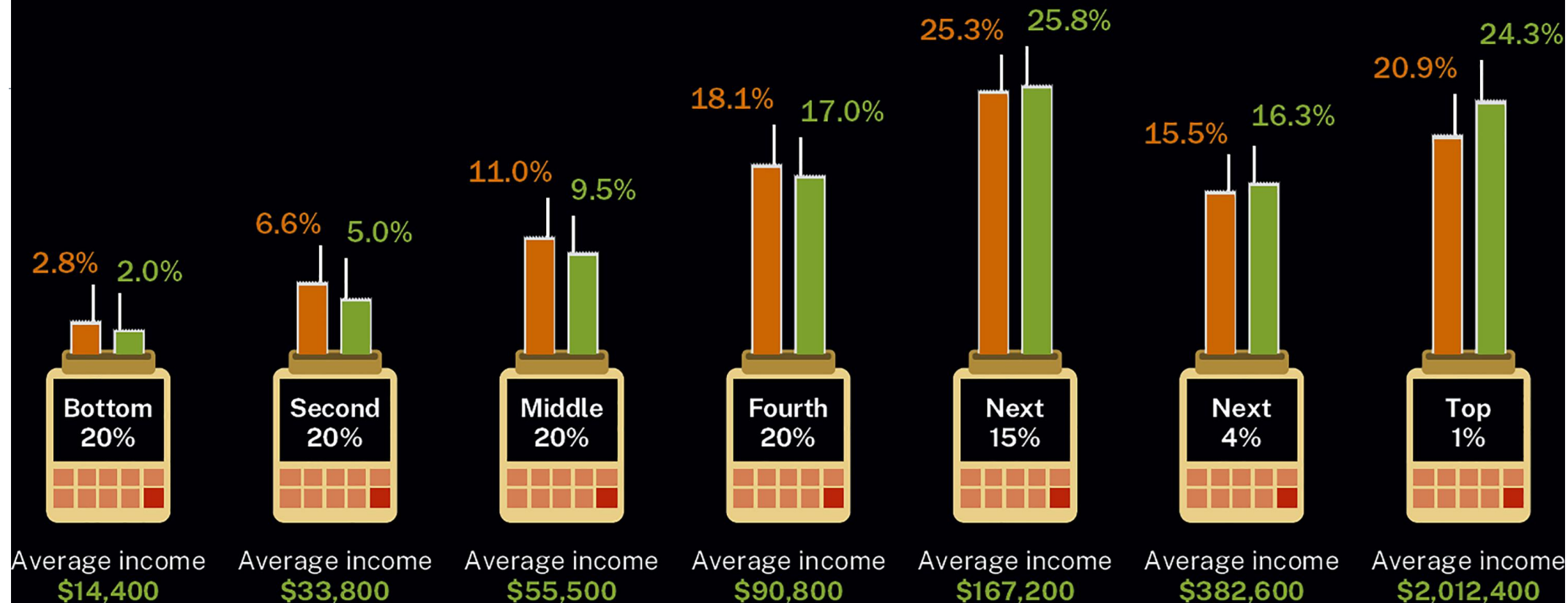
Federal, State, and Local Taxes as a Percentage of Income



Who Are Americans: Who Pays the Most in Taxes? Part 2

Shares of Total Taxes Paid Compared to Shares of Total Income

■ Share of total income ■ Share of total taxes paid



Poverty in America-What do you think?

- The traditional method that people stay out of poverty is to graduate from high school, do not have a child out of wedlock and do not get married and have children until you have a job.
- Poverty persists- What do you think is the reason?.