Chapter Fourteen: Domestic and Economic Policy
Learning Outcomes

1. Describe the five steps of the policymaking process, using the health-care reform legislation as an example.

2. Explain why illegal immigration is seen as a problem, and cite some of the steps that have been taken in response to it.

3. Discuss recent developments in crime rates and incarceration.
4. Evaluate the federal government’s responses to high oil prices and the controversy over global warming.

5. Define unemployment, inflation, fiscal policy, net public debt, and monetary policy.

6. Describe the various taxes that Americans pay, and discuss some of the controversies surrounding taxation.
The Policymaking Process

- Domestic policy: all laws, government planning, and government actions that concern internal issues of national importance
  - Regulatory policy
  - Redistributive policy
  - Promotional policy
The Policymaking Process: Health Care as an Example

Policymaking steps:

1. Agenda building
2. Policy formulation
3. Policy adoption
4. Policy implementation
5. Policy evaluation
Health Care: Agenda Building

- Health care 18% of total U.S. economy
- U.S. health care spending higher than almost anywhere in world
- Medicare and Medicaid provide primary medical benefits for one-third of nation
Percentage of Total National Income Spent on Health Care in the United States

Sources: U.S. Department of Commerce; U.S. Department of Health and Human Services; Deloitte and Touche LLP; VHA, Inc.; and Centers for Medicare and Medicaid Services.
The Policymaking Process: Health Care as an Example

- Health Care: Agenda Building
  - Medicare
    - Benefits for ages 65+
    - Second largest domestic spending program
    - Some arbitrary caps on reimbursement
  - Medicaid
    - Benefits for working poor
    - Significant expansion in last decades
    - Today, 60 million enrollees
    - States pay large portion of costs

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Health Care: Agenda Building

- Problem of the uninsured
  - 49 million Americans
  - Young, often in entry-level jobs
  - Many small businesses do not offer health insurance
The Policymaking Process: Health Care as an Example

- Health Care: Agenda Building
  - Problem of high costs
    - High costs, still increasing
    - Significant problem for elderly population and therefore, government providers
    - Medicare trust fund in danger
  - The international experience
    - Universal health insurance common in most advanced industrialized countries
Cost of Health Care in Economically Advanced Nations

Health Care: Policy Formulation

- Policy proposals discussed by government officials, media and public
- Long-term political issue
- Universal coverage mandate (not federal insurance monopoly)
Health Care: Policy Adoption

- President Obama delegated plan drafting to Congress
- High political costs
- Mandated coverage issue
  - Individual mandate
  - New taxes
- Public reaction
The Policymaking Process: Health Care as an Example

- Health Care: Policy Adoption
  - Passage
    - Democratic support enabled House to pass Senate version
    - No Republican support of final bill
  - Details of legislation
    - Lengthy implementation
    - Young adult coverage immediate
    - Most provisions to be phased in
Health Care: Policy Implementation

- Government actions involve bureaucrats, courts, police and citizens
- Health care implementation complicated by conservative resistance
  - Repeal requires support of House/Senate
  - Most of policy initiatives will survive
Health Care: Policy Evaluation
- Most reforms not yet implemented
- Opponents want repeal
- Little evaluation to date
Immigration

- High rates of legal and illegal immigration
  - Immigrants now about 13% of population
  - Most from Latin America or Asia
  - Minority groups projected to become majority by 2050
- Positive or negative influence?
Immigration

- Issue of unauthorized immigration
  - Majority Latin Americans
  - Usually seeking work
  - More laws against unauthorized workers
  - Citizen concerns about law and crime
Immigration

- Immigration controversies
  - Americans have conflicting views
  - Most don’t see as priority issue
  - But minority have very strong feelings
    - Partisan differences
    - State immigration laws
Crime in the Twenty-First Century

- Crime and prisons a major issue
- Crime in American history
  - Civil War mob violence and riots
  - Prohibition-era crime wave
  - Growth in violent crime in 1960s
  - Some decline since 1995
Homicide Rates and Violent Crime Rates

![Graph showing homicide rates and violent crime rates from 1905 to 2015.](image)

Sources: U.S. Department of Justice; and National Center for Health Statistics, Vital Statistics.

![Graph showing adjusted victimization rates per 1,000 persons age 12 and over from 1973 to 2013.](image)

Sources: U.S. Department of Justice; rape, robbery, and assault data are from the National Crime Victimization Survey; the homicide data are from the Federal Bureau of Investigation's Uniform Crime Reports.

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The prison population bomb

- Many feel prison best solution
- Incarceration rate higher for men, and African Americans
- 1 of every 100 males in jail or prison
- Prison construction and conditions
  - Many over capacity
Incarceration Rates per 100,000 Persons for Selected U.S. Population Groups

Incarceration Rates around the World

Source: International Centre for Prison Studies, King’s College London.
Energy and the Environment

- Energy policy focuses on reliance on foreign oil and global warming
- Energy independence
  - U.S. imports 43% of petroleum consumed (down from 60%)
  - Reliance on foreign oil decreasing
Energy and the Environment

- High prices and new production
  - Gasoline prices rising
  - Impact of fracking
  - Politics of expensive oil
- Disasters in the energy industry
  - BP Deepwater Horizon
  - Japanese tsunami
Energy and the Environment

- Global warming
  - Disagreement over specifics
  - Political issue
  - Disbelief is partisan phenomenon
  - Legislative stalemate
The Politics of Economic Decision Making

- Good times, bad times
  - Recession (increased unemployment)
    - Measures don’t reflect “hidden unemployed” or discouraged workers


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The Politics of Economic Decision Making

- Inflation
  - Sustained upward movement in prices
  - Decline in purchasing power over time
  - Consumer price index (CPI)
  - Today’s dollar = 1913 nickel

- The business cycle
Fiscal policy
- Controlled by Congress
- Keynesian economics favors government spending and taxing
  - Discretionary fiscal policy

Criticisms of Keynes
- Many feel has no effect or negative effect
- Government should stick to monetary policy
The Politics of Economic Decision Making

- Deficit spending and the public debt
  - Borrowing by selling treasuries
    - Adds to national debt
    - Foreign governments own 50% of U.S. debt
  - Deficit spending
- Public debt in perspective
  - Gross public debt
  - Net public debt
### Table 14-1  ▶ Net Public Debt of the Federal Government

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<th>Year</th>
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<td>2013</td>
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</tbody>
</table>

The Politics of Economic Decision Making

- **Monetary policy**
  - Controlled by Federal Reserve
    - Regulates money in circulation
    - Bank transfer system
    - Holds monetary reserves
    - Supervises banking industry
The Politics of Economic Decision Making

- Organization of Federal Reserve System
  - Board of governors
  - Twelve district banks
  - Federal Open Market Committee
  - Independent
- Loose and tight monetary policy
- Regulating banks
The Politics of Taxes

- Federal income tax rates
  - Rates set by Congress
  - Marginal tax rate
  - Higher rates = higher incentives for change

- Loopholes and lowered taxes
  - Progressive tax
  - Regressive tax
Total Amount of Taxes Collected as a Percentage of Gross Domestic Product (GDP) in Major Industrialized Nations

Source: Excerpted and adapted from the Organization for Economic Cooperation and Development.
The Politics of Taxes

Progressive Taxes
- Federal income tax
- State income tax
- Federal corporate income tax
- Estate tax
- Medicare tax

Regressive Taxes
- Social Security tax
- State sales tax
- Local real estate taxes
Choose a recent issue in domestic policy and trace its steps through the process of policymaking. In your opinion, out of all the policy proposals discussed, what policy would you have adopted?
Questions for Critical Thinking

★ Is an amnesty program (with a deadline date) the best solution to solving the problem of immigration? What would the United States look like without illegal immigrants?
Why are so many states and the federal government building prisons and not working on institutional mechanisms to prevent those released from returning to crime?
Do you think there should be a ban against foreign corporations and individuals purchasing U.S. Treasury Bonds? Does that present a conflict between a country who has a lot of debt and one that owns the debt?
Is Keynesian economic theory relevant today? How would he explain the large debt that exists today?
Do you believe a flat tax is a better alternative to income taxes based on a sliding scale?