Unit Two: Lesson #6

- Political Ideology & Policy
- Types of Economic Policy
- Economic Theories
- Political Ideologies on Trade
- Social Policy (Social Welfare)
- Mandatory Spending & Entitlements
- Labor
- Government & Privacy
Public Policy is the set of laws, regulations, funding practices, executive actions, and court rulings that government implements to address various problems.

Political Ideology has a direct impact on public policy:

<table>
<thead>
<tr>
<th>Liberals</th>
<th>Conservatives</th>
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<tbody>
<tr>
<td>Greater government intervention/regulation to solve problems:</td>
<td>Smaller less involved government to avoid wasteful spending.</td>
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<tr>
<td>✓ Civil rights: LGBT Rights</td>
<td>Focus on:</td>
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<tr>
<td>✓ Civil Liberties: Gun control</td>
<td>✓ Strong national defense</td>
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<td></td>
<td>✓ Limited regulation of business</td>
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<td></td>
<td>✓ Maintaining cultural traditions</td>
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Economic Policy

Most people have 3 desires for government services:

- Lower taxes
- No national debt
- Enhanced government services

SOLUTION:

Raise taxes on OTHER people = “sin taxes”
- alcohol
- cigarettes

Doing all 3 of these is IMPOSSIBLE!
TYPES OF ECONOMIC POLICY

1. **Fiscal Policy:** Government decisions about how to influence the economy by government taxing and spending

   - Legislative Branch and Presidential pressure)

2. **Monetary Policy:** Government decisions about how to influence the economy using control of the money supply and interest rates.

   - U.S. Federal Reserve Board: Also called “The Fed.” It is an independent federal agency that determines US monetary policy with the goal of stabilizing the banking system and promoting economic growth
ECONOMIC THEORIES

Varying views on the role of government and regulation of the economy are based on different economic theories that are aligned to political ideologies:

1. **Keynesian Economics (liberal theory)**: It’s the government’s job to monitor supply & demand. When demand is low, government should put more $ into the economy by reducing taxes and/or increasing gov. spending to promote economic growth. If demand is too high, the government should tax and/or decrease gov. spending more to take $ out of the economy (curb inflation)

   - **WHY?** Which President was first to make the federal government the primary source of economic solutions instead of the marketplace?
2. Supply-Side Economic Theory (conservative theory): Predominant during the Presidency of Ronald Regan. Belief that the government should leave as much of the money supply as possible with the people, letting the laws of the marketplace (supply/demand) govern the economy. “laissez-faire” (let it be) or “free market theory.”

- Less taxes leaves $ in people’s pockets
- 2017 Donald Trump enacted the “Tax Cuts & Jobs Act” which overhauled the tax code, temporarily lowered taxes for individuals and permanently lowered taxes for corporations

**WHY?**

What would Libertarians want for an Economic theory?
Globalization is the process of an ever-expanding and increasingly interactive world economy. The US government (mostly through Congress) can decide to increase or decrease this trade.

- If you export more than you import you have a “favorable trade balance.”
- Congress imposes IMPORT duties (taxes)…WHY?
- Article 1, section 9 of the Constitution forbids Congress from taxing exports…WHY?

NAFTA: North Atlantic Free Trade Agreement: 3 largest N. American countries (US, Canada, & Mexico) removed import duties among these powers.

- Labor v. Corporation fight….WHY?
- Globalization = decrease poverty & enhance quality of life in other countries, open new US markets.
- “Out Sourcing” of US jobs
The preamble to the Constitution declares that the government will “promote the general welfare” of its citizens.

- Obviously, political ideology is a key factor in how this is interpreted.

There are generally 3 goals for social policy:
1. Protection against risk & insecurity
2. Promotion of equal opportunity
3. Assistance for the poor

There is a reasonable consensus in #1, but #2 sees less consensus, and #3 is the most divisive.
Politics and Economics

Policies are great but how do we pay for all of it?

- **Deficit**: when expenditures (expenses) exceed revenues (income)
- **National debt**: the total amount of deficits we have had since George Washington was president

Debt is currently about 40% of GDP

- People want lots of programs, but do not want to pay for them
HOW MUCH SHOULD GOVERNMENT BE INVOLVED

No involvement?

Laissez-Faire – Hands off, let the market correct for everything Supply-Side Economic Theory (conservative theory):

Complete involvement?

Regulatory – government makes sure that the economy and citizens are safe at times Keynesian Economics (liberal theory):

Somewhere in the middle?
Policy-Making Process:

1. **Agenda setting** – problems are defined as political issues that gov’t needs to take action on must be seen as a serious political problem; elected officials put an issue on the agenda if they’ll get political benefits or if they think political costs of doing nothing are too high.

2. **Policy formulation** – formal proposals are developed & a decision is made whether or not to adopt one of those.

3. **Adopting the policy** – action by the government through executive order, agency regulations, congressional legislation or court decision.

4. **Implementation** – carrying out the policy; make sure people/businesses know about new regulations & give time for compliance; come up with penalties & enforcement; involves bargaining between different interest groups & levels of government through hearings, comment periods, etc.

5. **Policy evaluation** – analysis of policy to see how well it is working (both public officials & private organizations are involved; feedback through studies to see good & bad consequences; could fine-tune or even throw out policy; starts again).
TOOLS USED BY GOVERNMENT AGENCIES to obtain vital statistics

- The **UNEMPLOYMENT RATE** shows the percentage of people who are actively seeking a job and can't get one.

- The **CONSUMER PRICE INDEX (CPI)** is the market basket of goods and services purchased. It also measures inflation.

- The **GROSS NATIONAL PRODUCT (GNP)** is the total output of goods and services produced by labor and property located in the U.S.

- The **GROSS DOMESTIC PRODUCT (GDP)** is the monetary value of all the goods and services produced within the nation.
Federal Budget

The federal budget is a huge part of determining the direction the government is taking regarding public policy. The Constitution provides a few guidelines about the budget.

<table>
<thead>
<tr>
<th>CONSTITUTIONALITY</th>
<th>DESCRIPTION</th>
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| Article 1, Section 8, Clause 1 | • Congress is given the power to lay and collect taxes  
• Pay debts  
• Provide for the common defense and general welfare |
| Article 1 | • Gives the House of Representatives the power to initiate the process of passing all appropriations (money bills)  
• Establishes power of Congress to impose excise taxes in the form of tariffs  
• Congress has the power to borrow money on the credit of the U.S.  
• Congress can appropriate only money that is budgeted |
| Article 1, Section 9 | • Prohibits excise tariffs (no taxing US exports) |
| 16th Amendment | • Income tax is the only direct tax levied |
| McCulloch v. Maryland | • States cannot tax the federal government |
Social Policy & “Social Welfare”

Social Welfare: Support for disadvantaged people to meet their basic needs:

- New Deal (1930’s) - Great Society (1960’s) - Patient Protection & Affordable Care Act (2010) AKA “Obamacare”

There are consequences for a society that has a huge gap between the rich and the poor. The controversy revolves around the role the government should play in leveling this gap.

Taxes: Taxes are the major source of income for all levels of government. There are three basic types of personal taxes: - Progressive taxes - Regressive taxes - Proportional taxes

Another debate is which type of tax should be used to gain revenue as well as what programs should be eliminated as a part of our social policy.
**TAX SYSTEM**

**Progressive taxes** – The more you make, the more you pay. Poor pay less than rich. Income tax brackets rise as income rises

**Regressive taxes** – taxes with a cap, therefore people with low income take a larger hit because they have less discretionary income: Social Security taxes only the first $117,000. Any money after that is tax free

**Proportional taxes** - everyone pays the same percentage of taxes regardless of income.

Which is more fair?

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**U.S. income tax is progressive, but enough to be ‘fair’?**

*2015 individual income tax statistics, by adjusted gross income*

<table>
<thead>
<tr>
<th>Adjusted gross income</th>
<th>Share of all returns filed</th>
<th>Share of all paid income taxes</th>
<th>Avg. effective tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2M or more</td>
<td>0.1%</td>
<td>20.4%</td>
<td>27.5%</td>
</tr>
<tr>
<td>$500K to &lt;$2M</td>
<td>0.8</td>
<td>17.9</td>
<td>26.8</td>
</tr>
<tr>
<td>$200K to &lt;$500K</td>
<td>3.6</td>
<td>20.6</td>
<td>19.4</td>
</tr>
<tr>
<td>$100K to &lt;$200K</td>
<td>12.3</td>
<td>21.7</td>
<td>12.7</td>
</tr>
<tr>
<td>$50K to &lt;$100K</td>
<td>21.8</td>
<td>14.1</td>
<td>9.2</td>
</tr>
<tr>
<td>$30K to &lt;$50K</td>
<td>17.5</td>
<td>4.0</td>
<td>7.2</td>
</tr>
<tr>
<td>Less than $30K</td>
<td>43.8</td>
<td>1.4</td>
<td>4.9</td>
</tr>
</tbody>
</table>

Note: For each income group, “effective tax rate” is defined as the total income tax due as a percentage of total adjusted gross income, on returns with tax liability. Share totals may not equal 100% due to rounding. 
Source: Pew Research Center analysis of Internal Revenue Service data.
Entitlement Programs – Are those government services Congress has promised by law to citizens. These are MAJOR contributors to both annual deficits and the overall debt.

#1 The largest entitlement program is Social Security

- FDR – Social Security Act (1935) – old age pension but also helps the blind and dependent children.

#2 Medicare – Healthcare for elderly

#3 Medicaid – Healthcare for the poor