

12.1 Domestic Policy: Categorizing Public Policy



Image 12.1 Photo of Tea Party Protesters in Minnesota

Minnesota Tea Party members protest in 2011, demanding repeal of the recently enacted Patient Protection and Affordable Care Act. Protests against expanding the federal government's role in the economy. (Credit: OpenStax; modification of work by "Fibonacci Blue"/Flickr)

Learning Objectives

- Describe the different types of public policy categories.
- Compare the different costs and benefits of public policy types and the way they transfer, allocate, or regulate goods and services within a society.
- 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.

Chart 12.1 Learning Objectives on Public Policy for Domestic Concerns



Image 12.2 President Trump Signs "Learn-to-Earn" Bill

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.

President Trump, along side Virginia Foxx of North Carolina and others, signs the "learn-to-earn" executive order on apprenticeships on 15 June 2017 (Credit: PBS NewsHour at pbs.org; Laurie Kellman, Associated Press)

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 expansion of the public sector, believing that this expansion will lead to outcomes more equitable and fairer for all members of society. Conservatives, on the other hand, often find government and expansion of the public sector onerous and overreaching. They feel society would function more efficiently if oversight of most “public sector” matters were returned to the private sector. Before digging too deeply into a discussion of the current nature of public policy in the United States, let us look first at the range of public policy categories.

Classic Types of Policy

Public policy is the broad strategy government uses to do its job. It is the relatively stable set of purposeful governmental behaviors that address matters of concern to some part of society. Public policy, then, ultimately boils down to determining the strategy for the distribution and allocation of **public sector goods and services**. 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 sector 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.^[1] One policy category, known as **distributive policy**, tends to collect tax dollars or resources from many but concentrates direct benefits on relatively few.^[2] Lowi described a distributive government policy as a policy that collects resources broadly through general taxation paid for by many in a society but confers direct benefits of public sector goods or services on a much smaller targeted set of individuals.^[3]

The preamble to the *U.S. Constitution* states, as one of its stated purposes, promotion of the general welfare which implies some level (although undefined) of distributive policy to support the economic prosperity of the nation. Thus, highways are often developed through distributive policy. While only those initially using the roads may directly benefit from this public cost, the “general welfare” and prosperity of the nation is still enhanced by a better overall transportation system.^[4] Distributive policy is a more general societal benefit to having individuals obtain personal benefits 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 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.^[5] 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.



Image 12.3 Photo of Union Pacific Railroad Bridge Under Construction

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. (Credit: Library of Congress; OpenStax included image)

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 must “live off the land.”

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^[6]) benefited 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, completed in 1935, served the dual purposed of generating hydroelectric power and irrigating two million acres of land from the resulting reservoir (Lake Mead).

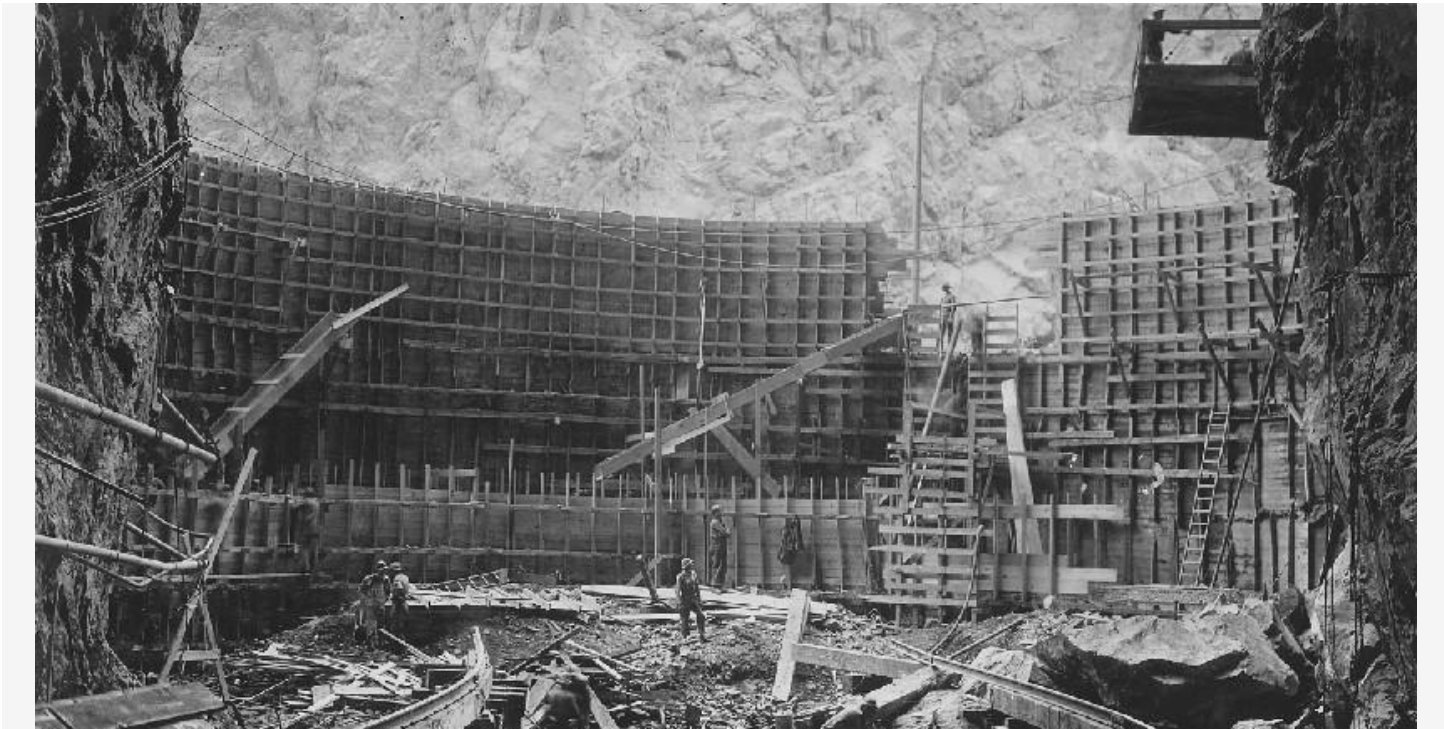


Image 12.4 Photo of Hoover Dam Under Construction

Workers construct the Hoover Dam, a distributive policy project, in Nevada in 1932. (Credit: US Congress)



Visit this [site](#) 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](#) 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 can 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, the government has created a range of incentives that everyone in the country pays for through taxes but that directly benefits 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.^[7]

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. Regulatory government policies are implemented through rules that add costs to the operations of businesses or organizations by mandating certain practices in their operations that are intended to protect the public.

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.^[8] 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).^[9] 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.^[10] That is, according to Lowi, the costs are concentrated and so are the benefits, but different groups bear the costs and enjoy the benefits.^[11] Redistribution policies have costs paid by taxes born by a relatively smaller number of more wealthy individuals but the benefits are provided only to lower-income individuals and families.

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).

Public Sector Goods and Services

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.^[12] 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.^[13]

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. (Credit: OpenStax included image)



Image 12.5 Photo of Workers in Ford Automotive Plant

Social Security addresses 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 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.^[14] 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. The sheer volume of retiring “Baby Boomers” is placing a financial strain on the Social Security system and threatening its potential solvency. According to the Social Security Office of Policy, “... the system will face financial challenges in the near future” due to declining “fertility rates” and increasing “life expectancies. A study by Gayle Reznick, Dave Shoffner and David Weaver in the *Social Security Bulletin*, Vol. 66, No. 4, the “system is experiencing a declining worker-to-beneficiary ratio, which will fall from 3.3 in 2005 to 2.1 in 2040 (the year in which the Social Security trust fund is projected to be exhausted).”

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.^[15]

Medicaid is a formula-based, health insurance program, which means beneficiaries must demonstrate they fall within a income category. Individuals in the Medicaid program receive a 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 2020 were about \$627 billion, about \$405 billion of which was paid by the federal government.^[16]



Image 12.6 Photo of Space Shuttle Launch

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)

Collectively, Social Security, Medicare, and Medicaid make up the lion's share of total federal government spending, almost 48 percent in 2019. 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.

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, much of its workload is currently being performed by private companies working to develop their own space launch, resupply, and tourism programs. 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.

QUESTIONS TO CONSIDER

1. What is public policy?

[Show Answer](#)

laws, rules, and regulations affecting the American people

2. Name a program the national government currently provides?

[Show Answer](#)

food stamps, Medicare, assistance for education, etc.

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

[Show Answer](#)

ideological differences; Congress and the President do not agree; scope of government differences; etc.

4. Of the types of public policy categories discussed in this section, which do you feel is the least controversial and which is the most controversial? Why?

[Show Answer](#)

personal opinion; with major political parties having strong differences of ideological opinion about redistribution and regulatory policies

5. Which public policies are most important and why?

[Show Answer](#)

open for debate

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

[Show Answer](#)

basic human needs of food, clothing, shelter, and work

7. What is the difference between an entitlement program and a means-tested program?

[Show Answer](#)

means-tested programs are based upon financial need

TERMS TO REMEMBER

distributive policy—a policy that collect resources broadly through general taxation paid for by many in society but confers direct benefits of a public sector good or service on a relatively few or much smaller targeted set of individuals

entitlement—a program that guarantees benefits to members of a specific group or segment of the population from contributions by those receiving the entitlement benefit or from US taxpayers who received a benefit from the recipients' service or contribution

means-tested—a program providing a benefit to low-income individuals from US taxpayers

Medicaid—a health insurance program for low-income citizens from US taxpayers

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

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

redistributive policy—a policy in which costs are paid for by taxes from a relatively small number of generally more affluent individuals, but benefits of the policies are expected to be provided to a different group in society that is typically made up of lower income individuals and families

regulatory policy—a policy generally implemented through administrative rules that may add costs to the operation of companies and organizations by mandating or forbidding certain practices in a way that are intended to protect 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

1. "American Business, Public Policy, Case-Studies, and Political Theory" (1964), *World Politics* 16(4):677-715; In this journal article, which reviews a book by Raymond A. Bauer, Ithiel de Sola Pool, and Lewis A. Dexteer, Lowi lays out his classic typology of public policy in the U.S.; distribution, regulation, and redistribution. [?](#)
2. "American Business, Public Policy, Case-Studies, and Political Theory" (1964), *World Politics* 16(4):677-715; In this journal article, which reviews a book by Raymond A. Bauer, Ithiel de Sola Pool, and Lewis A. Dexteer, Lowi lays out his classic typology of public policy in the U.S.; distribution, regulation, and redistribution. [?](#)
3. Theodore Lowi in "American Business, Public Policy, Case-Studies, and Political Theory" (1964), *World Politics* 16(4):677-715 [?](#)
4. *United States Constitution*, National Archives and Records Administration [?](#)
5. <http://www.history.com/topics/inventions/transcontinental-railroad> (March 1, 2016). [?](#)
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12.2 Domestic Policy: Who are the policymakers?



Image 12.7 Photo of President Trump and Kanye West at the White House

The President is often a leading policy maker by promoting a particular agenda during their term of office; however, every citizen may be part of the policy making process in a variety of ways. Here celebrity and activist Kanye West visits the White House to discuss policy with President Trump.

(Credit: PBS NewsHour at pbs.org, 11 October 2018, "Why Kanye's visit was 'a weird moment' for the White House" also credit to Catherine Lucey, Associated Press and DNA India at dnaindia.com)

Learning Objectives

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

Chart 12.2 Learning Objectives on Types of Policymakers

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. 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.

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.



Image 12.8 Photo of Michelle Obama with AARP Card

Former 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. (Credit: The White House; OpenStax included image)

A lobbying group that frequently takes on advocacy roles is AARP (formerly the American Association of Retired Persons). 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. 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.^[1]

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 is not 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. Several 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 rosier assumptions of economic growth when considering tax cuts and to overestimate the costs of public sector proposals.



The **RAND Corporation** 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. 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.

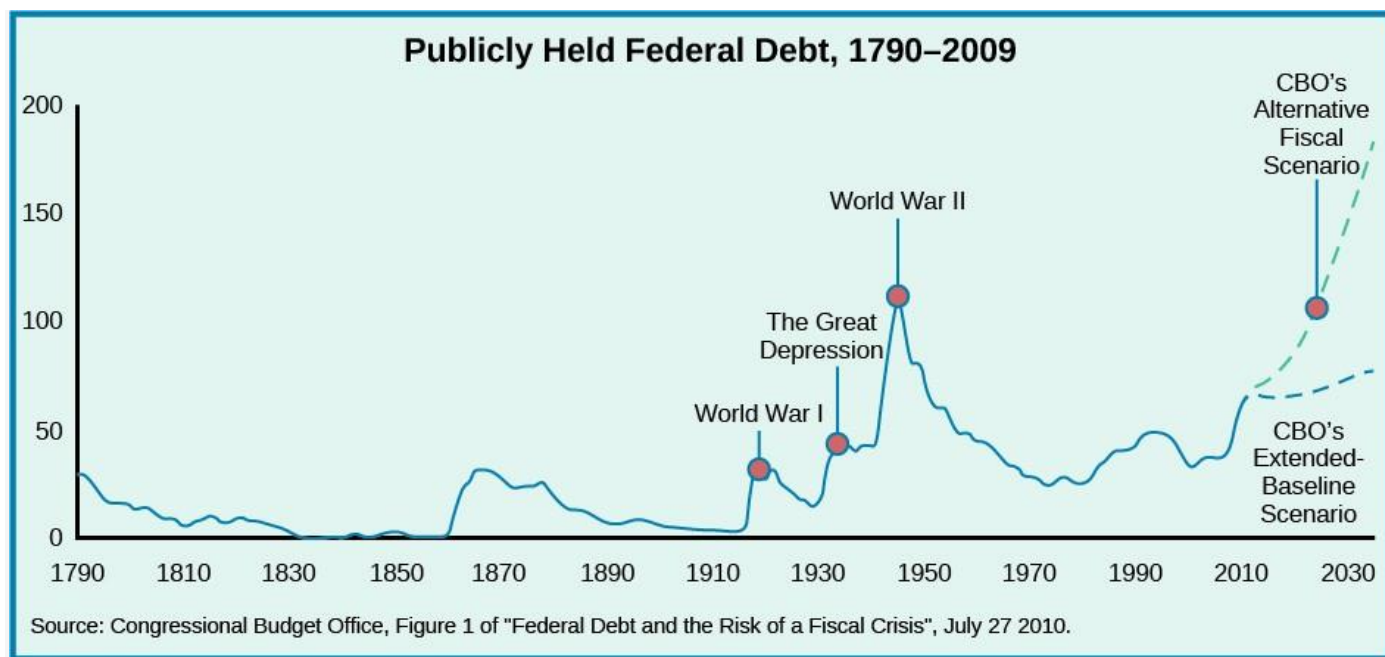


Chart 12.3 Graph of Publicly Held Debt

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.



How do the OMB and the CBO compare when it comes to impartiality?

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. 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.



Follow-up activity: Choose an issue you are passionate about. Visit We the People 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 sub-phases: 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.^[2] 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 sub-phase of agenda setting, considers solutions to fix the difficulty raised in problem identification. For example, government officials may agree in the problem sub-phase 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 sub phases. 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 anticlimactic. 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 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.^[3]

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.^[4] The information from the evaluation stage can feed back into the other stages, informing future decisions and creating a public policy cycle.

QUESTION TO CONSIDER

1. 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?

[Show Answer](#)

open for debate

TERMS TO REMEMBER

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

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

1. Thomas R. Oliver, Philip R. Lee, and Helene L. Lipton. 2004. "A Political History of Medicare and Prescription Drug Coverage," *Milbank Quarterly* 82, No. 2: 283–354, <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC2690175/>. [?](#)
2. Bryan D. Jones and Frank R. Baumgartner. 2005. *The Politics of Attention*. Chicago: University of Chicago Press. [?](#)
3. Daniel Mazmanian and Paul Sabatier. 1989. *Implementation and Public Policy*. Washington, DC: Rowman and Littlefield. [?](#)
4. Kathrin F. Stanger-Hall and David W. Hall. 2011. "Abstinence-Only Education and Teen Pregnancy Rates: Why We Need Comprehensive Sex Education in the U.S.," *PLoS One* October 14, <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC3194801/>. [?](#)

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12.3 Domestic Policy: How are budgeting and tax policy implemented?



Image 12.9 Graphic Images of Various Types of Disasters

(Credit: Internal Revenue Service at <http://internalrevenueservice.tumblr.com/>)

Learning Objectives

- 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.

Chart 12.4 Learning Objectives on Economic Theories and Taxation

A country spends, raises, and regulates money in accordance with its values. In all, the federal government's budget for 2020 was \$6.68 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 policy-making 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, but we should not underestimate the challenges elected officials face as a result of decisions made in the past.

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 where 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, in the 1970s as inflation pushed more and more Americans into higher tax brackets, some economists, such as Arthur Laffer, challenged the dominant Keynesian view. While many Keynesians believe that government spending to stimulate demand for products should be the solution for a poorly performing economy and that higher taxes will increase tax revenue, Laffer began to argue that high tax policies and regulation created in the name of Keynesianism impeded growth in the economy and therefore governmental revenue.^[1] 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. They argued that as a tax cut increases income for taxpayers, they will spend it. The increase in demand creates more business activity, spurring an increase in production and employment. Supply-siders argued that highest taxes were a major drag on the economy and that the top rates for wealthier investors and business could be reduced without a significant loss in revenue, encouraging investment. The lower tax rates for the more wealthy have been criticized and named “trickle down” economics.^[2]

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. Of these, **mandatory spending** is the larger, consisting of about \$4.9 of the 2020 budget, or roughly 71 percent of all federal expenditures.^[3]

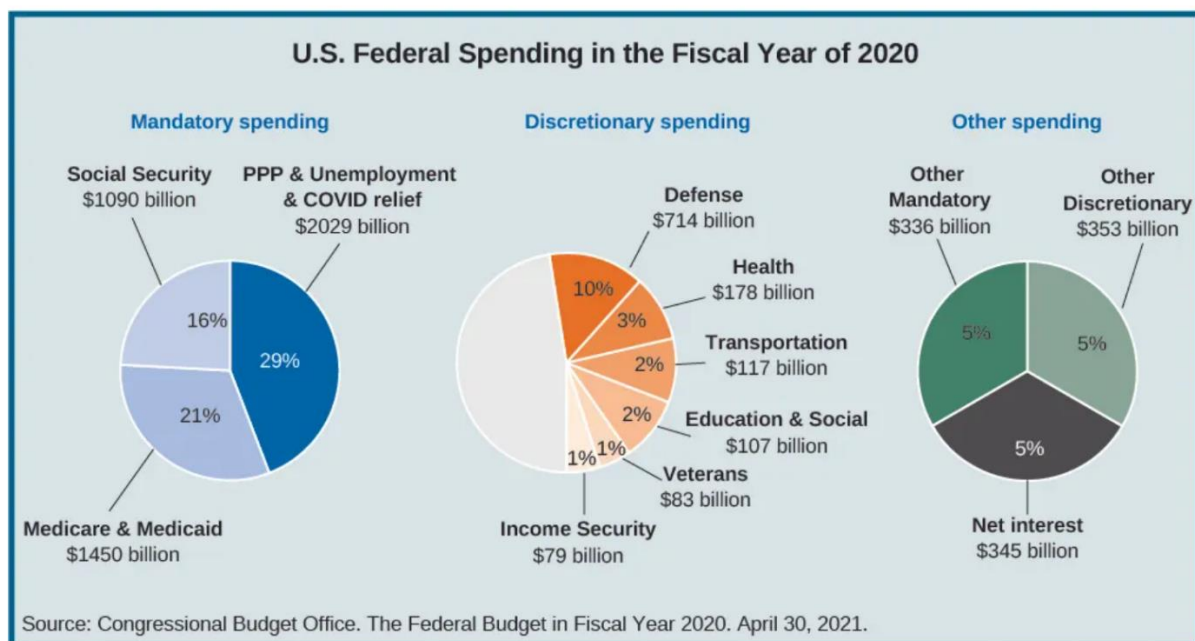


Chart 12.5 Graphs on U.S. Federal Spending for 2020 Showing Proportions of Mandatory and Discretionary Spending

(Credit: Openstax OER US Government 3e)

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 is devoted to benefits designated for former federal employees, including military retirement.

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 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.^[4] The other half of discretionary spending—and the second-largest component of the total budget—is devoted to the military. 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.



The war in Afghanistan, 2001-2022, cost the United States billions of dollars in discretionary military spending authorized by Congress every year. (Credit: OpenStax included images)

In theory, the amount of revenue raised by the national government should be equal to these expenses, but except for a brief period from 1998 to 2000, that has not been the case. In 2022, the country's total **debt** was 99.5% of GDP (gross domestic product) at \$30 trillion

Figure 3 Image 12.10 Series of Photos of Military Personnel (Credit: OpenStax included images)

dollars—the amount of money the government owes its creditors according to the Department of the Treasury.^[5]

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 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 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. 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.



Image 12.11 Photo of Individual Filling Out Tax Form

A U.S. marine fills out an income tax form. Income taxes in the United States are progressive taxes. (Credit: OpenStax included image)

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 tax** systems that increase the effective tax rate as the taxpayer's income increases.

Supply-siders, on the other hand, prefer a more compressed, flatter tax rate, that is, less progressive with lower tax rates overall. It advocates tax cuts for wealthier individuals and businesses as a way to encourage job creation, business expansion, and entrepreneurial activity.

Some taxes are not based on income. Consider, for example, the use of **excise taxes** on specific goods or services as a source of revenue.^[5] 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. 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. These types of taxes are called **regressive taxes** and refer to a tax that is applied uniformly regardless of income.



Image 12.12 Photo of Gas Pump

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. (Credit: OpenStax included image)

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 2023, the payroll tax was applied to only the first \$160,200 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.

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.

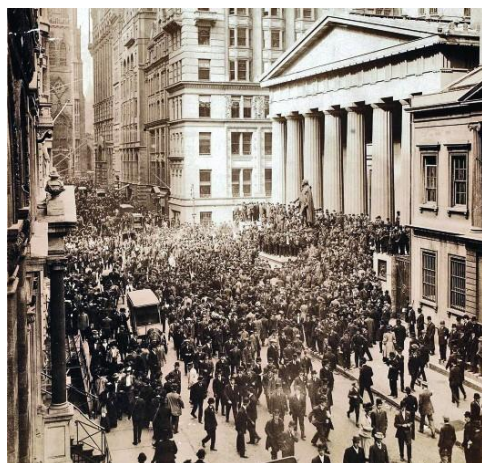


Image 12.13 Photo of Panic of 1907 on Wall Street (Credit: Library of Congress)

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, 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.^[6] 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.

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.



Do you think you have what it takes to be chair of the Federal Reserve Board? Play this [game](#) and see how you fare!

QUESTIONS TO CONSIDER

1. If you had to define the poverty line, what would you expect people to be able to afford just above that line?

[Show Answer](#)

basic human necessities of food, clothing, housing

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

[Show Answer](#)

question for debate

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

[Show Answer](#)

personal opinion

TERMS TO REMEMBER

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

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

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

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

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

regressive tax—refers to a tax that is applied uniformly regardless of income; common forms of regressive tax include sales tax, gas tax, and payroll tax

1. Arthur B. Laffer, Stephen Moore and Peter J. Tanous. 2009. *The End of Prosperity: How Higher Taxes Will Doom the Economy*. New York: Simon & Schuster. [\[1\]](#)
2. "The Political Failure of Trickle-Down Economics." Paul Krugman Blog, 20 August 2017
3. "Mandatory Spending in 2015: An Infographic," 18 June 2019; <https://www.cbo.gov/publication/55343>.
4. Department of the Treasury, Treasury Bulletin, Federal Debt
5. "Excise tax," <https://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Excise-Tax> (March 1, 2016). [\[2\]](#)
6. "U.S. Code § 225a - Maintenance of long run growth of monetary and credit aggregates," <https://www.law.cornell.edu/uscode/text/12/225a> (March 1, 2016). [\[3\]](#)

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