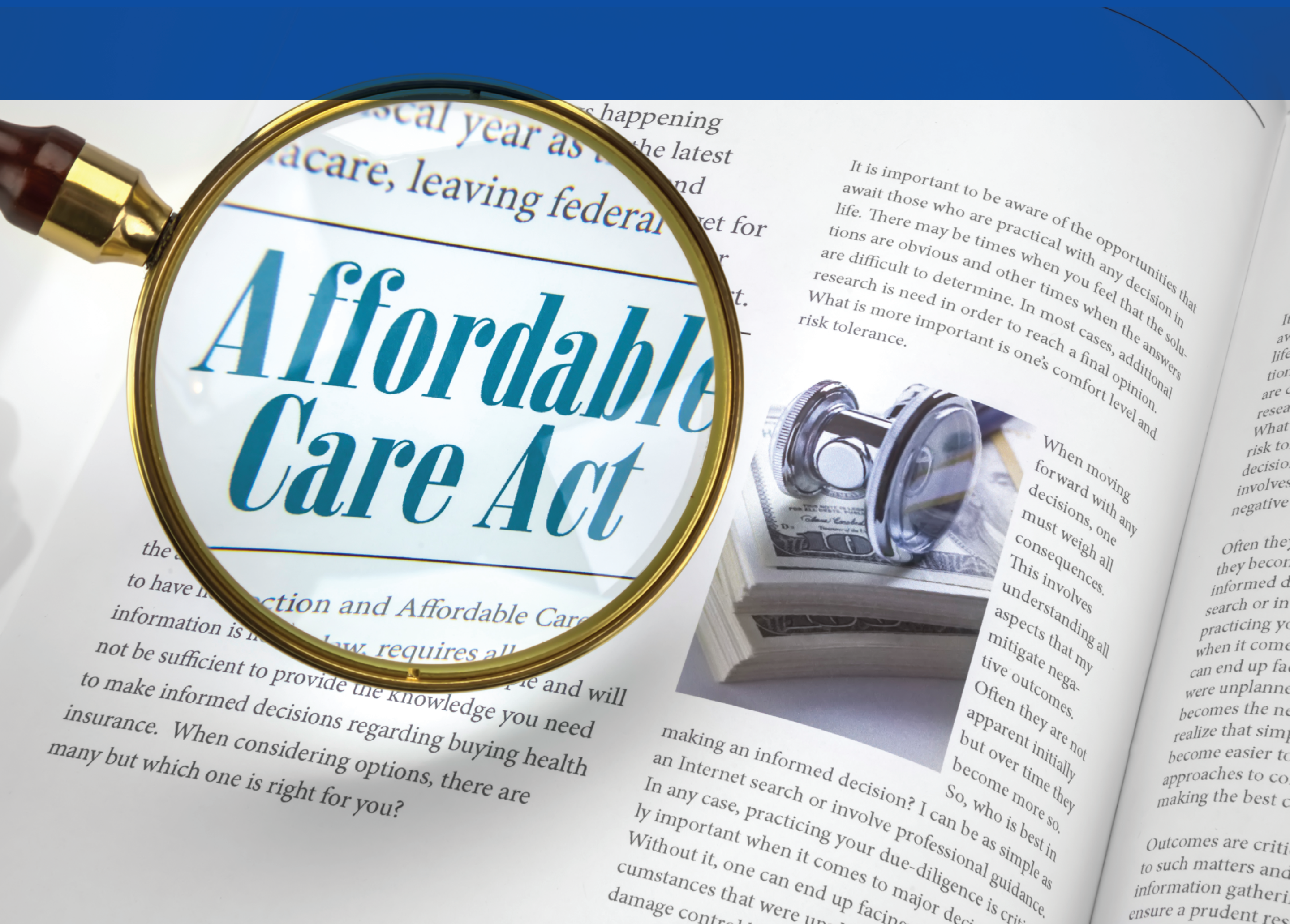
CHAPTER 15

MYTHS & REALITIES

Are government policies and programs necessary evils?

Domestic Policy and Policymaking



Living with Necessary Evils

When it comes to their views of government, Americans are a conflicted people. On the one hand, we value individualism and abhor the restrictions on our freedom that government often requires. On the other hand, we also value the security, safety, and benefits that public policies and programs provide.

Consider, for example, the debate that emerged in September 2008 when it became clear that the financial problems facing investment and commercial banks were both global in scope and likely to affect the lives of most Americans. What was at first perceived as an abstract problem limited to Wall Street's abuse of financial "instruments," such as "derivatives" and "credit default swaps," soon became the talk of Main Street.[1] The crisis no doubt reshaped the 2008 presidential election, many think to the advantage of Barack Obama. But the debate that the crisis generated was not merely about which candidate or political party could best deal with the emerging economic problems. It was also about the more fundamental issue of what role the government should have in efforts to solve what many regarded as the most serious economic challenge since the Great Depression of the 1930s.

On one side of the debate were those who called for direct and massive government involvement, including many of the leading corporate and banking leaders who otherwise might have fought against too much government interference. Led by then Treasury secretary Henry Paulson, this group initiated a call for Congress to approve a $700 billion "rescue" plan that would allow his office to assume ownership of the "troubled assets" at the center of the crisis. On the other side were those on both the political left and right who regarded the proposed actions as a blatant "bailout" of Wall Street or an unwarranted intrusion into the American marketplace.

< Issues about whether government is doing too much or too little to solve the United States' problems are reflected in debates over policies such as the Affordable Care Act.

CHAPTER OUTLINE & FOCUS QUESTIONS

Making Public Policy

> How is public policy made?

Education Policy

> What has been the federal government's role in dealing with issues related to education?

Managing the Economy

> How does the federal government attempt to manage the American economy?

Economic Development Policies

> What are the issues surrounding the federal government's efforts to enhance overall economic growth?

Regulatory Policies

> How has the federal government used regulatory policies in dealing with economic, environmental, and social problems?

Social Welfare Policies

> What does the federal government do to assure the economic well-being of individuals?

Our conflicting views of government action are not limited to times of economic crises. We complain about highway and bridge tolls, but we insist that every road be in good repair and wide enough to transport us to our destinations quickly. Or consider our puzzling attitudes toward tobacco and alcohol products. Our per capita consumption of cigarettes, beer, and wine remains among the highest in the world—and yet we insist on strict government regulation of who can buy them and where they can be sold and consumed. We complain about taxes while insisting that government spend more on everything from cleaner air and higher-quality schools to safer streets and more jobs. We openly disparage "welfare" programs and those who use them, but we insist that government provide all Americans with an economic "safety net" to protect individuals and families during hard times.

How do we make sense of these conflicting views? Here again we find that myths play a role. Our capacity to sustain these conflicting views of public policies is supported by one of the most powerful myths in the American political culture: the *myth of government as a necessary evil*. Traceable to the American Revolution, it is the belief that although we need government to protect ourselves from dangers and to accomplish collective goals, we pay a significant price for those benefits. According to the most popular versions of this myth, the heaviest price we pay is a loss of individual liberty.

We have other fears as well, including anxiety over our growing dependence on some anonymous government bureaucracy (see Chapter 13). The debate over health care policy that preoccupied Americans from February 2009 until its passage in March 2010 offers a clear example. More than fifteen years earlier, advocates for universal health care seemed poised to do what every other industrialized nation had done at least two decades earlier. In 1994, President Clinton put it at the top of his policy agenda. Despite widespread public support at the outset of the debate, the proposal ultimately failed. Those who opposed the reforms launched a successful media campaign that focused on mobilizing Americans' anti-government feelings and fear of bureaucracy.[2] Economic analysts reinforced these concerns by arguing that public solutions to our problems are nearly always wasteful and less efficient than private-market solutions.[3]

The 2009–2010 debate was different in many respects, but in the end the issues came down to what the role of the government would be in the reformed health care system.[4] Given the experience of 1994, proponents of reform realized that the American public would never support a proposal for a national health-service model such as the one in the United Kingdom.

Nor would it be politically feasible to establish a "single payer" national health care insurance program like the Canadian model. Instead, early proposals called for the establishment of a "public option" that would give Americans a government-operated alternative to existing private insurance providers. Such an option, it was argued, would make the market for health insurance more competitive and give the 30 million uninsured a place to buy coverage. But protests and heated debates focused on the threat of a "government takeover" of health care, and it soon became clear that a vocal segment of the American public was unwilling to accept reforms that involved even limited government involvement. In the end, the public option was dropped, and in its place was offered a complex arrangement in which insurance rates would be regulated and the government would facilitate the coverage of previously uninsured (high risk) individuals through private companies.

The necessary-evil myth has had a profound impact on American public policies.[5] Many Americans believe that only government can deal with major crises, such as an economic depression, thus illustrating the idea that government actions are often necessary. Stories of the Great Depression tell how the American economy worsened because President Herbert Hoover did nothing to rescue the U.S. economic system after the great stock market crash of 1929. According to this view, only the active intervention of government under President Franklin D. Roosevelt helped to alleviate the worst consequences of the Depression.[6] In contrast, critics of America's welfare policies during the 1960s describe how these programs failed, leaving a legacy of social deprivation among the poor. These critics support their view of government's negative influence by pointing to instances of the success of those who avoided or escaped the welfare system, or by citing a link between those programs and high crime rates or civil disorders.[7]

For the American public, the decision of whether the government is more evil than necessary often depends on the specific issue or program being discussed, the language being used, and the way the program is presented. Public opinion pollsters and politicians understand, for example, that Americans will be much more supportive of social programs that are called "assistance to the poor" rather than "welfare."[8]

Are government policies necessary? If so, are they necessarily evil? Those questions are central to an understanding of much of the ongoing debate about public policies among politicians and policymakers. As we will see in the following discussion of various domestic policy issues, the questions have no definitive answers. Nevertheless, the myth of government as a necessary evil remains important because of the dynamic role it plays in shaping public perceptions and in giving force and direction to the deliberations of public policymakers.

Making Public Policy

> How is public policy made?

Public policies The composite of decisions made and actions taken by government officials in response to problems identified and issues raised through the political system.

Public policies are decisions made and actions taken by government officials in response to problems identified and issues raised through the political system. At the national level, public policies can emerge from each of the major institutions of government. Congress makes policy by enacting laws, such as the 1964 Civil Rights Act (see Chapters 4 and 5), and presidents can issue executive orders (see Chapter 12), as President John F. Kennedy did in 1961 to create the Peace Corps. Judges also make policy through court decisions and orders, as in the case of *Brown v. Board of Education* (1954) that led to the desegregation of Southern schools. Even bureaucracies are involved in public policymaking through the rules and regulations they develop and publish. None of these institutional actions occurs in a vacuum, however. Each is the product of formal and informal interactions among participants both inside and outside government.

Stages in the Policymaking Process

Issue identification The first of six stages in policymaking, in which some event, person, or group calls attention to a problem that needs government action.

Public policymaking can be pictured as a six-stage process (see Figure 15.1).[9] In the first stage, **issue identification**, some event, person, or group calls attention to a problem that requires governmental action. During the early 1980s, for example, the increasing number of deaths attributed to acquired immune deficiency syndrome (AIDS) brought demands for money to fund research into the cause of the deadly disease. Health care professionals, the surgeon general of the United States, and groups representing homosexual men (who were at high risk for the disease) used every opportunity they could to get the attention of policymakers at all levels of American government.[10]

POLITICS & POPULAR CULTURE: Visit the book's companion website at **www.oup.com/us/gitelson** to read about *The West Wing*: Dramatizing the Public Policymaking Process.

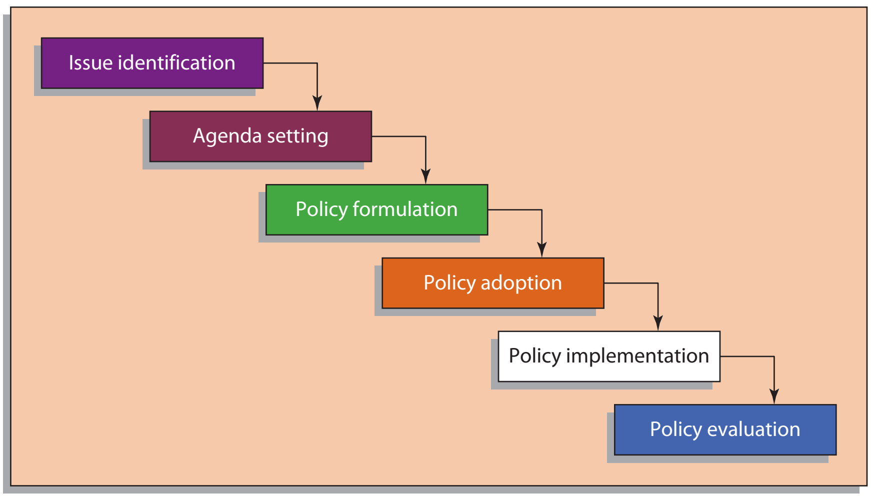


FIGURE 15.1 The Six Stages of Policymaking

In the second stage, **agenda setting**, the issue or problem is seriously considered by the policymaking institution. Not all problems identified in the first stage of the process get this far. In mid-November 1953, for instance, a thick cloud of dirty air settled on New York City, causing headaches, itchy eyes, nausea, and other physical ailments. The incident lasted long enough to draw the media's attention, for the clouded atmosphere interfered with football games, astronomical observations, and other outdoor activities. The cloud eventually dissipated, and no action followed, since the immediate impact of the air pollution was not regarded as serious. It was not until nine years later that a review of public health records showed that the incident had been linked to approximately 200 deaths in the New York area.[11] By the early 1960s, however, environmental pollution was on the agenda of national policymakers, and problems similar to New York City's cloud—for example, the smog that hangs over Los Angeles and other major cities—began to get serious attention.

Agenda setting The second stage of policymaking, in which the issue or problem is seriously considered by the policymaking institution.

The fact that an issue on the government's agenda gets serious attention does not necessarily mean that a policy will immediately emerge. Someone must develop a proposal or program that can address the issue. This third stage of the policymaking process, **policy formulation**, may take years to complete as policymakers and their staffs deliberate the pros and cons of different courses of action.

Policy formulation The third stage of policymaking, in which policymakers and their staffs deliberate the pros and cons of different courses of action, a process that may take years to complete.

Policy responses may be formulated within government agencies, in Congress, or by groups outside the national government, working separately or together. For example, both the White House and Congress looked to the federal Centers for Disease Control and Prevention for policy proposals to deal with AIDS. Another example is the 1988 Family Support Act, a major reform of the U.S. welfare system, which was formulated by a group of governors working with the staff of the National Governors Association. Five years later, President Clinton appointed a twenty-seven-person task force to develop proposals for even more significant reform; in the meantime, House Republicans had developed their own welfare reform proposals. It was not until 1996, however, that a major reform package emerged from Congress (see "Social Welfare Policies," later in this chapter).[12] In another example of policy formulation, initial policy responses to the financial crisis of 2008 were formulated under almost emergency conditions and involved a relatively small group of high-level officials. What they proposed—a bailout of many of the nation's major financial institutions—proved controversial for years.[13] Once the crisis passed, Congress began work on a major overhaul of laws governing the regulation of U.S. financial markets—a process in which congressional staffs as well as analysts at federal agencies played major roles. The result was the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.[14]

The fourth step, **policy adoption**, includes efforts to obtain enough support to enable a proposal to become the government's stated policy. At this point, most policy proposals—particularly congressional legislation—go through a process of bargaining and compromise and emerge significantly changed. For instance, when Congress considers tax reform proposals, what may begin as an attempt to close large tax loopholes may wind up creating more or different loopholes.[15] When members of Congress propose amendments to bills, they can radically change the intent of a bill or give it added meaning through the process of adding

Policy adoption The fourth stage of policymaking, which is usually a fight to gain governmental support for a policy and demands much bargaining and compromise.

"riders" or "earmarks" to the legislation (see Asked & Answered on page 15-8). In 1987, for example, a bill funding highway projects included an amendment authorizing states to raise the maximum speed limit on interstate highways to 65 miles per hour in rural areas. In 1988, a bill intended to create a new cabinet post—the Department of Veterans Affairs—became the vehicle for passing a law giving veterans the right to sue the government.[16]

Policy adoption is no less complex in the executive branch. Executive orders, vetoes of legislation, and other presidential actions are not made arbitrarily, because the White House cannot operate in a political vacuum. After President Kennedy used an executive order to set up the Peace Corps in 1961, he did not go to Congress for funding immediately, but rather paid for its operation for nearly six months through a special discretionary account. During that period, administration officials worked to build congressional support for the program. Although Kennedy was eventually successful in gaining this support, some members of Congress questioned his use of executive powers to establish and operate a brand-new program without congressional authority.

Decisions of the Supreme Court are a special type of public policy, for they are often rooted in legal doctrines. Nevertheless, even policy adoption in the Supreme Court involves some political give-and-take among the Court's members, which has an impact on the resulting policies (see Chapter 14). Conferences involving all the Court's members are held regularly, and supposedly the discussions in those closed meetings sometimes focus on the political, as well as the legal, implications of a case.[17]

The policy adoption stage can go on for quite a long time. The first national air pollution laws were passed in 1960, but they did little more than authorize the surgeon general to study the problem. Three years later, Congress set up a technical committee to monitor air pollution problems and to provide assistance to state and local governments that chose to develop and maintain antipollution programs. In 1965 and 1967, Congress required states and localities to develop antipollution programs and federal agencies to set emission standards for new automobiles. In 1970, President Richard M. Nixon acknowledged the importance of environmental problems by creating the Environmental Protection Agency (EPA). A few weeks later, Congress gave the EPA significant powers to clean America's air. Additional amendments followed during the 1970s and 1980s, and policy adoption in this area continued with the passage of Clean Air Act amendments in 1990.

Policy implementation The carrying out of policy mandates through public programs and actions—the fifth stage in the policymaking process.

Policy evaluation The final stage in the policymaking process: looking at the government's actions and programs to see whether their goals have been achieved or to assess their effectiveness and efficiency.

Critical to the policymaking process is the fifth stage of **policy implementation**—the carrying out of policy mandates through public programs and actions. The national bureaucracy traditionally performs this task, although in recent years it has been contracting out and using other methods associated with proxy administration (see Chapter 13). In addition, many policies require the cooperation of state and local officials and of individuals outside government. For example, when Congress passed an income tax law, it created the Internal Revenue Service to implement it, but the government still relies on the American people to do most of the paperwork.

The sixth and final stage in public policymaking is **policy evaluation**—looking at the government's actions and programs to see whether their goals have been achieved or to assess their effectiveness. Changes in the policy or program may

ASKED & ANSWERED

ASKED: What is "earmarking," and what does it have to do with policymaking?

ANSWERED: Among those who deal with cattle and sheep, the common practice of "earmarking" involves placing a tag or other identifying mark on a particular animal, by which it can be distinguished from the rest of the herd for special treatment.

In the policymaking process, earmarking involves attaching a "tag" to some special project included in a bill so that it stands out from the other provisions—the herd, if you will—to allow for special treatment. Such special treatment might mean that the project is automatically funded or that it moves to the top of the list of priorities for the agency in charge.

Earmarking by Congress can take place at either the authorization or appropriations stages (see Chapter 11). An "authorization" occurs when Congress passes a law or creates a program that gives government the authority to take some action. At the appropriations stage, however, Congress is actually providing funding for the authorized program to be implemented.

In very general terms, earmarking by Congress has a long history of being productive. Revenues raised by federal gasoline taxes, for example, are earmarked for deposit in the Highway Trust Fund, which is then tagged for use on highway and mass transit projects. In the past there have been some cases of "special" earmarks where well-positioned members of Congress used their influence to get pet projects authorized and funded for their home districts—demonstrating their power to "bring home the bacon"—but while often widely known, these examples of "pork-barrel" projects were relatively few in the general scheme of things. For example, there were only ten earmarks found in the 1982 transportation (authorization) bill, which included approval for all kinds of road and highway construction projects.

Cases of pork-barrel earmarking eventually became more widely used—and many would say it has been misused and abused. In the 1991 transportation bill, the number of earmarks grew to 538, and in 1998 it climbed to 1,800. By the time the 2004 Transportation Authorization Act had passed the U.S. House, it had been burdened with 2,881 earmarks valued at nearly $10 billion!

If a member of Congress does not succeed in getting a project through the general authorization process, she or he can try to tag some funds in the annual appropriation bills. Each year Congress passes eleven major appropriations bills, each dealing with a general area of government activity (e.g., agriculture, defense, energy, and water). For 2004, it was estimated that these bills included $14 billion attributed to earmarks for projects covering transportation, labor, education, agriculture, health, and related domestic programs. While that seems like a great deal of money, it amounted to only 2 percent of the federal government's discretionary spending (that is, funds that the national government is not mandated to spend, such as interest on the national debt), which typically amounts to only one-third of all federal spending (see Figure 15.4).

In 2006, however, earmarking became a political issue and Congress attempted to eliminate the worst types of earmarking through reforms of its rules. Under one such rule, earmarks that directly benefitted for-profit companies were prohibited. A review of that policy, however, indicated that the rule was being circumvented by members of Congress who earmarked funding for projects that benefitted nonprofit organizations, some of which had been created by for-profit companies with the intent of getting around the congressional prohibition.

In 2011 Congress responded by adopting a formal moratorium on the practice that renewed the ban on earmarks for the 113th Congress that sat from 2013–2014. The result was a significant drop in earmarks, but several watchdog groups note that they have not disappeared. For example, in its twenty-second annual "Pig Book" released in 2014, Citizens

ASKED & ANSWERED *continued*

Against Government Waste highlighted $2.7 billion for earmarks, including $90 million for upgrading a tank the Defense Department did not want, and additional millions allocated to the State Department so it can fund university centers and private foundations that it had intentionally refused to include in its annual budget request.

Source: *Brian Friel, "Transportation: Defending Pork," National Journal, May 8, 2004. On the efforts to get around the initial congressional rules on earmarks, see Eric Lipton and Ron Nixon, "Companies Find Ways to Bypass Ban on Earmarks," New York Times, July 4, 2010, A1, www.nytimes.com/2010/07/05/us/politics/05earmarks.html. The annual "Pig Book" can be found at the Citizens Against Government Waste website at http://cagw.org.*

then be instituted quickly, slowly, or not at all. A major plane crash caused by poorly maintained equipment is likely to result in new directives being issued immediately by the Federal Aviation Administration, usually at the recommendation of the National Transportation Safety Board, which investigates such accidents. A report indicating that public schools are not preparing students for the changing world economy will not result in quick changes, but it might generate plans for major long-term changes in high school curricula and instruction.

Models of Decision Making

The stages of the policymaking process may seem both sequential and logical, but what actually takes place is rarely so neat. During each stage, policymakers must reach many decisions about how the issue will be handled or how an adopted policy will be implemented or evaluated. Ideally, policymakers carefully analyze the issues being addressed, consider all alternative actions that could be taken to address those issues, accurately evaluate those alternatives, and finally select one as the government's policy. This ideal process is called the **rational model of decision making.** It assumes that the policymakers have a clear objective and all the information needed for a sound and reasoned decision, with the result being the selection of the policy alternative that offers the most effective way to achieve the desired goal.

Rational model of decision making A model that assumes that the policymakers have a clear objective and all the information needed for a sound and reasoned decision, with the result being the selection of the policy alternative that offers the most efficient and effective way to achieve the desired goal.

Few of the conditions required for rational decision making exist in the real world of public policy. Policymakers rarely have enough information to analyze all the alternatives. And no matter how much information they have, there is always some doubt about the future. This uncertainty affects not only members of Congress and White House staff but also their advisers. Furthermore, large groups of decision makers usually have trouble reaching a consensus on goals. There are some exceptions, of course. In May 1961, President Kennedy had broad political support when he declared that the aim of U.S. space policy was to land an American on the moon by the end of the decade.[18] With such a clear and widely accepted goal, decision making in the National Aeronautics and Space Administration (NASA) seemed close to the rational model. But the NASA programs of the 1960s were not the norm. In most cases, the objectives of public policies are too vague or too controversial for the rational model to apply.

The **incremental model of decision making** offers an alternative explanation of how policymakers really make their decisions. According to this model, public policymaking is a process by which, little by little, decisions add to or subtract from the policies that already exist. Each year, for example, the national government reconsiders the amount of money it will spend on highways and education. However, the White House and Congress rarely start their annual deliberations with a clean slate. Instead, in most cases executive officials and members of Congress begin by assuming that most current highway and education programs will remain intact; usually, the major issues are whether to expand or reduce spending for these programs and, if so, by how much. Sometimes this leads to marginal changes in the policies. For instance, each time a major program such as Social Security comes up for reauthorization before Congress, amendments are added to meet the new or special needs of recipients that have emerged since the law was last revised. Thus public policies and programs develop and change from year to year through marginal adjustments.

Incremental model of decision making A more realistic model of decision making that sees public policy as a process of making decisions at the margins of current policies by adding to or subtracting from those policies.

Other models of decision making trace public policies back to certain groups or classes of people. The **elite model of decision making** holds that public policies are made by a relatively small group of influential leaders who share common goals and points of view. President Dwight D. Eisenhower may have had this model in mind when, in his 1961 farewell address to the nation, he warned against the emerging influence of the "military-industrial complex," in which high-level military and industry leaders make decisions that have widespread effects throughout the rest of the country and the world.

Elite model of decision making The theory that public policies are made by a relatively small group of influential leaders who share common goals and points of view.

In contrast, the **pluralist model of decision making** attributes policy outcomes to pressures exerted by different interest groups. Specific policy choices reflect the relative influence of these interest groups at given points in the decision-making process (see Chapter 9). For example, although environmentalists may have the upper hand in Congress, advocates of deregulation might be more influential in the White House or at the EPA. This model assumes that public policies are the product of bargains and compromises among the various interests and policymakers.

Pluralist model of decision making A theory that attributes policy outcomes to pressures exerted by different interest groups.

The models may differ, but there is one point on which all observers agree: *Public policies are the result of a dynamic process involving a variety of participants and a wide range of factors that change over time.*[19] One constant feature of the process is the debate between those who believe strongly in the necessity of governmental action and those who fear the consequences of relying too much on government programs. That debate has an impact on almost all domestic policies.

Education Policy

> **What has been the federal government's role in dealing with issues related to education?**

Given the antigovernment inclinations of Americans, what kinds of problems lead to the adoption of public policies as solutions? The answer to this question is likely to be found by considering the kinds of issues that emerge in each policy issue area.

Some of the most heated debates about public policy revolve around questions of education. Education is one of the areas in the American federal system where states and localities tend to dominate.[20] Nevertheless, the national government has become a major player in this policy arena, particularly in response to four general issues:

- Access to education
- Funding of education
- Content of education
- Quality of education

Access to Education

The national government's involvement in issues of *access to education* actually predates the Constitution. In establishing a plan for the settlement of the northwestern territories (at that time, the region north of the Ohio River and east of the Mississippi River), the congress under the Articles of Confederation passed the Northwest Ordinance (1787), which, among other things, required that "schools and the means of education shall forever be encouraged" by the governments formed in that region.[21] Similar provisions were included in all legislation related to the governing of territories and the admission of states for the next two centuries. In addition, federal land grants for the establishment of colleges devoted to "the agricultural and mechanical arts" were granted in the Morrill Act of 1862 and became the basis for many of today's leading state universities (see Chapter 3). In 1914, Congress passed the Smith-Lever Act, which promoted the educational missions of colleges and universities through off-campus cooperative extension programs. Access to higher education was a key component of the "GI Bill of Rights" that provided benefits to veterans returning from World War II.

By the 1950s and 1960s, the issue of access had been redefined to stress the need for *equal access* for all Americans. In *Brown v. Board of Education* (1954; see Chapter 4), the Supreme Court struck down government policies that supported segregated access to public education, and in the civil rights and education policies that followed there were specific provisions making discriminatory policies illegal at all levels of education. Today, the mission of the Department of Education's Office for Civil Rights is to enforce the antidiscrimination policies established in the following:

- Title VI of the Civil Rights Act of 1964 (prohibiting discrimination based on race, color, or national origin)
- Title IX of the Education Amendments of 1972 (prohibiting sex discrimination)
- Section 504 of the Rehabilitation Act of 1973 (prohibiting disability discrimination)
- Age Discrimination Act of 1975 (prohibiting age discrimination)

- Title II of the Americans with Disabilities Act of 1990 (prohibiting disability discrimination by public entities, including public school districts, public colleges and universities, public vocational schools, and public libraries, whether or not they receive federal financial assistance)[22]

Funding of Education

The national government's ability to shape educational access policies at the state and local level has long been tied to its ability to deal with *educational funding issues*. The Morrill Act land grants were only the beginning of an historical trend toward making federal funds available to the states for educational programs. Initially, these programs resulted from the fact that the national government was intermittently faced with surplus funds and often used them for education-related purposes. Eventually, however, programmatic objectives (e.g., the promotion of vocational education) led to the creation of small grant programs.

The major breakthrough, however, came with passage of the National Defense Education Act of 1958 (NDEA), which focused on higher education programs, and the Elementary and Secondary Education Act of 1965 (ESEA). ESEA was the first major effort to provide a broad range of federal financial support for K–12 education, and its provisions targeted districts that served large numbers of children from low-income families. In amendments added in 1968, Congress extended ESEA's reach to programs for handicapped and other special needs students, as well as to rural areas and bilingual education. The next major revisions came in the 1994 reauthorization of ESEA (called the Improving America's Schools Act), in which Congress broadened the financing provisions of ESEA to cover items ranging from school building repair to multicultural education programs. In 2002, Congress passed the No Child Left Behind Act (NCLB), which significantly modified many provisions of the ESEA by tying funding to achieving national standards.

Educational Curriculum

Federal programs that deal with *content*—what is taught in schools—are implied in most of the early access and funding policies just discussed. The Northwest Ordinance regarded schools as a means for promoting religion and morality as well as knowledge. The land grants starting with the Morrill Act stressed the need for more education in practical arts, and these efforts were enhanced from time to time with federal grants in support of vocational education. However, the Cold War–era fear that the Soviet Union was outdoing the United States in certain critical areas of science led to a major effort by the federal government to shape the curriculum of America's classrooms. The NDEA began with the declaration that "an educational emergency exists and requires action by the federal government. Assistance will come from Washington to help develop as rapidly as possible those skills essential to the national defense." While the language of the act emphasized that this was not an attempt to impose federal control of education, the programs that this act established and funded had a major impact on education at all levels. Great stress was placed on enhancing the teaching of foreign languages, science, math, and other areas deemed critical to the Cold War effort.

The first comprehensive federal programs dealing with curriculum issues in K–12 programs were passed in the Goals 2000: Educate America Act of 1994. That act linked future funding to specific goals and included provisions promoting the adoption of programs in math, the sciences, literacy, and lifelong learning. Along with the Improving America's Schools Act, passed the same year, Goals 2000 proved to be a content-relevant bridge between federal funding and quality education programs.

Educational Quality and Accountability

Federal involvement in *educational quality* concerns is increasingly evident. George W. Bush's NCLB stressed the need for states to develop educational standards in specific subject areas and to implement testing programs for assessing how well the schools are helping students meet those standards. Schools that did not achieve those standards were required to provide annual public reports demonstrating that they were making progress toward those goals. In addition, states and schools had to demonstrate that they were undertaking programs to assist those with special needs to meet the standards. The NCLB represented an effort to make schools more accountable, and in the process it gave the national government a very prominent role in future education policy.

Although the provisions of NCLB expired in 2007, the standards and programs it established continued to be implemented by the U.S. Department of Education (DOE) while Congress debated reauthorization. The original legislation set 2014 as the target year for schools to achieve the goal of 100 percent proficiency in state-level reading and mathematics tests, but progress has been slow and in 2012 the DOE offered to issue waivers to states that agreed to adopt policies raising academic standards, improving accountability, and creating programs to improve teacher effectiveness. In 2009 the Obama administration established a "Race to the Top" initiative that awarded additional federal funding to states that made special efforts at education innovation and reform. Those waivers and special initiatives to enhance educational quality and accountability continued into fall 2014, but controversy continued to surround many aspects of the programs, especially those targeting teachers and related to pursuit of a "Common Core" curriculum.[23]

The debate over federal education policy is a prime example of how Americans have increasingly relied on the national government to deal with problems that cannot be handled by state and local officials alone. Most details of education policy have always been a matter for states and localities to deal with, but federal policymakers have not been reluctant to get involved if the public seems supportive. To establish these various programs, advocates must focus on the necessity of federal involvement because of the inability or unwillingness of state and local officials to take action. Although these various efforts come at a cost in terms of reduced local autonomy, they have rarely been regarded as "evil" intrusions. In the case of No Child Left Behind, at the time of its passage twenty states already had similar or more stringent programs in place, and many other states were ready to adopt such programs.

This is not to say that federal involvement in education has always been welcome or successful. Opposition to school desegregation in the South during the

1950s and early 1960s was widespread and sometimes violent. Later efforts made to integrate schools in cities outside the South, such as Boston and Kansas City, were also met with significant opposition, especially when they involved mandatory busing of students away from neighborhood schools. There has also been vocal opposition to the NCLB policies of the Bush administration, especially from teachers who complain that the underlying approach of NCLB was ill conceived.[24]

Managing the Economy

> **How does the federal government attempt to manage the American economy?**

What should be the government's role in managing the economy? For many Americans, the answer depends on whether one emphasizes the "necessary" or the "evil" part of the myth. Those who stress the "necessary" part of the myth fault government for doing too little. They believe that government must be more active in guiding the American economy, despite the inefficiencies that might result. They argue that because the private marketplace cannot meet the basic needs of many citizens, the government must step in and correct its imperfections. In contrast, others think that government is likely to interfere too much in economic matters. They view most public policies as needlessly restricting the operations of the marketplace and damaging the nation's economic health.

Behind this debate is the fact that the national government has been engaged in economic policymaking for most of its history, dating back to Colonial times.[25] Colonial governments offered payments (called bounties) to businesses that made large investments in the manufacture of certain products or increased the exportation of locally produced goods. Many colonies also provided public instruction to train young men in tanning, silk production, lumbering, and similar trades. Colonial governments even owned and operated businesses and banks. Many of these activities continued long after the Revolution as states and local governments actively promoted their economies with tax breaks, low-cost loans, grants-in-aid, and franchises to certain businesses.

Alexander Hamilton, the first secretary of the Treasury, felt that the young nation's future depended on its having a strong economy, and he believed that the national government should play a major role in shaping that economy. In contrast, Thomas Jefferson and his successors (especially Andrew Jackson) strongly opposed any form of central control. They believed that economic policy should be left to local and state governments. This opposition, however, did not stop some national policymakers from trying to establish central control. Between 1816 and the early 1830s, members of Congress from the northeastern states passed banking and tariff legislation that was favorable to their growing manufacturing and trade businesses. During the 1830s, the power in Congress shifted toward agricultural interests in the South and West, and with that shift came lower tariffs and other economic policies favoring farmers and plantation owners. Rail companies benefitted as well, with Congress authorizing large land grants to companies that agreed to build a transcontinental railroad to facilitate the growth of farming in the Midwest and extend the reach of the U.S. economy from coast to coast. By 1869, more than 129 million acres of federally owned land had been given to railroad companies for this purpose. By the 1880s, however, many of the farmers and businesses who benefitted from and supported those grants began to complain about the pricing practices of the railroads, and in 1887 Congress responded by establishing an agency designed to regulate those carriers "in the public interest" (see "Economic Regulation" section, this chapter).

Despite these efforts, throughout the late nineteenth and early twentieth centuries, the economy remained subject to boom-and-bust cycles, culminating in the Great Depression. This became a watershed era, as President Franklin D. Roosevelt's administration responded with a series of popular programs, known as the New Deal, to help promote recovery and stabilize the economy. Out of those efforts came a collection of policy tools designed to deal with economic issues. As we will see, all of those tools came into play during the period after the collapse of financial markets in the fall of 2008—and the Great Recession that followed.

Macroeconomic Policy Tools

To understand the steps taken by both the Bush and Obama administrations in response to the financial market crisis of 2008, we need to become familiar with the various economic policy tools they had to work with. Two of those tools—monetary and fiscal policies—focused on the deteriorating conditions of the general economy, or what economists term "macroeconomic" issues. Other policy tools (discussed in greater detail hereafter) were more concerned with "microeconomic" conditions—those related to specific sectors of the economy or the behavior of individuals and firms.

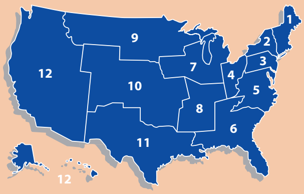
Monetary policy The manipulation of the money supply to control the economy. The Federal Reserve System, or the "Fed," is the principal mechanism for making monetary policy.

When focusing on **monetary policies**, economists talk of tight and loose money supplies. A *tight money supply* exists when the amount of money circulating in the economy is low relative to the demand for money by consumers and investors. Basic economics teaches that when the money supply is tight, interest rates (the cost of using someone else's money) tend to be high and the cost of most goods and services is likely to fall. A *loose money supply* exists when the amount of money circulating is high relative to the demand for money. During these periods, interest rates decline and prices of goods and services increase. Thus economists attribute periods of both high and low interest rates and deflated and inflated prices to the supply of money circulating in the economy.

Central to monetary policies is the manipulation of the money supply to control the economy. The principal mechanisms for carrying out monetary policy in the United States are in the hands of the Federal Reserve System, also known as the "Fed" (see Figure 15.2). The Federal Reserve System, established in 1913, consists of twelve regional banks and a Federal Reserve Board, which is empowered to regulate the circulation of currency in the U.S. economy. When the economy is sluggish—when not enough money is being invested to maintain economic growth or when unemployment is high—policymakers at the Fed will try to stimulate economic activity by increasing the supply of money. With more money in circulation, people are more likely to make purchases or investments, which, in turn, generates business activity and jobs. If policymakers think that the

FEDERAL RESERVE BANKS

Twelve banks representing the nation's twelve Federal Reserve districts. The twelve manage the day-to-day needs of the banking system by maintaining a stable flow of money.



The banks, by districts:

1 Boston	7 Chicago
2 New York	8 St. Louis
3 Philadelphia	9 Minneapolis
4 Cleveland	10 Kansas City
5 Richmond	11 Dallas
6 Atlanta	12 San Francisco

What They Do

- Act as lender of last resort to banks, savings associations, and credit unions in trouble
- Keep reserves deposited by depository institutions
- Supply currency and coins to banks
- Destroy worn-out bills, coins
- Operate clearinghouses for checks
- Serve as fiscal agent for the U.S. Treasury
- Conduct domestic and foreign monetary operations through the New York Federal Reserve Bank as agent for the Federal Open Market Committee

BOARD OF GOVERNORS

Seven members appointed by the president and confirmed by the Senate. Terms are 14 years. The president names one member as chairman for a four-year term. The board is based in Washington, D.C.

What It Does

- Helps carry out policy for regulating the supply of money and credit by:
  –Setting reserve requirements for the depository institutions
  –Setting the discount rate on the Fed's loans to banks
- Makes margin rules for purchases of securities on credit
- Oversees major banks by regulating the nation's bank holding companies
- Inspects and regulates state-chartered banks that are members of the reserve system
- Monitors the economy
- Deals with international monetary problems
- Enforces consumer-credit laws
- Supervises Federal Reserve banks

FEDERAL OPEN MARKET COMMITTEE

Twelve members: The seven Federal Reserve governors and the president of the New York Federal Reserve Bank plus four of the presidents of the other eleven Federal Reserve banks on a rotating basis.

All twelve bank presidents attend the FOMC meetings, held every five to eight weeks.

What It Does

- Sets overall policy for regulating the supply of money and credit in the country
- Helps carry out that policy by directing the "trading desk" of the Federal Reserve Bank of New York to buy and sell government securities in the open market

FIGURE 15.2 The Long Reach of the Federal Reserve
Source: *U.S. News & World Report.*

economy is overheated and is generating too much inflation, they can reduce the supply of money in an attempt to slow down economic activity.

Fiscal policy came to prominence during the Great Depression when policymakers realized that changes in how much the government spent and how much it collected in taxes could influence overall economic performance. According to the economic theory of Keynesianism, the federal government can stimulate economic activity during sluggish periods through the purchase of goods and services. By reducing taxes, it can put money in the hands of consumers, who can

Fiscal policy The management of government expenditures and tax rates as a means for conducting national economic policy. Policymakers raise or lower government spending and taxes to execute fiscal policy.

further stimulate economic activity through their own increased purchases and investments. If, on the other hand, the economy is overheating, the government can cut spending and raise taxes, which takes money away from consumers and investors and thus reduces demand.

Although regarded as opposing approaches to ensuring overall economic growth, both monetary and fiscal policies have played major roles in U.S. economic policy throughout the post–World War II period. At the heart of the debate between the monetarists and those favoring fiscal policies was the extent to which the federal government should be actively engaged in managing the overall direction of the economy. Advocates of governmental activism tended to favor fiscal policy alternatives and were called **Keynesians** because of their reliance on the theories of John Maynard Keynes, a British economist who provided a framework for using government spending and tax policies to stimulate and sustain economic activity. His theory that government should engage in deficit spending during sluggish economic periods provided the rationale for fiscal policies from the 1930s through the 1960s. The Keynesian approach is reflected in the Employment Act of 1946, which made national government officials responsible for ensuring maximum production, high employment, and increased purchasing power in the American economy. The sustained period of relative prosperity from the late 1940s until the late 1960s led many to assume that such government intervention had made the threat of economic stagnation, let alone major recessions, a thing of the past.[26]

Keynesians Followers of economist John Maynard Keynes. They advocate government spending when the economy is sluggish (even if a deficit results) in order to revive the economy.

In contrast, a group of prominent economists led by Milton Friedman, tended to favor monetarist policies and rejected the argument that constant government intervention in the economy can bring either constant prosperity or stability. **Monetarists** believed that the economy kept growing between 1946 and 1970 in spite of government fiscal and monetary policies, not because of them. Not only was government intervention in the economy not a solution, but it prevented even stronger economic growth. They argued that government intervention should be limited to maintaining consistent growth in the nation's money supply in order to control inflation. During the 1970s and early 1980s, when the U.S. economy went through a period of both high inflation and rising unemployment, the country's economic policymakers gave greater attention to the monetarists' argument that government was doing too much through fiscal policies.[27]

Monetarists A group of economists who reject the argument that constant government intervention in the economy through fiscal policy can bring either sustained prosperity or stability. They argue government intervention should be limited to maintaining a consistent growth in the nation's money supply in order to control inflation.

By the late 1990s, many analysts had come to the conclusion that neither the Keynesians nor the monetarists had the definitive answer to how the economy should be managed. Some have argued that a "new economy" emerged in the last decade of the twentieth century, and that a new approach to managing the economy must be developed to deal with the changed conditions brought about by technological innovations and globalization.[28]

But when faced with the economic downturn generated by the 2008 financial market collapse—a downturn many labeled the Great Recession—the government relied on both monetary and fiscal policy responses.[29] The Fed reduced interest rates to historically low levels and took other steps designed to inject more money into the economy in order to counter recessionary pressures that might otherwise have taken hold. On the fiscal side, the Obama administration asked Congress for tax cuts and a massive "stimulus package" that would boost government spending. The tax cuts were designed to put more money in the hands of consumers as well as to reward businesses for creating new jobs. The stimulus spending was aimed at getting "shovel ready" projects (i.e., public works projects like roads and bridges) underway and injecting more money into areas of the economy that would lead to future growth.

By the summer of 2010, however, there was growing concern that these policies might have long-term negative consequences for the American economy. At the heart of the ongoing debate is the question of the growing national debt—an issue that often emerges whenever government economic policies seem to be too aggressive.

Deficits, Surpluses, and the National Debt

Two central issues in the ongoing debate over fiscal and monetary policies are the size of the federal deficit and what to do with budget surpluses. The instrument for dealing with both questions is the national debt.[30] The **national debt** is the total amount of money the federal government owes as a result of having spent more funds than it has received in revenues. Each year the federal government accumulates either a **budget surplus** (when its revenues exceed expenditures) or a **budget deficit** (when expenditures exceed revenues) (see Figure 15.3). In 1992 the deficit reached a then-record level of $290 billion but after that, the annual deficit declined. By 1998, the budget was generating a surplus and it was projected at that time that surpluses would continue to grow through at least 2005. But the economic downturn of 2001 and the events of September 11 greatly altered that projection. When President George W. Bush issued his revised budget projection for fiscal year 2002, it contained a projected deficit of $165 billion.

National debt The total amount of money the government owes as a result of spending more than it has taken in.

Budget surplus The result when budget revenues exceed expenditures.

Budget deficit The result when expenditures exceed revenues.

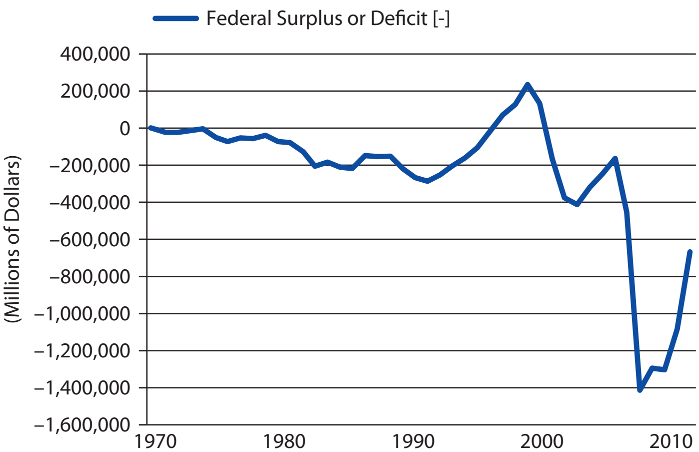


FIGURE 15.3 The Federal Budget Deficit/Surplus, 1970–2014
After many years of federal deficits adding to the national debt in the 1980s, the U.S. government started generating annual budget surpluses in the late 1990s. Spending required by the War on Terror and related programs (e.g., homeland security), as well as the federal government's efforts to deal with the Great Recession, led to significant deficits by Fiscal Year 2010, although the deficit was reduced by Fiscal Year 2014.
Source: *U.S. Office of Management and Budget, Federal Surplus or Deficit [-] [FYFSD], retrieved from FRED, Federal Reserve Bank of St. Louis.*

By the end of the Bush administration, the national government's total outstanding debt would be more than $9.295 trillion.[31]

When the Great Recession hit the U.S. economy in 2008 and 2009, concerns about the growing national debt were temporarily put aside in favor of aggressive fiscal and monetary ("stimulus") policies aimed at restoring the American economy. But by the spring of 2010, worries over the growing national debt were looming and proved to be a major political issue, with the Congressional Budget Office (CBO) estimating that by 2035, the national debt would amount to 185 percent of gross domestic product (GDP) unless measures are taken to rein in its growth. As the economy slowly recovered and the federal government's annual deficit shrank, however, the cumulative debt became less of issue, and by the spring of 2014 the CBO projected that by 2039 the debt would amount to 111 percent of GDP—lower than earlier predictions, but still a significant source of concern.

While it is evident that government efforts to fight the Great Recession were one factor in that projected growth in the national debt, it is actually difficult to pinpoint any specific cause of this huge accumulated debt. Some of it has resulted from actions taken by the federal government during times of past national emergencies, such as wars or previous economic downturns. When Franklin D. Roosevelt became president in 1933, he inherited a national debt of $22.5 billion. By the time the United States entered World War II, the debt had climbed to $48 billion. During that war, the federal government financed about 60 percent of its spending through borrowing. At the end of the war, the national debt stood at $280 billion.

Another reason for the national debt is that we expect government to make large-scale capital investments that generate little or no return in the short term, or even in the long term. Unlike the situation in the private sector, where capital investments in buildings and equipment are expected to generate income and pay for themselves over time, the government's investments include highways, weapons systems, airports, and school buildings—all important **infrastructure projects** that are necessary for national economic health but that typically do not bring in sufficient revenues to offset their costs.

Infrastructure projects
High-cost government capital investment projects such as highways and school buildings that are provided to support and enhance the economic health of the nation.

A third reason for government indebtedness is the growth of mandatory spending, which comprises two-thirds of the budget. Mandatory spending includes both entitlement programs and government spending obligations that do not change from budget to budget. **Entitlement programs**, such as Social Security and unemployment benefits, commit the government to supplying funds or services to all citizens who meet specified eligibility requirements. Because the amount of money spent depends on the number of people who meet those standards, this spending is uncontrollable from year to year. As more people reach retirement age or become unemployed during a recession, government spending increases without any congressional or executive action. The same is true for obligatory spending, such as interest payments on the national debt: The government has no choice but to spend the required amount. Figure 15.4 illustrates the past and projected trends in mandatory spending.

Entitlement programs
Programs such as Social Security that commit the government to supply funds or services to all citizens who meet specified eligibility requirements.

Still another significant reason for the growing national debt is that the American public sometimes demands more goods and services than it is willing to pay for through taxes or special fees. Politicians rarely advocate tax increases, and in recent years many elected officials have felt the impact of "taxpayer revolts"

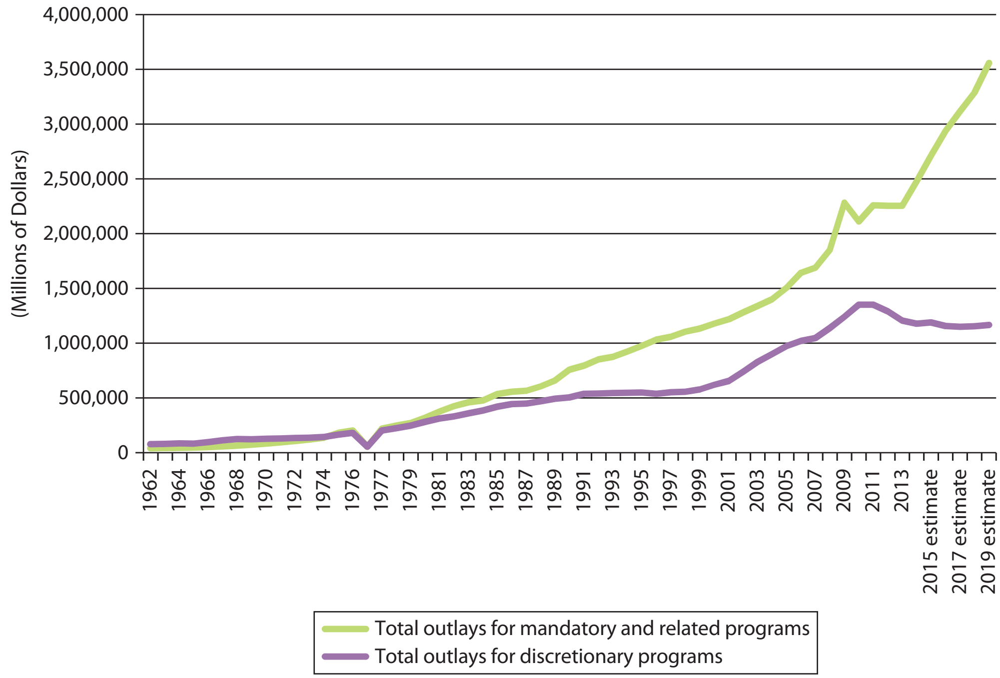


FIGURE 15.4 Mandatory and Discretionary Spending, 1962–2019 (estimated)
Since the 1970s, mandatory spending by the federal government on entitlement programs and other obligations such as interest payments has increased significantly. In contrast, spending on discretionary programs has increased more slowly or remained steady in most years. The gap between the two is projected to increase in coming years.
Source: *U.S. Office of Management and Budget, Budget of the United States Government, Fiscal Year 2015, Historical Tables*

at the voting booths. Those same voters, however, are reluctant to support government officials who propose reductions in popular programs. Parents with college-age children, for instance, may lead the fight against a local property tax increase or a state sales tax measure while insisting that state colleges keep tuition costs low for their sons and daughters.

Finally, government debt can increase when policymakers decide to fund current spending through borrowing rather than through taxes in order to sustain or stimulate economic activity. Helping the economy has been the primary reason used to justify the huge federal deficits that have been piling up in recent years. This is a strategy based on the Keynesian fiscal policy approach described earlier.

Regardless of what has caused the large U.S. national debt, its size is staggering to most people, and it is little wonder that the growing debt remains a major public policy issue. But it is not only its sheer size that worries many policymakers and analysts. Some believe that it is not fair to burden future generations with debt to finance our current consumption of public goods and services, even if it is done to get the economy back on track. Others see a large national debt as inflationary—that is, as causing higher prices for the private-sector goods and services we purchase today. Still others argue that financing the national debt is pushing all interest rates higher, thus making it more difficult for consumers and businesses to borrow money.[32]

Another school of analysts and policymakers argues that critics of the national debt are wrong. Historically, they point out, the public debt has not been that high relative to debt held by other sectors of the economy. For example, in 2007, just before the Great Recession,[33] while the federal government owed $5.1 trillion, American households owed $13.8 trillion and U.S. businesses owed another $10.1 trillion.[34] Nor has the national debt been too large when it is measured against the country's assets or the annual gross national product, and while stimulus spending and reduced economic growth during the Great Recession has altered that pattern, most believe the ratio of debt to GDP will improve as the U.S. economy moves toward full recovery. Some point out that while the national government's debt was growing for most of the post–Cold War period, state and local governments often ran budget surpluses each year that offset the national debt. Others stress the fact that most of the national debt is owed to ourselves—to the millions of Americans who directly or indirectly hold U.S. savings bonds, Treasury notes, and long-term Treasury bonds. And many of these analysts emphasize that the health of the American economy has frequently depended on the stimulus provided by government deficits. Nevertheless, when faced with budget projections for the coming decades, even the most optimistic analysts note the need to moderate the trend.[35]

Economic development policies Policies intended to promote and protect businesses to enhance overall economic growth.

Tariffs Taxes on goods brought into the country from abroad; they are often intended to protect growing industries from foreign competition.

Free trade An international economic policy that calls for the abolition of tariffs and other barriers so that goods and services may be exchanged freely among nations.

Balance of trade The net difference between the value of what Americans buy and what they sell overseas.

Economic Development Policies

> **What are the issues surrounding the federal government's efforts to enhance overall economic growth?**

In addition to using monetary and fiscal policies to manage the economy and help stabilize it, policymakers have used **economic development policies** to help the economy grow. These policies have involved a range of approaches, from trade policies to industrial strategies.

Trade Policies and Globalization

For much of our history, our national economic development policies were closely associated with our **tariff** policies. In the 1800s, American business developed behind a wall of high protective tariffs on imported goods and services. Until 1929, tariffs continued to increase slowly, and then took a big leap with the enactment of the Hawley-Smoot Tariff of 1929, which raised tariffs to historically high levels. Today Hawley-Smoot is often seen as a major cause of the Great Depression because of the turmoil it created in international markets. Consequently, Congress has been reluctant to pass protective tariff legislation for more than half a century. Most policymakers believe that **free trade** (the abolition of tariffs and other trade barriers) is the best policy to follow.[36]

The free trade policy raised little controversy from the 1940s through the 1970s. During those years the U.S. **balance of trade**—the net difference between the value of what Americans bought and what they sold overseas—ran a surplus, as Americans exported more goods and services than they imported.

In 1975, for example, the United States exported $18 billion more in merchandise than it imported. By contrast, in 2005, Americans imported over $782 billion more in goods and services than they exported—the highest trade deficit in the nation's history.

Responding to these conditions, some members of Congress advocated raising tariffs or taking other policy measures to protect U.S. industries and jobs from foreign competition. The administrations of Ronald Reagan, George H. W. Bush, and Bill Clinton, as well as other advocates of free trade, opposed such proposals, insisting that free and open international markets are the answer to trade deficits. The problem, they contended, was rooted in the barriers to free trade imposed by other countries, especially Japan. Instead of protective tariffs, they undertook diplomatic and other kinds of political pressures to persuade those nations to lower their barriers to the importation of U.S. goods and services.

The debate over free trade policies came to a head several times during the Clinton years. When he entered office, Clinton pushed for passage of the North American Free Trade Agreement (NAFTA), an agreement signed by the United States, Canada, and Mexico, which created a trade bloc in North America. The battle for ratification of the treaty was hard fought, pitting a coalition of labor, consumer, farm, and environmental groups against a coalition headed by some of the nation's top corporations. Opponents argued that the agreements would hurt family farms and small businesses, lead to outsourcing and job losses, and undermine environmental and consumer protection laws. Despite these objections, NAFTA was passed in 1993, but it remained a controversial policy for years.[37]

Such policies have become associated with a worldwide debate about **globalization**. Globalization is the idea that an increasing amount of human activity and social interrelations are being conducted on a global scale, rather than at the local, regional, or national levels that have been predominant in the past. The term implies at least four related trends.[38]

Globalization The idea that an increasing amount of human activity and social interrelations are being conducted on a global scale, rather than at the local, regional, or national levels that have been predominant for the past several centuries.

- Globalization implies *internationalization* in the sense that a good deal more of our lives are linked to the world community, where national borders have less meaning.
- Globalization implies *economic liberalization*, in which national economic policies are seen as a barrier to economic well-being.
- Globalization is seen as *universalization*, implying a trend toward the emergence of a global culture and the eventual disappearance of cultural and national distinctions.
- Globalization is perceived by some as a process of *modernization and Westernization*, in which democracy and capitalism become the global standards.

The debate surrounding globalization has centered on whether or not these trends are desirable. If they are, then free trade policies such as NAFTA should be pursued vigorously; if they are not, then policies should be developed to counter these powerful trends.

Tax Incentives

Tax incentives Tax breaks used to reward people for investing or spending in a way that promotes economic growth.

The government can also use **tax incentives** to promote growth.[39] For example, the home-building industry has benefited greatly over the past several decades from a provision of tax law that allows Americans to deduct their home mortgage interest costs from their personal income taxes. Another well-known but less popular tax break was an oil depletion allowance. Introduced during the 1920s, this tax break absolved owners of oil- or gas-producing properties from the need to pay taxes on more than a fourth of their income. Experts estimate that this tax break saved these property owners as much as $2.5 billion annually. The tax break promoted oil and gas exploration, but many critics thought that its benefits were excessive and much too costly. It took more than fifty years to eliminate the tax break.

Industrial and Supply-Side Policies

Industrial policy A comprehensive strategy for using government policies to restructure the nation's economy.

Supply-side economics An economic policy strategy popular during the Reagan administration that advocates increasing the production of goods by cutting taxes to help stimulate investment, lifting regulations in the marketplace, and eliminating other government restraints on private business incentives.

During the 1980s, economic policy discussions often centered on a debate between two strategies. Some analysts argued that policymakers must develop a comprehensive economic development strategy for restructuring the economy. Under this approach, known as **industrial policy**, the United States would abandon certain industries in which labor costs were too high for successful competition with other nations.[40] At the same time, it would rescue other industries and make them competitive in the world market. Most advocates of industrial policy also called for investments in new high-technology and service industries.

By contrast, advocates of **supply-side economics** believed in putting more emphasis on policies that would promote increased production of goods by giving incentives to private producers.[41] Supply-siders supported cutting taxes to help stimulate investment, lifting regulations in the marketplace, and eliminating other government restraints on private business initiatives. Supply-siders claimed that in the past, government intervention in the economy had relied too much on consumer demand to stimulate economic growth and imposed too many obstacles to private investment. According to supply-side advocates, only through policies that increase suppliers' incentives can jobs be created and the economy grow.

The debate between advocates of industrial policy and the supply-side approach had all but disappeared by the late 1990s, but some argue that they reappeared during the recent economic downturn in the form of government bailouts and tax breaks aimed at saving and sustaining certain sectors of the economy. The Bush administration's $700 billion Troubled Asset Relief Program initiative was put before Congress as an emergency measure designed to support a failing banking industry that was deemed "too big to fail," and the crisis played out in a way that let some firms fail (Bear Stearns and Lehman Brothers) while shoring up others (American International Group). The same scenario was used in the Obama administration's attempt to save the auto industry, with General Motors and Chrysler receiving substantial support that effectively kept those companies alive during the worst parts of the downturn.[42]

Regulatory Policies

> **How has the federal government used regulatory policies in dealing with economic, environmental, and social problems?**

Another broad area of public policy involves the use of regulatory means to control and promote various types of behavior. Regulation involves the establishment and enforcement of a rule of behavior that is intended to achieve a policy objective; in the United States, it is most often associated with economic, environmental, and social policies.

Economic Regulation

Along with devising economic development policies, in the late 1800s Congress expanded the scope of economic policy to include **economic regulatory policies**, through which the government monitors and controls critical industries and sectors of the economy. The Interstate Commerce Act of 1887 established the first regulatory commission, the Interstate Commerce Commission, and authorized it to regulate prices and standards of service for interstate rail companies.[43] During the next fifty years, Congress established other major economic regulatory agencies (see Chapter 13), some of which are listed in Table 15.1.

Congress also passed **antitrust laws** intended to promote greater economic competition through regulation. The Sherman Antitrust Act of 1890 made it illegal for businesses to restrain trade or to monopolize a market for some product or service. The Clayton Antitrust Act of 1914 outlawed business practices that might diminish competition or promote monopolies in a market. In 1936 the Clayton Act was amended to prevent corporate mergers that would reduce competition in a sector of the economy.

Economic regulatory policies Economic policies through which the government monitors and controls critical industries and sectors of the economy.

Antitrust laws Laws intended to promote greater economic competition.

TABLE 15.1 Noteworthy Regulatory Agencies

Regulatory Agency	Year Established	Task
Food and Drug Administration (FDA)	1906	Protect consumers from health-threatening products.
Federal Trade Commission (FTC)	1914	Provide safeguards against unfair methods of competition and deceptive practices in the marketplace.
Federal Power Commission (now the Federal Energy Regulatory Commission or FERC)	1930	Regulate the interstate production and distribution of electric power and natural gas.
Federal Communications Commission (FCC)	1934	Regulate the interstate telephone, telegraph, radio, and other telecommunications industries.
Securities and Exchange Commission (SEC)	1934	Oversee the activities of businesses in the securities and investment markets.
National Labor Relations Board (NLRB)	1935	Regulate workplace relations between businesses and their employees who seek to unionize.

Deregulation Administrative reform policies initiated in the 1970s that emphasized a loosening of government controls over activities and economic sectors previously subject to government rules and regulations.

Economic regulatory policy has been subject to criticism. As early as the 1950s, critics argued that the major economic regulatory agencies seemed to be serving the interests of those they regulated rather than the public interest.[44] In addition, studies conducted in the 1960s and 1970s showed that consumers often paid a higher price for goods and services produced by a regulated industry than they would have paid if the industry were unregulated. The call for economic **deregulation** soon followed. Under the Carter and Reagan administrations, at least one major regulatory agency (the Civil Aeronautics Board) was eliminated while Congress and federal commissions lessened restrictions on natural gas producers, banks, trucking companies, interstate buses, and railroads. The Securities and Exchange Commission deregulated stockbrokers' commissions. The Federal Communications Commission permitted local newspaper companies to own television and radio stations. The agencies charged with enforcing antitrust policies (the Federal Trade Commission and the Antitrust Division of the U.S. Department of Justice) relaxed their criteria for approving corporate mergers.[45]

By the early 1990s, some observers were arguing that economic deregulation had gone too far.[46] The elimination of airline and bus service to many communities, a wave of corporate buyouts and mergers, a stock market crash in 1987, and the specter of a bailout for failing savings-and-loan institutions that would cost American taxpayers hundreds of billions of dollars led some to call for re-regulation. For much of the 1990s, however, it remained difficult to overcome the myth of government as a necessary evil, and deregulation and antiregulatory policy efforts remained an important part of the U.S. public policy agenda. In 2002, however, a number of corporate management scandals led Congress to enact anticorruption laws that would strengthen regulatory oversight of corporations, and pass a corporate anticorruption bill (the Sarbanes-Oxley Act) that provided for tougher regulatory oversight of corporate accounting practices.[47]

The 2008 financial crisis generated even more calls for re-regulation of banks and financial markets. A good deal of the blame for the collapse of the financial markets was placed on earlier deregulation as well as lax enforcement of existing policies by regulatory agencies with jurisdiction over banks and Wall Street. The result was the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.[48] The call for re-regulation also gained momentum in the aftermath of the 2010 *Deepwater Horizon* oil spill in the Gulf of Mexico, which many believed was the result of poor oversight of oil company leases by regulatory agencies responsible for overseeing the management of offshore oil rigs in the Gulf.

Environmental Regulation

Regulation is also the primary approach that the government uses in its efforts to deal with environmental pollution.[49] Pollution is not a new problem, but federal officials did not pay significant attention to it until the late 1960s. Most issues related to the environment were generally left to the states and localities where the problems existed, or to the courts, where private individuals would seek solutions through litigation. The federal government had a long history of conservation policies aimed at managing and preserving forests and other large tracts of land in the American West, but its pollution control activities were limited.

Students of environmental policy cannot pinpoint exactly what triggered the sudden explosion of concern over environmental pollution in the 1960s. Local controversies over power plant construction, the publication of books such as Rachel Carson's *Silent Spring*, media coverage of smog problems in cities from Los Angeles to Birmingham to New York—all these things seemed to come together in a political movement that Washington could not ignore. In 1969, Congress passed the National Environmental Policy Act, which, for the first time, explicitly identified environmental pollution as a national concern. This was followed in 1970 by President Nixon's creation (through an executive order) of an Environmental Protection Agency (EPA) that was made up of units and programs drawn from throughout the federal government. What followed was a series of congressional actions that established the regulatory programs that the EPA would enforce.

Environmental regulation covers a wide range of issues, but four major areas stand out: air pollution, water pollution, earth pollution, and global warming. The 1970 amendments to the Clean Air Act gave the EPA jurisdiction over area, stationary, and mobile sources of air pollution. Under the act, the EPA was mandated to establish ambient air-quality standards for the country and to oversee efforts by both public and private entities to achieve the goals set under the standards.

The first major water pollution law was the Federal Water Pollution Control Act Amendments of 1972, which later became known as the Clean Water Act. Prohibiting the discharge of pollution into any navigable body of water from a specific "point" source (e.g., a factory) without an EPA permit, the act gave the agency authority to require polluters to meet the clean water standards set by the law. In addition, it provided federal funding for local sewage treatment and other wastewater facilities. Later amendments addressed issues of nonpoint sources, such as agricultural runoff and natural occurrences.

Earth pollution was initially addressed in the Resource Conservation and Recovery Act of 1976, which primarily focused on the disposal of hazardous wastes but also provided a framework that the EPA later used for regulating the disposal and recycling of nonhazardous waste. In 1980, Congress passed the "Superfund" Act, which provided for the cleanup of abandoned hazardous waste sites and catastrophic spills.

Although internationally scientists have been expressing concern about global warming for decades, the issue did not rank high on the American environmental policy agenda until recently. During the 1990s, then–vice president Al Gore took the lead among U.S. officials in negotiating the Kyoto Accords, which committed signatory nations to make efforts to reduce their emissions of greenhouse gases, but the incoming Bush administration did not support the agreement. In 2006, however, private citizen Al Gore drew significant attention to global warming and climate change in an Academy Award–winning documentary, which put the issue high on the U.S. policy agenda.

Federal environmental regulation has undergone a number of changes since 1970. Under pressure to deregulate during the Reagan administration, the EPA developed alternatives to strict regulatory control approaches, including providing economic incentives for operators of pollution sources to regulate themselves.

Some of these have proved successful; others (such as the oversight of offshore drilling) have not. All have emerged as "necessary" solutions to problems that the public believed only the federal government could deal with.

Social Regulation

Protecting citizens from the major hazards associated with life in a highly industrialized economic system has also become a focus of regulatory policy. The first federal **social regulation programs** emerged in the early 1900s in response to problems involving adulterated food and the deceptive advertising of drugs.[50] Stirred to action by research conducted at the Department of Agriculture and investigations by muckraking journalists, Congress passed the Pure Food and Drug Act of 1906 and the Meat Inspection Act of 1906. These and other **consumer protection policies** established federal agencies to deal with problems related to the safety and quality of food and drug products sold in the American marketplace.

Social regulation programs Programs aimed at protecting consumers from the hazards of life in a highly industrialized economic system.

Consumer protection policies Government laws and programs developed to deal with the safety and quality of consumer products and to protect consumers from deceptive business practices.

Many of the economic regulatory agencies previously mentioned continue to play a role in these policy areas today. The Food and Drug Administration (FDA) regulates a wide range of consumer products, including drugs, cosmetics, medical devices, and food (except for meat and poultry, which is the responsibility of the Food Safety and Inspection Service of the Department of Agriculture), to ensure their safety, purity, and effectiveness. For drugs and medical devices, FDA approval is needed before a product can be marketed. The FDA also investigates complaints about the safety or purity of food and cosmetics. If a product is found to be unsafe or adulterated, the FDA can order its removal from the marketplace.

Concern over travel and the regulation of airline safety has been growing in recent years. The Transportation Security Administration (TSA) in the Department of Homeland Security was created in response to concerns about the threat of terrorist attacks after the events of September 11, 2001. Travelers have raised issues related to the delays created by TSA checkpoints at major airports, as well as some of the regulations imposed on what can and cannot be brought onto airplanes.[51] The Federal Aviation Administration has long been the principal government agency dealing with airline safety, and it too has been subject to criticism for problems caused by inefficiencies of the air traffic control system that it oversees, as well as charges that its safety inspection system has been too lax.[52]

Through **worker protection programs**, the federal government has extended its reach into the workplace as well, especially in the areas of discrimination, workers' rights, and occupational safety and health. **Equal employment opportunity programs** prohibit discrimination in the workplace on the basis of race, sex, religion, national origin, or handicapped status. In addition, the federal government has required companies doing business with it to undertake affirmative action aimed at improving employment and promotion opportunities for minorities, women, the handicapped, and other groups that have traditionally suffered from workplace discrimination.

Worker protection programs Government programs that protect workers in the areas of discrimination, workers' rights, and occupational safety and health.

Equal employment opportunity programs Federal programs developed under civil rights legislation that prohibit workplace and other forms of discrimination on the basis of race, sex, religion, national origin, or handicapped status.

The best-known occupational safety and health program was established in 1970 under the Occupational Safety and Health Act. The primary goal of this legislation was "to assure so far as possible every working man and woman in the

Nation safe and healthy work conditions." The act created the Occupational Safety and Health Administration (OSHA) to implement this policy through regulations and onsite inspections. Although critics found its early regulations to be both trivial and costly, by 1986 OSHA had issued standards that would eliminate or minimize workers' exposure to a number of highly suspect materials, such as asbestos, vinyl chloride, arsenic, benzene, lead, ethylene oxide, and cotton dust. The agency also set workplace standards for construction sites, grain elevators, and chemical plants, where hazardous materials were handled. Although still subject to criticism, OSHA remains an important part of federal policies dealing with worker protection.

In addition to OSHA, several other agencies are involved in workplace safety and health regulation. For example, agencies such as the Mine Safety and Health Administration and the Nuclear Regulatory Commission have jurisdiction over workplace conditions in specific industries. Overall, these agencies and programs represent a federal commitment to protecting workers from workplace hazards.

Social regulation policies have not been without their critics, who claim that such efforts are misdirected. Some critics accuse the government of interfering too much in the workings of the open marketplace through these regulations. They consider the laws of supply and demand to be the best means of protecting consumers and workers, and they worry about the costs of social regulatory policy. Those who support social regulations, however, complain that the rules are still too few and that they are not enforced stringently enough. On worker protection issues, some advocates of a comprehensive industrial policy for the United States have urged legislation that would establish a higher minimum wage, protect workers from sudden plant closings, and increase worker participation in corporate decisions.

Social Welfare Policies

> **What does the federal government do to assure the economic well-being of individuals?**

Social welfare policies have deep roots in American history. America's earliest social policies were based on England's **poor laws**—enacted in the early 1600s—which made local communities responsible for taking care of their own needy and sick. State governments became involved in aiding the needy during the 1800s. Many states abolished local debtors' prisons, instituted child labor laws, mandated public education, and supported the creation of institutions to care for the orphaned, insane, blind and deaf, epileptic, destitute, and others who were in need.[53]

Poor laws British Laws enacted in the early 1600s that made local communities responsible for taking care of their own needy and sick. They were used as the basis for American social policies early in the nation's history.

Except for a few small federal grant-in-aid programs to the states (see Chapter 3), the national government did not become actively involved in social welfare policy until the Great Depression. The first national programs followed the same pattern as the traditional state and local efforts by attempting to meet the needs of the poor or to improve their circumstances. Beginning in the 1930s, national policies focused on promoting the general welfare through social programs for all Americans, regardless of their income level.[54] Thus, when we discuss welfare policy, we must address two types of government programs: those that provide benefits and services only to the poor and those that help meet the needs of the general public.[55]

Aiding the Poor

Federal policies aimed explicitly at helping those in need went through a major overhaul in 1996 with the passage of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA). To appreciate the significance of those changes, we must understand the welfare system that the 1996 act replaced.

Federal assistance programs Federal welfare programs that took three forms: general assistance in the form of cash and commodities; work assistance in the form of jobs and job training; and categorical assistance targeted at specific populations.

The Old Welfare System. Under the previous system for aiding the poor, three distinct forms of **federal assistance programs** were enacted:[56]

- *General assistance* was given in cash (such as emergency assistance) or in the form of food and other commodities or the means for buying them, such as food stamps, to those in need.
- *Work assistance* offered jobs or job-training programs.
- *Categorical assistance* targeted specific populations (for example, aid to families with dependent children and supplemental assistance to children with disabilities).

Almost all the programs in these categories were intergovernmental programs, involving state and local funding and participation (see Chapter 3). The resulting welfare system was a complex arrangement of programs designed to provide Americans with a safety net in times of personal and general economic distress. By the 1980s many of these programs drew criticism from all corners of the political arena. Among those criticisms, three stood out and helped shape the 1996 reforms.

First, the system was perceived as *too centralized and inflexible*. Many of the federal programs were designed to guarantee that people who needed help had roughly equivalent access to minimal welfare benefits, whether they resided in New York City or Jackson, Mississippi. This goal required that the national government establish basic program standards and ensure the implementation of minimal eligibility requirements throughout the country. It did so through specific provisions attached to the categorical grants it provided to the states to carry out the various programs. While the level of benefits for different federally funded programs might vary from state to state, program standards and a minimal level of benefits were set and enforced in Washington, D.C.

Initially, many Americans accepted this centralized system as necessary to guarantee some minimal assistance to the poor, no matter where they lived. By the 1980s, however, critics were successfully arguing that program centralization had gone too far and was hindering state and local efforts to deal with the special circumstances and needs of local residents.

The second criticism of the older welfare system was that it created *too much dependence* on government programs among the poor.[57] A growing chorus of critics from both the political left and right noted that existing welfare programs gave recipients little, if any, incentive to seek employment or job-related training.

Instead, the system seemed to create a culture of poverty that increased the dependence of welfare recipients on government programs. Together with changing economic conditions, welfare programs were producing a social and economic underclass that had no incentive to break out of the cycle of impoverishment.

The large and growing costs of the existing welfare system gave rise to the third criticism: The system was proving *too expensive*. Entitlement programs—programs in which all eligible individuals had a right to the program's benefits—dominated the welfare approach, requiring open-ended funding. In other words, no matter what federal, state, and local governments might budget for these programs in any given year, they were obligated to spend as much as was necessary to meet the needs of those who were entitled to the benefits. This obligation created uncertainty and anxiety about future expenditures—especially as projections indicated a steep rise in entitlement costs by 2000. These and related criticisms of the welfare system helped to fuel reform efforts and eventually led to the passage of the Personal Responsibility and Work Opportunity Reconciliation Act, which became law in 1996.

The New Welfare System. The 1996 welfare reform legislation that resulted in the PRWORA addressed the three major criticisms of the previous system. It gave more power to the states, focused on the goal of reducing dependence on welfare, and placed limits on government spending for welfare programs.

Empowering the States. The 1996 act replaced the Aid to Families with Dependent Children (AFDC), emergency assistance, and other highly centralized and inflexible categorical programs of the past with a block grant titled Temporary Assistance for Needy Families (TANF). This grant provided each state with resources to accomplish the legislation's four basic goals:

1. Assisting needy families so children could be cared for in their own homes or in the homes of relatives
2. Ending the dependence of needy parents on government benefits by promoting job preparation, work, and marriage
3. Reducing the incidence of out-of-wedlock pregnancies
4. Encouraging the formation and maintenance of two-parent families

Although TANF gave the states considerably more power to shape their own welfare policies and programs, it required states to submit an acceptable welfare assistance plan to the national government that included provisions reflecting the major objectives of the reforms.

Ending Dependence. For example, instead of relying on highly structured work assistance programs, TANF required states to develop their own programs offering welfare recipients incentives and opportunities to obtain employment and get off federally funded welfare. It contained provisions allowing states to reduce or cut off assistance to a variety of groups. For example, states can refuse support for teenage parents who do not participate in training or educational programs or who refuse to live in their parent's home. Anyone who refuses to help determine the paternity of children who are receiving aid can also lose some or all assistance. Individuals convicted of drug-related felonies were not eligible for any federally funded cash or food stamp assistance under the law, although states could aid their families if they chose to. These and other provisions of the 1996 act reflected the goal of ending welfare dependence.

Capping the Costs of Welfare. Congress also stopped the open-ended funding of the past and limited federal spending to $16.4 billion—an amount that has remained the same through fiscal year 2014. In addition, the law expressly stated that the state programs funded under TANF are not to be treated as entitlements, and that both eligibility and benefits can be adjusted to keep the programs within spending limits. There were provisions for states facing special circumstances (e.g., Louisiana after Hurricane Katrina in 2005), but even this amount was set at a specific level ($610 million in fiscal year 2014). Individual states could spend as much as they wished on other programs, but they would have to do so without federal financial assistance. In short, the 1996 act was expected to rein in the growth of both federal and state spending on welfare.

Other Provisions. While the 1996 act changed the structure of AFDC and other major entitlement programs, it did not make radical changes in other parts of the welfare system. For example, Supplemental Security Income (SSI) was created in 1972 to provide direct monthly benefits from the federal government to the aged, those with visual handicaps, and those with mental or physical disabilities, regardless of the level of assistance they receive from other programs. Although the program was not eliminated in 1996, a major portion of it that affected children with disabilities (and often used to supplement assistance to poor families) was modified to tighten eligibility requirements.

Another major entitlement program, *food stamps*, was also left mostly intact. Begun in 1961 as the Farm Bill, the program slowly expanded until it became the primary source of food assistance for the poor. In 2008, the program was renamed the Supplemental Nutrition Assistance Program (SNAP), and electronic benefit transfer cards replaced stamps. Run by the Department of Agriculture, eligibility for SNAP is determined by household income. Any family with gross annual incomes below 130 percent of the federal poverty level qualifies. The number of individuals relying on SNAP benefits dramatically increased after the Great Recession of 2008, from 28 million in 2008 to more than 44 million in 2011. In addition, SNAP benefits were temporarily increased as part of the economic stimulus package passed in 2009. Cutbacks in the program and improved economic conditions slowed that expansion, but in 2013 more than 47 million people were still receiving some level of food assistance.[58]

In the case of both SSI and food stamps, the 1996 act initially made almost all noncitizens ineligible for either program. This particular provision of the act proved very controversial, especially in urban areas and populous states, where large numbers of political refugees and elderly legal immigrants resided. Without access to these and related federal entitlement programs, meeting the needs of poor noncitizens was likely to be a major burden for states and localities. By 1998, Congress and several states had passed legislation easing this limitation for many refugees and other legal immigrant groups.

In the area of health care, Medicaid remained the primary program for aiding the poor. Established in 1965 as part of the Social Security system, today it provides some form of assistance to more than 59 million Americans. Among those receiving Medicaid, more than half (31 million) are children and another 25 percent are elderly or disabled. These numbers are likely to grow with the expansion of the Affordable Care Act that are tied to Medicaid.[59]

The 1996 reforms did not have a direct or major impact on the Earned Income Tax Credit (EITC) either, which has developed into a major part of the U.S. social welfare safety net. First enacted in 1975 and modified by Congress from time to time, the EITC is not a social welfare program in the traditional sense, but rather a means for supplementing the income of those in need through the U.S. tax system. Under this program, in 2013 low to moderate income individuals and families who qualified would have received tax refunds ranging from $487 to a little over $6,000. As a "cash-transfer" program, the EITC has played a significant role in reducing poverty in the United States, and by 2014 was the third-largest social welfare program, behind SNAP and Medicaid.[60]

Many other federally funded programs—including housing assistance, child nutrition, child care, and child support—were linked to programs modified by the 1996 act, and most were affected in some way by the legislation.[61] But the main thrust of the reforms has been to radically alter or reduce the role of traditional welfare programs in providing for the economic safety net reflected in programs designed to be more responsive to economic emergencies and downturns such as those experienced during the Great Recession of 2008–2009.

Social Insurance

Although welfare programs for the poor have been a major part of America's social policies, many other policies have addressed the needs of all Americans, regardless of their level of income. **Social insurance programs** are intended to cover income losses caused by long-term illness, unemployment, retirement, and other interruptions to a person's working life. Funding for these benefits comes from "contributions" (involuntary taxes) that are levied on both employers and employees and placed in special trust funds. Once a person has made a minimum number of payments into a trust fund, he or she is entitled to participate in the program's benefits.

Social insurance programs Social policy programs administered by the Social Security Administration (SSA) that are intended to cover income losses due to long-term illnesses, unemployment, retirement, and other interruptions to a person's working life.

Among major industrialized nations, the United States was one of the last to adopt such a plan.[62] Unemployment insurance and retirement benefits were established by the Social Security Act of 1935. Under Social Security, employees and employers contribute a certain portion of employees' earnings to several trust funds administered by the Social Security Administration (SSA). The SSA is supposed to use those funds to pay unemployment claims and to provide monthly pension checks when a worker retires. At the outset, the system assured most American workers at least minimal coverage when they were temporarily unemployed or when they retired.

Over the years, social insurance programs have grown considerably. In addition to unemployment and old-age pension insurance, Social Security now applies to the disabled and to the survivors (widows, widowers, and children) of deceased contributors; thus the number of Americans covered by Social Security's general social insurance programs has expanded. In 1940, Social Security covered only 20 percent of the U.S. workforce. In 2014, 87 percent of Americans over the age of 20 were regarded as "fully insured" under the old-age, survivors', and disability benefits. And although coverage varies from state to state, a similar number of working adults have unemployment insurance that provides a temporary cushion if they lose their jobs due to no fault of their own.[63]

With the passage of Medicare in 1965, the federal government also began providing health insurance for the elderly aged 65 and older and the disabled (see the Chapter 9 Policy Connection, pp. 314–319). The basic Medicare program provided insurance for hospitalization, as well as extended care and home health services. It also contained a voluntary supplementary medical insurance program to help offset the costs of physicians' fees, lab tests, medical supplies and appliances, and related items. By 2013 42.4 million elderly Americans were enrolled in the basic hospital insurance program, and most of those individuals paid an additional monthly premium to take part in the supplementary health insurance program. An additional 9.7 million were enrolled in Medicare under the program's disability coverage.[64]

As part of the 1996 welfare reforms, Congress passed amendments to Title XXI of the Social Security Act that provided access to health insurance for poor working families. Closely related to Medicaid, the State Children's Health Insurance Program (or SCHIP) was funded by both states and the federal government, with states playing a key role in determining eligibility rules. While SCHIP expanded medical insurance coverage for many children, the program fell short of what was needed because many families who earned too much to qualify for Medicaid still could not afford private insurance to cover their children. Under the 2010 Patient Protection and Affordable Care Act (ACA, or "Obamacare") SCHIP coverage was extended to families with children under 19 who earned as much as 300 percent of the Federal Poverty Level. Other provisions of the ACA made health care insurance more easily available to other segments of the population, such as those with pre-existing conditions. The ACA was supposed to go into full effect in 2014, but legal challenges, administrative glitches, and continued political opposition made implementation difficult. Nevertheless, by 2015, an estimated 8 to 10 million previously uninsured Americans had obtained coverage under the ACA.[65]

In addition to the debate over expanding government health care insurance coverage, a good deal of attention has been paid to financial problems facing the overall Social Security program. Despite steady increases in the number of participants who contribute, the social insurance programs under Social Security—especially old-age pensions and Medicare—have faced short-term financial problems. For decades, contributions to the SSA trust funds had typically equaled or exceeded the amount paid out in benefits, but by the early 1980s it was evident that significant problems were emerging. The American population was growing older, and policymakers had expanded Social Security benefits for years. Critics warned of a pending crisis, but they were generally ignored until 1982, when the old-age and survivors' insurance trust fund—the largest of the SSA funds—had to borrow billions of dollars from other SSA trust funds.

In 1983, a special National Commission on Social Security Reform issued a report with recommendations for dealing with the immediate problems. Congress responded by making major changes in the retirement age for eligible beneficiaries. Those who chose to retire earlier than the standard age of sixty-five would have a cut of 20 to 30 percent in their benefits.[66] Policymakers have also been increasing the amount that each American contributes to Social Security insurance in an attempt to keep the program solvent as far into the future as possible. The Social Security tax rate for all participating employees increased from 3 percent in 1960 to 4.8 percent in 1970, to 6.13 percent in 1980, and then to 7.65 percent in 1990 where it remains today.

The long-term future of Social Security continues to be an issue. Critics have called for a significant overhaul of the system in order to save the funds from bankruptcy as the baby-boom generation reaches retirement age.[67] Defenders of the existing policies point out that various forecasts of trust fund bankruptcies were based on the most pessimistic assumptions about the future of the American economy. The use of more realistic assumptions, they argue, shows that most of the major trust funds in the Social Security system are likely to remain solvent until well beyond 2075.[68] Nevertheless, most observers are convinced that the issue of the future of Social Security will not disappear.[69]

Conclusion

In this chapter, we touched on only a few of the major domestic policy arenas in which the federal government is involved today. The federal government has been extremely active in many other areas, including efforts to provide mass transit, construct new and safer highways, promote the conservation of our natural resources, and deal with energy shortages. Although each of those policy arenas has its own distinct characteristics, each must contend with the public's effort to make sense of public policy and the myth of government as a necessary evil. That is, policymakers must design and implement policies in a way that will show an ever-suspicious public that the benefits gained from any given government program outweigh the perceived costs in terms of lost liberty, increased dependency, and greater inefficiencies.

This is no easy task, for the reality is that the world is more complex than the necessary-evil myth implies. Public policies are responses to problems that we face as a society, and those problems do not *necessarily* require government involvement. Rather, the decision to develop governmental solutions is often a choice that we make through the political process. As many economists will argue, there are various nongovernmental solutions to many of our collective problems. Do we really need *public* schools to educate our children? Must we rely on government alone to provide us with trash collection or to regulate radio and television broadcasting? Do we really need government to provide us with libraries and parks and roads and hospitals? Both logically and historically, the answer is no. These various policies and services can be provided privately, either by businesses or by charitable institutions. When we decide to have government address these needs, it is by political choice rather than out of necessity.

The public solution is not always evil. Governmental actions can enhance our ability to deal with poverty and inequality.[70] They can also have a positive impact on our exercise of our liberties.[71] The freedom to act in the open marketplace is made possible by the existence of a legal infrastructure that helps to maintain the rules of exchange and punishes those who commit fraud or renege on their contractual obligations. Government is also capable of delivering public goods and services without relying on heavy-handed bureaucratic methods. By adopting innovative management practices, most federal agencies have demonstrated that they can conduct the public's business in an efficient and effective way (see Chapter 13).

Despite the complex reality that belies the myth of government as a necessary evil, there is some benefit to maintaining it as a limiting force in the American political system. If nothing else, it serves a useful function by keeping the public vigilant against possible abuses of governmental power while giving policymakers pause when they consider going "too far" in the design and implementation of public policies and programs.

Key Terms

Agenda setting p. 15-6
Antitrust laws p. 15-24
Balance of trade p. 15-21
Budget deficit p. 15-18
Budget surplus p. 15-18
Consumer protection policies p. 15-27
Deregulation p. 15-25
Economic development policies p. 15-21
Economic regulatory policies p. 15-24
Elite model of decision making p. 15-10
Entitlement programs p. 15-19
Equal employment opportunity programs p. 15-27
Federal assistance programs p. 15-29
Fiscal policy p. 15-16
Free trade p. 15-21
Globalization p. 15-22
Incremental model of decision making p. 15-10
Industrial policy p. 15-23
Infrastructure projects p. 15-19
Issue identification p. 15-5
Keynesians p. 15-17
Monetarists p. 15-17
Monetary policy p. 15-15
National debt p. 15-18
Pluralist model of decision making p. 15-10
Policy adoption p. 15-6
Policy evaluation p. 15-7
Policy formulation p. 15-6
Policy implementation p. 15-7
Poor laws p. 15-28
Public policies p. 15-5
Rational model of decision making p. 15-9
Social insurance programs p. 15-32
Social regulation programs p. 15-27
Supply-side economics p. 15-23
Tariffs p. 15-21
Tax incentives p. 15-23
Worker protection programs p. 15-27

Focus Questions Review

1. **How is public policy made? > > >**
   The policymaking process in the United States is difficult to summarize because so many different policies emerge from so many different institutions. However, the overall process can be described in six stages:
   - Issue identification
   - Agenda setting
   - Policy formulation
   - Policy adoption
   - Policy implementation
   - Policy evaluation

Within each stage, the method of decision making varies. Ideally, decisions would be made rationally, but in reality, decisions are often made incrementally—that is, through additions to and subtractions from current policies and programs.

According to the elite model, decisions are made by a relatively small group of influential leaders who share a common perspective and common goals.

Finally, many students of public policy have adopted a pluralist model, which holds that decisions are made as the result of pressures from a diverse population of interest groups.

2. **What has been the federal government's role in dealing with issues related to education? > > >**
Although education policy has traditionally been the concern of states and localities, the federal government has always played a role in dealing with issues of access, funding, and curriculum content. Today, the emphasis is on issues of education quality and accountability.

3. **How does the federal government attempt to manage the American economy? > > >**
The federal role in managing the economy has focused on monetary policy and fiscal policy approaches. In recent years, the issues of deficits and the national debt have become increasingly important.

4. **What are the issues surrounding the federal government's efforts to enhance overall economic growth? > > >**
Economic development policies of the federal government focus on issues of:
   - Trade
   - Tax incentives
   - Industrial policy
   - Supply-side strategies

5. **How has the federal government used regulatory policies in dealing with economic, environmental, and social problems? > > >**
Through rules made and enforced by various regulatory agencies, the federal government attempts to deal with economic, environmental, and social problems. In recent years there has been an effort to rely more on incentives and to move toward the "deregulation" of certain sectors of the economy.

6. **What does the federal government do to assure the economic well-being of individuals? > > >**
Social welfare policies cover governmental actions to provide aid to low-income Americans and to promote the general welfare of all Americans.

Review Questions

1. **Describe the major differences between fiscal and monetary policy approaches.**
2. **Describe and discuss the reasons for the growth of the U.S. national debt.**

For more information and access to study materials, visit the book's companion website at www.oup.com/us/gitelson.

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11. Matthew A. Crenson, *The Un-Politics of Air Pollution: A Study of Non-Decision-Making in the Cities* (Baltimore: Johns Hopkins University Press, 1971), pp. 1–2.

12. On the 1988 reforms, see Julie Rovner, "Welfare Reform: The Issue That Bubbled Up from the States to Capitol Hill," *Governing* 2, no. 2 (December 1988): 17–21. For an overview of the history behind the 1996 reforms, see Ron Haskins, *Work Over Welfare: The Inside Story of the 1996 Welfare Reform Law* (Washington, DC: Brookings Institution Press, 2006).

13. See Timothy F. Geithner,*Stress Test: Reflections on Financial Crises* (New York: Crown Publishers, 2014). The dramatic nature of the policy formulation process was reflected in a 2011 HBO-produced movie, *Too Big to Fail*; see http://www.hbo.com/movies/too-big-to-fail#/.

14. See Robert G. Kaiser, *Act of Congress: How America's Essential Institution Works, and How it Doesn't* (New York: Alfred A. Knopf, 2013).

15. Jeffrey H. Birnbaum and Alan S. Murray, *Showdown at Gucci Gulch: Lawmakers, Lobbyists, and the Unlikely*

Triumph of Tax Reform (New York: Vintage, 1987).
16. Paul C. Light, *Forging Legislation* (New York: Norton, 1992).
17. The Court's decision-making process remains one of the mysteries of Washington. Whatever insights we have into the process come from the recollections of law clerks and others who served the justices. One popular effort to understand what takes place inside the Court is found in Bob Woodward and Scott Armstrong, *The Brethren: Inside the Supreme Court* (New York: Simon & Schuster, 1979).
18. John M. Logsdon, *The Decision to Go to the Moon: Project Apollo and the National Interest* (Chicago: University of Chicago Press, 1970).
19. See Paul A. Sabatier, *Theories of the Policy Process, Theoretical Lenses on Public Policy* (Boulder, CO: Westview Press, 1999).
20. For a general overview of U.S. education policy, see Christopher T. Cross,*Political Education: Setting the Course for State and Federal Policy*, 2nd ed. (New York: Teachers College Press, 2014).
21. You can access a copy of the Northwest Ordinance at http://avalon.law.yale.edu/18th_century/nworder.asp.
22. On the work of the Department of Education's Office of Civil Rights, see http://www2.ed.gov/about/offices/list/ocr/index.html.
23. For information about the latest developments in the field of education policy, visit the website of the Center on Education Policy at George Washington University (http://www.cep-dc.org/).
24. For a critical assessment of these policies, see two works by Diane Ravitch: *The Death and Life of the Great American School System: How Testing and Choice Are Undermining Education* (New York: Basic Books, 2010) and *Reign of Error: The Hoax of the Privatization Movement and the Danger to America's Public Schools* (New York: Random House, 2013).
25. For more on the early history of economic policy in the United States, see Carl Bridenbaugh, *Cities in the Wilderness: The First Century of Urban Life in America, 1625–1742*, 2nd ed. (New York: Knopf, 1955); Gerald D. Nash, *State Government and Economic Development: A History of Administrative Policies in California, 1849–1933* (Berkeley: Institute of Governmental Studies/University of California, 1964), pp. 10–26; and Stuart Bruchey, *The Roots of American Economic Growth, 1607–1861: An Essay in Social Causation* (New York: Harper Torchbooks, 1968). For an interesting study of Jefferson's views, see Frank Bourgin, *The Great Challenge: The Myth of Laissez-Faire in the Early Republic* (New York: George Braziller, 1989), chaps. 7 and 8.
26. Arthur M. Okun, *The Political Economy of Prosperity* (New York: Norton, 1970); Herbert Stein, *The Fiscal Revolution in America* (Chicago: University of Chicago Press, 1969).
27. See Alan S. Blinder, *Economic Policy and the Great Stagflation*, student ed. (New York: Academic Press, 1981).
28. The idea of an emerging "new economy" is most often attributed to management theorist Peter F. Drucker. See his *The New Realities: In Government and Politics/In Economics and Business/In Society and World View* (New York: Harper & Row, 1989) and *Management Challenges for the 21st Century* (New York: HarperBusiness, 1999).
29. See Posner, *A Failure of Capitalism*.
30. For a readable and stimulating overview of the national debt issue, see Donald F. Kettl, *Deficit Politics: Public Budgeting in Its Institutional and Historical Context* (New York: Macmillan, 1992); see also David P. Calleo, *The Bankrupting of America: How the Federal Budget Is Impoverishing America* (New York: William Morrow, 1992).
31. All these figures rely on the most current U.S. budget as well as historical data. To get the exact amount of the national debt "to the penny" on any given day, visit http://www.publicdebt.treas.gov/.
32. See Calleo, *The Bankrupting of America*.
33. Both the financial bailout program (TARP) and a major increase in stimulus spending altered the traditional pattern. Thus, in 2013 the Federal debt went from $5.1 trillion in 2007 to $12.3 trillion, while household debt declined from $13.8 trillion in 2007 to $13.1 trillion and business debt increased only slightly from $10.1 trillion in 2007 to $11.3 trillion. Economists project that as the economy recovers, the traditional pattern of sectoral debt will return.
34. Data on outstanding sectoral debt are issued by the Federal Reserve System in its "Flow of Funds Accounts of the United States," issued annually. These can be found at http://www.federalreserve.gov/releases/z1/.
35. A growing number of analysts contend that although there is nothing inherently wrong with a national debt, it should be tolerated only if the indebtedness is targeted toward socially and economically beneficial "investments." See Benjamin M. Friedman, *Day of Reckoning: The Consequences of American Economic Policy Under Reagan and After* (New York: Random House, 1988). For a critical assessment of the problems posed by the growing debt and other factors, see Kevin P. Phillips, *American Theocracy: The Peril and Politics of Radical Religion, Oil, and Borrowed Money in the 21st Century* (New York: Viking, 2006).
36. I. M. Destler, *American Trade Politics: System Under Stress* (Washington, DC: Institute for International Economics, 1986).
37. One of the vigilant opponents was Ralph Nader's Public Citizen group, which established a Global Trade Watch site and continues to monitor the implementation and impact of NAFTA and other treaties. See the group's website at http://www.citizen.org/Page.aspx?pid=3147.

38. Based on discussion in Jan Aart Scholte, “Global Capitalism and the State,” *International Affairs* 73, no. 3 (1997): 427–452.
39. On tax incentives as public policy, see Barry Bosworth, *Tax Incentives and Economic Growth* (Washington, DC: Brookings Institution, 1984).
40. On industrial policy, see Otis L. Graham Jr., *Losing Time: The Industrial Policy Debate* (Cambridge, MA: Harvard University Press, 1992).
41. On supply-side economics, see Bosworth, *Tax Incentives and Economic Growth,* ch. 1.
42. The Ford Motor Company was the only one of the major U.S. automakers that did not have to be rescued by the federal government. When the financial markets collapsed, Ford happened to be in the midst of a major reorganization of its finances and found itself in a solid position at the very moment when financial markets froze. They were able to weather the recession without turning for help to Washington.
43. The act also provided for regulation of grain elevators. Later, the Interstate Commerce Commission was given jurisdiction over other forms of interstate transport, such as trucks, water carriers, and buses.
44. See Louis M. Kohlmeier Jr., *The Regulators: Watchdog Agencies and the Public Interest* (New York: Harper & Row, 1969).
45. See Phillip J. Cooper, *The War Against Regulation: From Jimmy Carter to George W. Bush* (Lawrence: University Press of Kansas, 2009). Also Larry N. Gerston, Cynthia Fraleigh, and Robert Schwab, *The Deregulated Society* (Pacific Grove, CA: Brooks/Cole, 1988).
46. See Susan J. Tolchin and Martin Tolchin, *Dismantling America: The Rush to Deregulate* (Boston: Houghton Mifflin, 1983).
47. The most significant legislation was Sarbanes-Oxley; see Melvin J. Dubnick, “Sarbanes-Oxley and the Search for Accountable Corporate Governance,” in *Private Equity, Corporate Governance and the Dynamics of Capital Market Regulation*, ed. Justin O’Brien (London: Imperial College Press, 2007), pp. 265–293.
48. See Johnson and Kwak, *13 Bankers*. On passage of Dodd-Frank, see Kaiser (note 14).
49. For details on environmental legislation, visit the EPA website at http://www2.epa.gov/laws-regulations. Also see Donald F. Kettl, *Environmental Governance: A Report on the Next Generation of Environmental Policy* (Washington, DC: Brookings Institution Press, 2002); for a global perspective, see Regina S. Axelrod, Stacy D. VanDeveer, and David Leonard Downie, *The Global Environment: Institutions, Law, and Policy,* 3rd ed. (Washington, DC: CQ Press, 2011).
50. Much of the discussion in this section relies on Kenneth J. Meier, E. Thomas Garman, and Lael R. Keiser, *Regulation and Consumer Protection: Politics, Bureaucracy & Economics,* 3rd ed. (Houston, TX: Dame Publications, 1998).
51. Information on the TSA can be found at www.tsa.gov.
52. Visit the FAA website at www.faa.gov.
53. See Theda Skocpol, *Protecting Soldiers and Mothers: The Political Origins of Social Policy in the United States* (Cambridge, MA: Belknap/Harvard, 1992). See also Sidney Fine, *Laissez Faire and the General Welfare State: A Study in Conflict in American Thought, 1865–1901* (Ann Arbor, MI: Ann Arbor Paperbacks, 1969), pp. 22–23, 360–361; Clarke A. Chambers, *Seedtime of Reform: American Social Service and Social Action, 1918–1933* (Ann Arbor, MI: Ann Arbor Paperbacks, 1963); and Robert Morris, *Social Policy of the American Welfare State: An Introduction to Policy Analysis*, 2nd ed. (New York: Longman, 1985).
54. For a general discussion of contemporary social welfare policy, see Theodore R. Marmor, Jerry L. Mashaw, and Philip L. Harvey, *America’s Misunderstood Welfare State: Persistent Myths, Enduring Realities* (New York: Basic Books, 1990).
55. From time to time, attention has been given to what some analysts term “corporate welfare” programs. These are programs that subsidize the activities of America’s large corporations and that can be associated with the industrial policies discussed in the Economic Development Policies section. The issue of corporate welfare made it onto the national agenda in late 1994 when then Department of Labor secretary Robert Reich gave a speech focusing attention on such programs. The Clinton White House quickly distanced itself from such talk. In 1997, however, a bipartisan and ideologically diverse coalition—including Ralph Nader and the National Taxpayers Union—joined forces with members of Congress to pursue an end to “corporate welfare.” The Nader group, Public Citizen, maintains a website monitoring corporate welfare at http://www.citizen.org/congress/welfare/. The Cato Institute, a libertarian-oriented think tank, has also adopted corporate welfare as an issue; see the http://www.cato.org/research/corporate-welfare.
56. For an overview of the “old” welfare system, see Thomas E. Patterson, *America’s Struggle Against Poverty, 1900–1980* (Cambridge, MA: Harvard University Press, 1981); U.S. House of Representatives, Committee on Ways and Means, *Overview of Entitlement Programs: 1994 Green Book* (Washington, DC: U.S. Government Printing Office, July 15, 1994).
57. See Murray, *Losing Ground*. See also Nathan Glazer, *The Limits of Social Policy* (Cambridge, MA: Harvard University Press, 1988). For a counterargument, refer to John E. Schwarz, *America’s Hidden Success: A Reassessment of Twenty Years of Public Policy* (New York: Norton, 1983). See also William Julius Wilson, *The Truly Disadvantaged: The Inner City, the Underclass, and Public Policy* (Chicago: University of Chicago Press, 1987).
58. For up-to-date information on SNAP, see http://www.fns.usda.gov/snap/supplemental-nutrition-assistance-program-snap.

59. For more information on Medicaid, visit http://www.medicaid.gov/index.html.
60. For more on the EITC, visit their website at http://www.irs.gov/Individuals/EITC-Home-Page-Its-easier-than-ever-to-find-out-if-you-qualify-for-EITC. Also see Bruce D. Meyer, "The Effects of the Earned Income Tax Credit and Recent Reforms," in *Tax Policy and the Economy*, ed. Jeffrey R. Brown, (Cambridge, MA: National Bureau of Economic Research, 2010), 153–180.
61. For an assessment of the 1996 reform and its results, see Keith M. Kilty and Elizabeth A. Segal, eds., *The Promise of Welfare Reform: Political Rhetoric and the Reality of Poverty in the Twenty-First Century* (New York: Haworth Press, 2006). The Urban Institute also conducted an ongoing assessment of the 1996 act as it was being implemented. See www.urban.org/Content/Research/NewFederalism/AboutANF/AboutANF.htm.
62. For a general overview of the American experience with social insurance programs, see Theodore R. Marmor, Jerry L. Mashaw, and John Pakutka, *Social Insurance: America's Neglected Heritage and Contested Future* (Thousand Oaks, CA: CQ Press, 2014). For information on social insurance program in other countries, see the SSA website, "Social Security Programs Throughout the World," http://www.ssa.gov/policy/docs/progdesc/ssptw/.
63. For up-to-date facts and figures on Social Security, see http://www.ssa.gov/policy/docs/chartbooks/fast_facts/. On unemployment insurance, see Chad Stone and William Chen, "Introduction to Unemployment Insurance," published online by the Center on Budget and Policies Priorities, updated July 30, 2014, http://www.cbpp.org/cms/index.cfm?fa=view&id=1466.
64. Detailed data on Medicare coverage and related topics is found at http://www.cms.gov/Research-Statistics-Data-and-Systems/Research-Statistics-Data-and-Systems.html.
65. The study, published in the *New England Journal of Medicine*, is found at http://www.nejm.org/doi/full/10.1056/NEJMsr1406753. CBO tracking of the Affordable Care Act and related programs is found at http://www.cbo.gov/topics/health-care.
66. On the politics of dealing with that crisis, see Paul Light, *Artful Work: The Politics of Social Security Reform* (New York: Random House, 1985).
67. The Concord Coalition has posted its assessments of Social Security, as well as its proposals for reform, at http://www.concordcoalition.org/issue-page/social-security.
68. See Max J. Skidmore, *Social Security and Its Enemies: The Case for America's Most Efficient Insurance Program* (Boulder, CO: Westview Press, 1999). For the latest projections of trust fund solvency, see the annual Trustees Report, posted at www.ssa.gov/OACT/TR/.
69. For an analysis of the proposals for reform by the Government Accountability Office, see http://www.gao.gov/products/GAO-11-125.
70. Benjamin I. Page and James Roy Simmons, *What Government Can Do: Dealing with Poverty and Inequality, American Politics and Political Economy* (Chicago: University of Chicago Press, 2000).
71. For a discussion of the view that government may be a necessary good, see Wills, chap. 24.