

16

Economic and Social Welfare Policymaking

□ Chapter Overview

Domestic economic and social policy is at the heart of many contemporary political debates in the United States. From health care and education to Social Security and the budget deficit, American politics is often characterized by sharp differences in policy preferences. In this chapter, we examine some of these contemporary debates. We begin by exploring the economic policies of the American government. We then turn to analyze domestic social policy in the United States. We contrast entitlement and means-tested welfare programs. We assess the extent of economic inequality in the United States and consider the role of the government in militating against growing inequality. Next, we consider the politics of public policy, examining both the major welfare programs in the United States and the politics of Social Security and welfare reform. We conclude by distinguishing the American social welfare system from those of other established democracies and by exploring the impact of social and economic policy on democracy in the United States. By the end of the chapter, students should have a well-rounded understanding of domestic economic and social policy in the United States across a wide variety of issues.

□ Study Outline

16.1

Learning Objective 16.1: Identify the main policy tools that American government can employ to address economic problems, and contrast Keynesian and supply-side economics. (p. 550)

Economic Policymaking

- The new U.S. economy is deep in the challenges and opportunities of globalization, but, through rules and regulations, the federal government plays a major role as well.
- Economic conditions affect both voting behavior and presidential approval; they are the best single predictor of voters' evaluation of how the president is doing his job.
- But voters tend to assess the overall rate of employment and unemployment more than their individual circumstances.
- Democrats are more likely to stress the importance of keeping unemployment low, whereas Republicans are worried about inflation.
- This difference in priorities reflects their constituencies.
- Unemployment occurs when there are not enough jobs and it is measured by the **unemployment rate**.
- The Democratic coalition consists of groups concerned with unemployment (labor and the lower classes).
- Democrats generally sacrifice higher inflation to keep unemployment down.
- **Inflation** occurs when prices rise and inflation is measured by the **Consumer Price Index (CPI)**.
- The Republican coalition includes businesspeople who are concerned about the cost of goods and services.
- Republicans generally try to prevent inflation, even at the risk of rising unemployment.

Policies for Controlling the Economy

Monetary Policy and the "Fed"

- **Monetary policy** is monitoring and controlling the amount of money in circulation based on the economic theory known as monetarism, which states that controlling the money supply is the key to controlling the economy.
- **Monetarism** is an economic theory holding that the supply of money is the key to nation's economic health; if there is too much available cash or credit, inflation occurs.
- The **Federal Reserve System** (the Fed) was created to manage monetary policy.
- Its board of governors is appointed by the president and confirmed by the Senate, but operates fairly independently.
- The Federal Open Market Committee is the most important body within the Federal Reserve; it decides how monetary policy is carried out.
- The Fed regulates monetary policy by influencing the rate at which loans are given, which influences decisions about borrowing; by controlling the amount of money banks have available, and, in turn, the rate at which people can borrow; and by adding to the money supply by selling bonds.

Fiscal Policy: Keynesian Versus Supply-Side Economics

- **Fiscal policy** is regulating revenues and expenditures through the federal budget; determined by Congress and the president.
- **Keynesian economic theory** encourages government's active participation in the economy.
- Keynesians argue that government spending and tax cuts stimulate the economy by creating demand. This is known as expansionary fiscal policy.
- The government can decrease demand to control inflation by cutting spending and increasing taxes, which is known as contractionary fiscal policy.
- **Supply-side economics** holds that by decreasing government involvement in the economy, people will be forced to work harder and save more.
- Cutting taxes increases investment and the supply of goods, which promotes growth.

- The economic philosophy which is in direct contradiction to monetary and fiscal policy is known as *laissez-faire*, which is the principle that government should not meddle in the economy.

Why It Is Hard to Control the Economy

- Some believe that presidents manipulate the economy for short-run advantage to win elections, called the “political business cycle.”
- It is difficult to predict the economy far enough in advance to make and implement policy.
- Also, the economy is grounded in billions of private sector decisions, which are harder to regulate than government policy.

16.2

Learning Objective 16.2: Compare and contrast entitlement and means-tested social welfare programs. (p. 558)

Types of Social Welfare Policies

- Most government funds are given through **entitlement programs** to people who are not poor.
- These programs provide benefits to individuals regardless of need.
- The two main entitlement programs, Social Security and Medicare, are the largest and most expensive social welfare programs in America.
- **Means-tested programs**, such as the Food Stamp Program and Medicaid, provide benefits only to people with specific needs.
- Eligibility for these depends on how narrowly “poverty” is defined.
- Means-tested programs generate much political controversy, with the positions taken depending largely on how people see the poor and the causes of poverty.

Learning Objective 16.3: Assess the extent of economic inequality in America and the role of government in lessening it. (p. 559)

Income, Poverty, and Public Policy

- **Income distribution** is the way the national income is divided into “shares” ranging from the poor to the rich.
- A perception by an individual that he or she is not doing well economically in comparison to others is known as **relative deprivation**.
- The rich have not only more **income** (the amount of money collected between two points in time) but also greater **wealth** (the value of assets including bank accounts, stocks, homes, and other assets).
- A small number of Americans—1 percent of the total population—possess more than one-third of all wealth in the United States.
- The assets of that 1 percent are actually higher than the total worth of 90 percent of Americans.
- Poverty is defined by the government as family income that falls below the **poverty line**.
- Counts underestimate poverty, because millions of people hover around the line and continually fall just below or rise just above it.
- African Americans, Hispanic Americans, people living in inner cities, and unmarried women tend to be the groups most afflicted with poverty.
- The increase in the incidents of women and their children living in poverty is referred to as the **feminization of poverty**.

How Public Policy Affects Income

- There are three main types of taxes.
 - **Progressive taxes** tax the wealthy at a higher rate.
 - Everyone is taxed at the same rate in **proportional taxes**.
 - **Regressive taxes** tax people of lower incomes at a higher rate.
- **State sales taxes** are somewhat regressive, but the effect is counterbalanced by progressive federal income taxes.

- **Earned Income Tax Credit:** This program provides very low-income workers with a cash credit, even if they paid no federal income tax.
- Through **expenditures, transfer payments** are given directly to citizens by the government.
 - Examples are food stamps, financial aid grants, and Social Security and Medicare benefits.
 - The elderly receive the most in transfer payments through Social Security.

16.4

Learning Objective 16.4: Trace the changes over time in major federal welfare programs. (p. 566)

Helping the Poor? Social Policy and the Needy

- The **Great Depression** proved that poverty can be beyond anyone's control and encouraged the government to become more involved in welfare.
- Social Security began under the **New Deal (Social Security Act of 1935)**; the poor become a part of the Democratic Party coalition.
- President Johnson initiated many **Great Society** programs to fight the **War on Poverty** during the civil rights era.
- President Reagan cut the growth of many of these programs in the 1980s.
- The system underwent a major overhaul during the Clinton administration (**Personal Responsibility and Work Opportunity Reconciliation Act of 1996**).
- Under the reforms, families receive small payments with a maximum of two years to find employment, people have a lifetime maximum of five years on welfare, and states have more latitude and discretion in operating their own welfare programs.
- Welfare reform brought with it a name change for the cash payments to families from **Aid to Families with Dependent Children (AFDC)** to **Temporary Assistance for Needy Families (TANF)**.

16.5

Learning Objective 16.5: Outline how America's Social Security program works and the challenge of keeping it financially solvent in the coming years. (p. 569)

Social Security: Living on Borrowed Time

- Social Security has lifted many elderly out of poverty.
- The government taxes employees and their employers a percentage of the employee's income, up to a maximum contribution, and these are deposited into the **Social Security Trust Fund**.
- Both employee and employer contributions are paid into the Social Security Trust Fund, from which benefits are paid.
- Currently, there are about three workers per recipient, and benefits and contributions are balanced.
- But it is possible that the system will go bankrupt during the 21st century.
- More people will be of retirement age, fewer people will be working, and the cost of living is rising, so monthly payments will increase.
- Either taxes will have to be raised or benefits will have to be cut.

16.6

Learning Objective 16.6: Distinguish American social welfare policy from that of other established democracies. (p. 571)

Social Welfare Policy Elsewhere

- Most established democracies have more expensive and generous social welfare programs than does the United States.
- In particular, European governments provide citizens with benefits, such as paid parental leave upon the birth of a child, that are unheard of in the United States.
- Taxes in Europe have to be higher than taxes in the United States in order to pay for these benefits.

16.7

Learning Objective 16.7: Assess the impact of economic and social welfare policies on democracy and the scope of government in America. (p. 572)

Understanding Economic and Social Welfare Policymaking

- As in most policy arenas, groups with ample political resources tend to get more of what they want in the battle over social welfare policies.
- The elderly have been very successful in preserving their Social Security and Medicare benefits, whereas the poor have faced difficulties in preserving welfare funding.
- The growth in social welfare spending, particularly for Social Security and Medicare, accounts for much of the increase in the scope of government in recent decades.

For Additional Review

Create a list of the main policy tools the government can use to address economic problems in the United States. For each tool, describe HOW and WHEN that tool can be used to address economic problems. Use this list when studying for the unit test and when preparing for the AP Government and Politics exam.

Create a chart demonstrating the economic inequality which exists in the United States, i.e. groups living below the poverty level. List the ways the government attempts to lessen this inequality and identify the program as an entitlement or a means-tested social welfare program. Use this list chart when studying for the unit test and when preparing for the AP Government and Politics exam.

□ Review Questions**Multiple-Choice Questions**

1. _____ refer(s) to the “shares” of the national income earned by various groups.
 - a. Entitlements
 - b. Income distribution
 - c. Wealth
 - d. Taxable income
 - e. Profits