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Economic and Social Welfare Policymaking

Politics in Action: The Debate over the Ryan Budget Plan

When Paul Ryan (R-WI), the chair of the House Budget Committee, introduced a budget plan for 2012–2013 that called for major cuts in social welfare spending, he caused a stir with his comments about the impact of economic aid to poor people in America. Too many Americans, Ryan said, are receiving more from the government than they pay in taxes. There is, an "insidious moral tipping point, and I think the president is accelerating this." After recalling his family's humble beginnings in America as poor Irish immigrants and his belief in the virtue of people who "pull themselves up by the bootstraps," Ryan warned that a generous safety net "lulls able-bodied people into lives of complacency and dependency, which drains them of their very will and incentive to make the most of their lives. It's demeaning." Hence his proposal to reduce the size of the federal budget deficit included substantial cuts in social welfare spending.

These comments by Representative Ryan were in line with a long tradition of skepticism among conservatives about the effectiveness of social welfare programs. Conservatives have long argued that the welfare programs instituted under Lyndon Johnson's Great Society program

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16.2 Compare and contrast entitlement and means-tested social welfare programs, p. 558.

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16.6 Distinguish American social welfare policy from that of other established democracies, p. 571.

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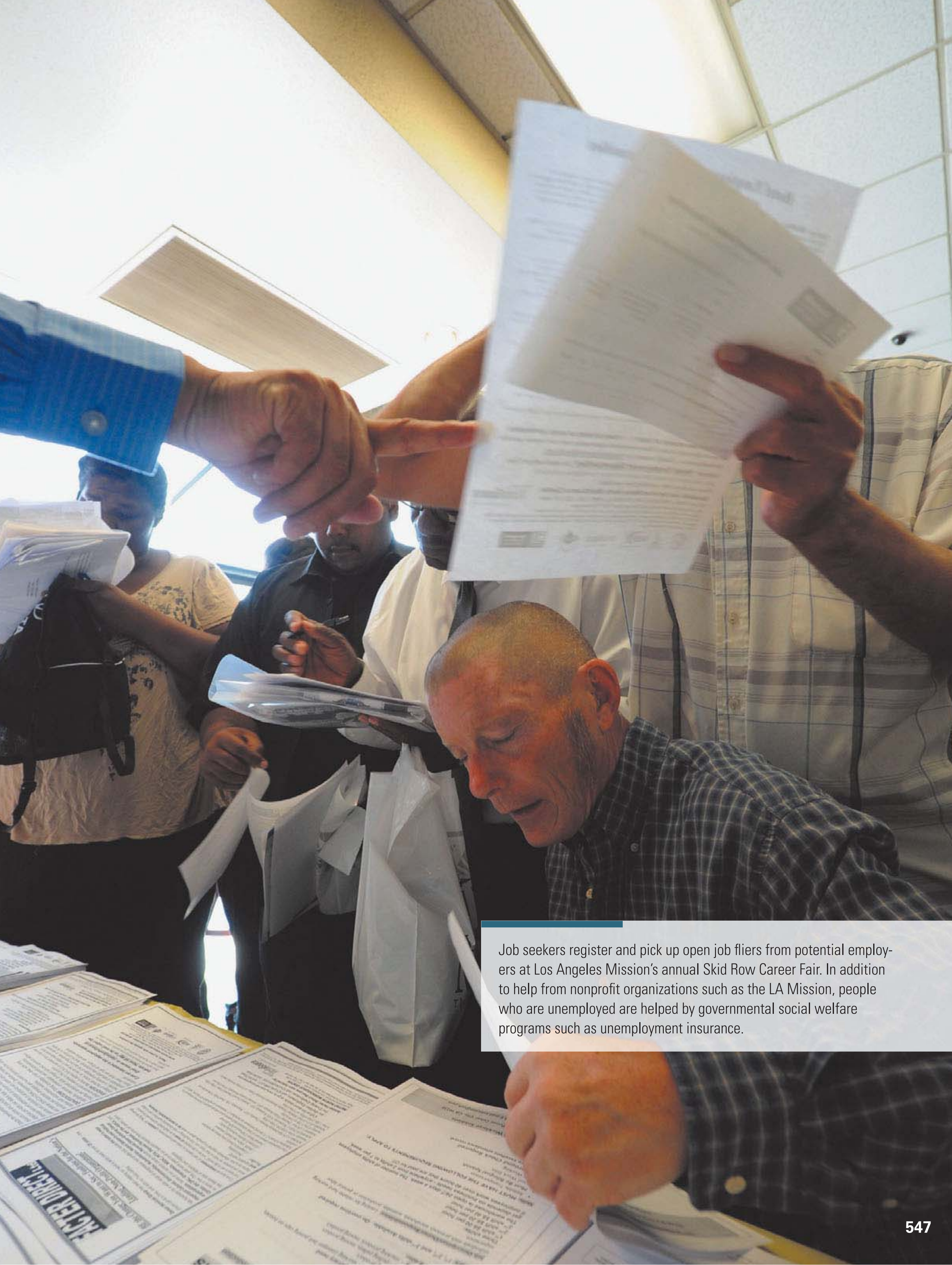

Job seekers register and pick up open job fliers from potential employers at Los Angeles Mission's annual Skid Row Career Fair. In addition to help from nonprofit organizations such as the LA Mission, people who are unemployed are helped by governmental social welfare programs such as unemployment insurance.

MyPoliSciLab Video Series

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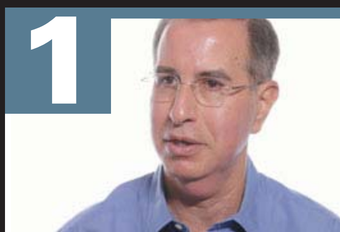
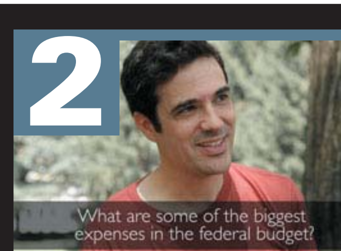


The Big Picture Nothing divides Democrats and Republicans more than the debate over how the government should tackle the economy and social welfare spending. Author Martin P. Wattenberg explains how both parties share the same goal to improve the country for everyone, yet they disagree totally on how to achieve it.

The Basics Watch this video to learn why economic policy is so complicated in the United States. Find out how policies developed to solve new challenges that arose from industrialization. Then, consider whether you should be worried about the national debt.



In Context Is your personal budget like the federal budget? If not, how is it different? University of Oklahoma political scientist Alisa H. Fryar breaks down the complexities of the federal budget and explains how the study of economic policy is changing in a more globalized society.

Thinking Like a Political Scientist Was the federal government wise to provide tax cuts during the most recent economic recession? University of Oklahoma political scientist Alisa H. Fryar examines how researchers determine the answer to these and other economic policy questions. She also explores the challenges state and local governments face in achieving their economic goals.

In the Real World Should the wealthy pay a larger percentage of their income in taxes than people with lower incomes? Real people tackle this central question, and they weigh in on what they believe is the fairest system of taxation and what tax reforms need to be made in the United States.

So What? How does American government compare to governments in other industrialized western countries? Author Martin P. Wattenberg boils the differences down to three Gs–God, guns and government—and he explains how these can be seen as the key to America's success and the root cause of our problems.

have done more harm than good. They see these programs as having created a culture of poverty that leaves too many struggling Americans dependent on government assistance. A safety net is one thing, a hammock is another, they argue. Because of this skepticism, Mitt Romney, for example, held that the Ryan budget "does not balance the budget on the backs of the poor."

Democrats could scarcely have disagreed more. President Obama characterized the Ryan proposal as promoting a "you're-on-your-own" approach to economic and social welfare policymaking. "If you're born into poverty, lift yourself up out of your own—with your own bootstraps, even if you don't have boots; you're on your own," Obama said in remarks directed at the Ryan budget. "Hey, they believe that's how America has advanced. That's the cramped, narrow conception they have of liberty." Obama and Democratic leaders in Congress argued that the current level of social welfare spending represented a necessary helping hand for those in need. In their view, the budget should not be balanced by cutting programs that lower-income Americans have relied on, such as Medicaid, food stamps, and Pell education grants.

The Ryan budget proposal also illustrated a basic difference between the parties with regard to economic policymaking. An integral part of the proposal was cuts in the rate of taxation for people at all income levels, including the wealthiest Americans. From the Republican point of view, lower tax rates combined with lower social welfare spending would increase economic growth and be better for everyone. Democrats disagreed strongly, responding that the rich shouldn't be getting tax cuts while social programs for the poor are being scaled back and that higher taxes on the wealthy were needed to help reduce the budget deficit.

As you will see in this chapter, questions of economic and social welfare policy involve not only matters of compassion but also matters of effectiveness. As with so many other public policies, there are those who believe the government should do more and others who believe the government only makes things worse. Everyone would like to see America on "The Path to Prosperity," as Ryan titled his budget proposal; they just disagree about how economic and social welfare policy can and should be used to achieve this goal.

Liberals and conservatives often disagree about how the government can best promote economic growth, as we will see in this chapter, but everyone agrees that the government must play an important role in guiding the economy. The United States has a capitalistic economic system, in which individuals and corporations own the principal means of production and compete in a free market to reap profits, with this competition determining the amount of production and prices. However, the American economic system was never one of pure capitalism. Instead, from the beginning, the country has had a *mixed economy*, in which capitalism coexists with and is tempered by government involvement in the economy. And few areas of public policy so directly touch on the fundamental questions of "who gets what, when, and how" as policies that attempt to guide the economy.

The United States is a diverse nation whose citizens and groups achieve quite different levels of economic success. The fact that such inequality exists in American democracy, however, raises important political questions: What are the economic differences among Americans, and why do they exist? Are they acceptable? What role should the government play in helping those who are less fortunate? What are the most effective government policies? The answers that Americans provide to these questions determine the nation's approach to **social welfare policies**. Social welfare policies attempt to provide assistance and support to specific groups in society through cash and other benefits. Who gets these benefits and what level of support is provided are issues that must be resolved by the political system. How America resolves these issues depends on how its leaders, political parties, interest groups, and citizens view the nature and distribution of poverty, the role of government, and the effectiveness of various social welfare programs.

social welfare policies
Policies that provide benefits, cash or in-kind, to individuals, based on either entitlement or means testing.

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unemployment rate
As measured by the Bureau of Labor Statistics, the proportion of the labor force actively seeking work but unable to find jobs.

Explore on **MyPoliSciLab Simulation**: You Are a Federal Reserve Chair

Economic Policymaking

16.1 Identify the main policy tools that American government can employ to address economic problems, and contrast Keynesian and supply-side economics.

Perhaps the most famous saying from any recent presidential campaign was the 1992 Clinton campaign's "It's the economy, stupid." In running against incumbent president George H. W. Bush, Bill Clinton constantly hammered home his message that Bush wasn't using the power of the federal government to try to alleviate the economic pain of the middle class. Like most politicians, Clinton knew that voters pay attention to what President Truman called "the most sensitive part of their anatomies," their pocketbooks. Countless studies by political scientists have reaffirmed the wisdom of Truman's observations about voters and their pocketbooks. Summarizing a generation of research, two political scientists put it plainly: "There is little doubt that economic conditions profoundly affect voters' electoral decisions."[1] Economic conditions are the best single predictor of voters' evaluation of how the president is doing his job.[2]

With all the bad economic news in 2008, the presidential election of that year was no exception to the rule of the centrality of economic issues. As Lewis-Beck and Nadeau write, "Gloom over the American economy found no precedent in contemporary times. This gloomy view translated itself sharply into a vote against McCain, for many felt the incumbent Republican administration was responsible."[3] David Plouffe, Obama's 2008 campaign manager, resurrected the old slogan from the 1992 Clinton campaign, and even titled one chapter of his book about the campaign "It's the Economy, Stupid."[4] In 2012, the shoe was on the other foot, as Mitt Romney argued that the Obama administration had performed poorly in its attempts to revitalize the economy, and Obama was forced to respond that he had done as well as could be expected under circumstances.

The connection between economic conditions and voting is real but complex. Mary may lose her job, but she does not quickly jump to the conclusion that the president deserves to be thrown out. Rather, voters tend to engage in what political scientists call "sociotropic" voting, assessing the overall rate of employment and unemployment more than their individual circumstances.[5] Furthermore, as political scientists Suzanna De Boef and Paul M. Kellstedt have shown, the "pictures in their heads" that American voters have of the economy are shaped not only by real economic conditions but also by partisanship and by news coverage of the economy.[6]

Like voters, the parties are economic animals. The two parties have different economic centers of gravity. There is often a choice to be made between two basic aims of government economic policy—fighting unemployment and fighting inflation—and when there is, the two parties have different priorities. Democrats are more likely to stress the importance of keeping unemployment low whereas Republicans are more likely to prioritize the battle against inflation. This partisan difference reflects the concerns of the parties' major constituencies. Democrats appeal particularly to working-class voters concerned about employment, whereas Republicans appeal particularly to voters with more money to save and invest who worry that inflation will erode their savings. Let us look at the twin economic—and political—concerns of unemployment and inflation.

Two Major Worries: Unemployment and Inflation

The **unemployment rate** is the percentage of Americans seeking work who are unable to find it. Measuring how many and what types of workers are unemployed is one of the major jobs of the Bureau of Labor Statistics (BLS) in the Department of Labor. To carry out this task, the BLS conducts a huge statistical survey of 60,000 households every month. It then announces the nation's unemployment rate. The number of U.S. jobs has to increase by about 125,000 every month just to keep up with new entrants into the labor force (college graduates, for example) and thus avoid an increase in the unemployment rate.

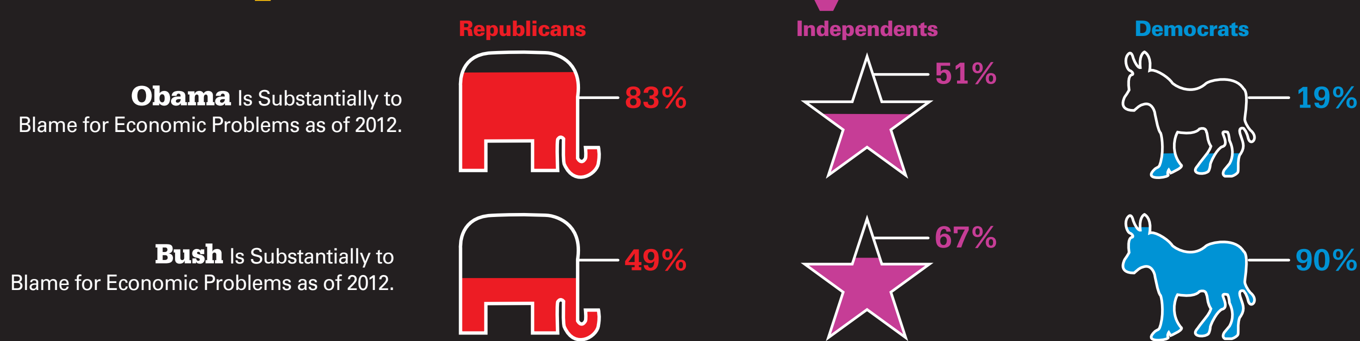
Explore on MyPoliSciLab

Who Broke the Economy?

When Americans ask who is to blame for U.S. economic problems, there is a practical answer and a political answer. The practical answer involves a chain of events that crucially featured the collapse of the real estate market and resulted in millions of unemployed Americans. The political answer usually involves apportioning blame between the presidents who responded to the events. President Barack Obama has spent more time coping with the recession and is increasingly seen as bearing more responsibility for the economy, but as of late 2012, more Americans still blamed President George W. Bush—particularly Democrats.

Who Do Americans Blame?

Partisanship Influences the Answer



SOURCE: Gallup press release, June 14, 2012.

Investigate Further

Concept Who gets more blame for the broken economy—Bush or Obama? Although Bush continues to be blamed by a majority, as Obama's term has proceeded, the percentage blaming Bush has declined and that blaming Obama has increased. The longer a president serves, the more attention and blame shift towards him and away from his predecessor.

Connection Does improvement in the economy affect the extent to which the public blames Obama? Despite the drop in unemployment from 10.6% in January 2010 to 7.8% in October 2012, half the public still substantially blamed Obama for the bad economy.

Cause Does partisanship influence "blame"? After four years, Democrats overwhelming hold Bush responsible for the economy, instead of Obama. More Republicans hold Obama responsible, but half of them still think Bush is to blame.

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underemployment rate
As measured by the Bureau of Labor Statistics, a statistic that includes (1) people who aren't working and are actively seeking a job, (2) those who would like to work but have given up looking, and (3) and those who are working part-time because they cannot find a full-time position.

inflation
A rise in price of goods and services.

Of course, the unemployment rate varies from time to time and group to group. For example, it rose to 10 percent in late 2009 with the economic recession, and it tends to be higher for young adults than for other groups (see "Young People and Politics: Unemployment Rates by Age and Race/Ethnicity, 2011"). The official unemployment rate that is reported on the first Friday of every month by the BLS actually underestimates how many Americans are suffering in the job market, because it leaves out those who have given up their job search or have only been able to obtain a part-time job. Thus, the BLS also now reports on what is known as the **underemployment rate**, which takes into account not only people who aren't working and are actively seeking a job but also people who have become so discouraged that they have given up looking for employment and those who are working part-time because they cannot find a full-time job. As America headed to the polls in November 2012, the national unemployment rate was 7.9 percent, while the underemployment rate was 14.6 percent.

Inflation, the other major economic worry of policymakers, is a rise in prices for goods and services. For decades, the BLS has also kept tabs on inflation, using the

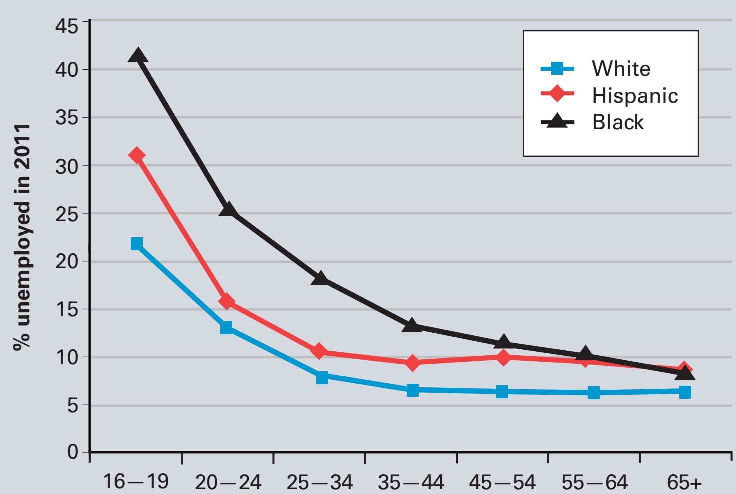
Young People & Politics

Unemployment Rates by Age and Race/Ethnicity, 2011

The unemployment rate is one of the nation's most important economic indicators and a political issue as well. Although Americans sometimes think of unemployment as mainly a problem for middle-aged people, in actuality unemployment rates are much higher for young Americans aged 16 to 24. This is especially true during recessions, as young entrants to the job market find that there are few new jobs available at a time when many companies are laying people off. Young blacks and Hispanics face a double whammy in their search for a job, as you can see by their very high unemployment rates during 2011, shown in the graph.

CRITICAL THINKING QUESTION

Some policymakers have suggested that the minimum wage should be reduced just for young people during recessions in order to give businesses a special incentive to hire them. Others oppose this step as likely to force many young people to accept extremely low wages. What do you think—would you favor a lower minimum wage for young Americans when jobs are scarce?



SOURCE: Bureau of Labor Statistics.

consumer price index (CPI), which measures the change in the cost of buying a fixed "basket" of goods and services. Each month, BLS data gatherers fan out over the country looking at the prices of some 80,000 items from eggs to doctor visits. The goal of the CPI is to create a measure that reflects changes over time in the amount that consumers need to spend to achieve a certain standard of living.

Inflation has risen sharply during three periods since 1970, with each of these sharp rises tied to soaring prices for energy. The first inflationary shock occurred in 1973 and 1974, when Arab oil-producing nations cut off the flow of oil to the United States to protest American support for Israel during its war with Egypt and Syria. The second occurred when the Iranian revolution of 1979 again disrupted the flow of oil from the Persian Gulf. Long lines and higher prices at the gas pumps were accompanied by an annual rate of inflation of 11 percent in 1979 and 14 percent during the election year of 1980. Finally, in 1991 when Iraq's invasion of Kuwait led to the Gulf War, there was a moderate surge in inflation as oil prices increased in anticipation of possible shortages (which actually never occurred). Since then, the annual inflation rate in the United States has consistently been below 4 percent. However, in the summer of 2008, the specter of high inflation suddenly loomed as the inflation rate briefly exceeded 5 percent due to a surge of worldwide oil prices to over $100 a barrel. At that point in the campaign, John McCain was planning to make this a major issue. Had oil prices and inflation proven to be the prime economic concern of the electorate in November rather than Wall Street's collapse and rising unemployment, McCain would probably have had a better chance to win in 2008.

consumer price index
The key measure of inflation—the change in the cost of buying a fixed basket of goods and services.

laissez-faire
The principle that government should not meddle in the economy.

monetary policy
Government manipulation of the supply of money in private hands—one of two important tools by which the government can attempt to steer the economy.

Policies for Controlling the Economy

Voters take economic performance into account at the polling booth because they expect politicians to use the power of the federal government to try to control the economy. The time when government could assert that the private marketplace could handle economic problems has long passed, if it ever really existed. When the stock market crash of 1929 sent unemployment soaring, President Herbert Hoover clung to **laissez-faire**—the principle that government should not meddle at all with the economy. In the next presidential election, Hoover was handed a crushing defeat by Franklin D. Roosevelt, whose New Deal programs experimented with dozens of new federal policies to put the economy back on track. Since the New Deal, both Democratic and Republican policymakers have recognized that capitalism must be at least somewhat regulated by the federal government. The American political economy offers two important tools to steer the economy: monetary policy and fiscal policy.

MONETARY POLICY AND THE "FED" In February 2006, Ben Bernanke took over as chairman of the Federal Reserve Board, thereby becoming the world's most important economist and one of the most powerful figures in American government. The chair of the Fed has more power over the U.S. economy than does any other person, including the president. A few choice words from him (thus far there has not been a female head of the Fed) can send financial markets either soaring or reeling. For example, long-time Fed chair Alan Greenspan once rhetorically asked in a speech whether the stock market might be displaying "irrational exuberance" and "unduly escalating asset values." An instant reaction was felt round the world, as the major stock markets immediately fell between 2 and 4 percent. All these markets interpreted Greenspan's remark to mean that he thought stocks were overvalued and that the Fed might raise American interest rates to cool down escalating stock prices and prevent an inflationary spiral.

Such is the power that the chair of the Fed can exercise at any time. Unlike the president, the Fed doesn't have to get congressional support for actions that are likely to impact the economy. And unlike Congress, the Fed deliberates in secret, making every public statement by its leader a potentially valuable clue as to how it might act. But what is the Fed, and what does it do?

The most important tool government has to manage the economy is its control over the money supply. The government's main economic policy is **monetary policy**, that is,

When the head of the Federal Reserve Board speaks, the financial industry listens intently for every clue as to how the Fed may act regarding interest rates. Here, traders on the floor of the Chicago Board of Trade monitor Fed Chairman Ben Bernanke's news conference following a Fed meeting.

monetarism
An economic theory holding that the supply of money is the key to a nation's economic health, with too much cash and credit in circulation producing inflation.

Federal Reserve System
The main instrument for making monetary policy in the United States. It was created by Congress in 1913 to regulate the lending practices of banks and thus the money supply.

manipulation of the supply of money and credit in private hands. An economic theory called **monetarism** holds that the supply of money is the key to the nation's economic health. Monetarists believe that having too much cash and credit in circulation generates inflation. Essentially, they advise that the rate of growth in the money supply should not exceed the rate of growth of the gross domestic product (GDP). Politicians worry constantly about the money supply because it affects the rate of interest that their constituents have to pay for home, car, business, and other loans. If there is too little money in circulation, credit tightens, economic growth is slowed, and employment levels fall.

The main agency for making monetary policy is the **Federal Reserve System**, commonly known as the Fed. Created by Congress in 1913 to regulate the lending practices of banks and thus the money supply, the Fed is intended to be formally beyond the control of the president and Congress. Its seven-member Board of Governors—appointed by the president and confirmed by the Senate—is expected to do its job without regard to partisan politics. Accordingly, members of the Fed's Board of Governors are given 14-year terms designed to insulate them from political pressures.

The Fed has several tools for affecting the supply of money and credit. Its policymaking body, the Federal Open Market Committee (FOMC), meets eight times a year and, taking into consideration a vast amount of economic data, sets a target for the "federal funds rate," the interest rate banks can charge each other for overnight loans. The Fed also buys and sells government bonds, and by doing this, it determines whether banks have more or less money to lend out. The more money banks have to lend, the cheaper borrowing is; if banks have less to lend, borrowing becomes more expensive, and interest rates rise.

Why It *Matters* to You

Interest Rates

Interest rates are the amount you pay to borrow money for a house or a car, for example. Banks or finance companies charge you these rates, but how high they are is strongly influenced by decisions of the Fed. Even a great credit rating cannot get you a low interest rate if the Federal Reserve Board is keeping the money supply tight.

In this way, the complicated financial dealings of the Fed affect the amount of money available and interest rates, which in turn impact inflation and the availability of jobs. In a 1977 amendment to the Federal Reserve Act, Congress imposed a dual mandate on the Fed: to promote maximum sustainable output and employment and to promote "stable" prices. This dual mandate involved a compromise between Democratic and Republican preferences. Today, some Republican leaders maintain that these goals are incompatible and that the tools at the disposal of the Fed are far better suited for fighting inflation. Congressman Mike Pence (R-IN), with the support of other influential Republicans, has proposed that the Fed should only be responsible for promoting a stable dollar.

Because the Fed can profoundly influence the state of the economy, it is no wonder that its every move attracts intense attention from the financial markets as well as politicians—and that presidents try to persuade the Fed to pursue policies in line with presidential plans for the country. For example, President Obama would not have wanted the Fed to raise interest rates in the months leading up to the November 2012 election, as higher interest rates probably would have weakened the nation's already anemic economic growth rate at that point.

In general, the Fed has been found to be fairly responsive to the White House, though not usually to the extent of trying to influence election outcomes.[7] Nevertheless, even the chief executive can be left frustrated by the politically insulated decisions of the Fed. Some have called for more openness in its decision-making process, whereas others have proposed more direct political control of the Fed through shorter terms for its Board of Governors.

FISCAL POLICY: KEYNESIAN VERSUS SUPPLY-SIDE ECONOMICS The second tool for steering the nation's economy is **fiscal policy**, or use of the federal budget—taxing, spending, and borrowing—to influence the economy. In contrast to monetary policy, fiscal policy is shaped mostly by Congress and the president. Moreover, the use of fiscal policy is influenced by political ideology and views of the appropriate scope of government.

One position on fiscal policy is that of **Keynesian economic theory**, named after English economist John Maynard Keynes. Keynes's landmark book, *The General Theory of Employment, Interest, and Money,* was published during the Depression of the 1930s, and Keynesianism soon became the dominant economic philosophy in America. His theory emphasized that government spending could help an economy weather the bad times that were part of the normal ups and downs of the business cycle. Keynes argued that government could spend its way out of the Depression by stimulating the economy through an infusion of money from government programs. If businesses were not able to expand, the government would need to pick up the slack, he claimed—even if it meant running up a substantial budget deficit. If there were no jobs available for people, the government should create some—building roads, dams, houses, or whatever seemed most appropriate. The key would be to get money back in the consumers' pockets, because if few people have money to buy goods, demand for goods will be weak. And if demand is lacking, the production of goods will be slowed, and the economic situation will worsen. Thus, the main goal of fiscal policy in the view of Keynesian economic theory is to increase demand. This is the tack that Franklin Roosevelt took during the New Deal, attacking the Great Depression through unprecedented federal spending that helped to create jobs. More recently, when President Obama took office in January 2009 in the midst of a severe recession, the first major bill that he signed was a $787 billion stimulus package that contained funding for numerous projects that the Democrats believed would combat the downturn and get millions of Americans back to work. In practice, this proved to be not so easy, as you can see in Figure 16.1.

Republicans have frequently criticized Keynesian economic policies as promoting the idea that the government can spend money more wisely than the people—a view they usually reject. For example, Republican House leader Eric Cantor summarized his party's response to the Obama stimulus package as follows: "We believed any bill designed to put Americans to work needed to take bold steps to encourage work,

fiscal policy
Use of the federal budget—taxes, spending, and borrowing—to influence the economy; along with monetary policy, a main tool by which the government can attempt to steer the economy. Fiscal policy is almost entirely determined by Congress and the president.

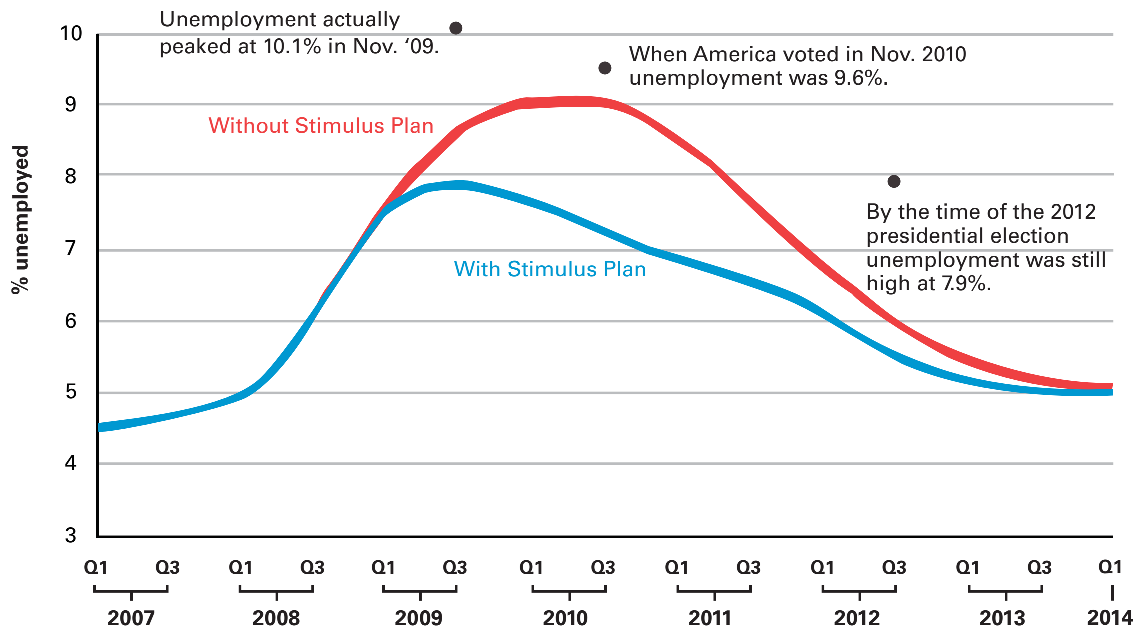
Keynesian economic theory
Named after English economist John Maynard Keynes, the theory emphasizing that government spending and deficits can help the economy deal with its ups and downs. Proponents of this theory advocate using the power of government to stimulate the economy when it is lagging.

supply-side economics
An economic theory, first applied during the Reagan administration, holding that the key task for fiscal policy is to stimulate the supply of goods, as by cutting tax rates.

FIGURE 16.1 HOW THE OBAMA ADMINISTRATION'S PREDICTIONS OF THE IMPACT OF THE 2009 STIMULUS PLAN WENT AWRY

As Barack Obama prepared to be inaugurated president in January 2009, his staff prepared a massive economic stimulus bill to combat the rising tide of unemployment. Two of his economic advisors wrote a report detailing estimates of how job losses could be cut by pumping lots of federal money into the economy. They included the following graph, which offered a visual image of how much lower the unemployment rate would be if the stimulus plan were passed than without it.

As unemployment continued to rise unabated in 2009 and continued to be high through the 2010 and 2012 elections, this graph came back to haunt the Obama administration. Obviously, the predictions that were laid out in this graph were far off the mark. Conservatives argued strongly that the large discrepancy proved that the economic stimulus package had been a failure. The Obama administration responded that in January 2009 no one could have foreseen how dire the economic situation actually was and that unemployment would have risen even higher had the plan not been enacted. Ultimately, the voters sided with Obama in the 2012 election by reelecting him.



SOURCE: Christina Romer and Jared Bernstein, "The Job Impact of the American Recovery and Reinvestment Plan," January 9, 2009, p. 5; actual unemployment numbers for Nov. 2009, Nov. 2010, and Nov. 2012 from the Bureau of Labor Statistics.

investment, and business expansion, something that government spending under Keynesian economic theory too often fails to provide."[8] Instead of the Keynesian approach, Republican fiscal policy follows supply-side economics. The basic premise of **supply-side economics** is that the key task for fiscal policy is to stimulate the supply of goods, not their demand. First adopted during the presidency of Ronald Reagan,[9] supply-side economics maintains that big government soaks up too much of the GDP. By spending too freely and also taxing too heavily and regulating too tightly, government actually curtails economic growth. Supply-siders argue that lowering tax rates stimulates the supply of goods, as people are motivated to work longer, increase their savings and investments, and produce more. Economist Arthur Laffer proposed (legend says he did so on the back of a cocktail napkin) a curve suggesting that the more government taxed, the less people worked and thus the smaller the government's tax revenues. In its most extreme form, this theory held that by taking a smaller percentage of people's income, the government would actually get more total revenue as production increased. Thus, tax cuts, such as the $1.3 trillion tax cut that President George W. Bush signed into law in 2001, are a key tool of the supply-side approach.

Clearly, the Keynesian and supply-side approaches to fiscal policy make diametrically different assumptions about how the tools of fiscal policy should be used and, more generally, about the appropriate scope of government. Despite disagreements about approach, there is now clear agreement on one fundamental point: it is the government's responsibility to use fiscal policy to try to control the economy. But like controlling the weather, this is much easier said than done.

Why It *Matters* to You

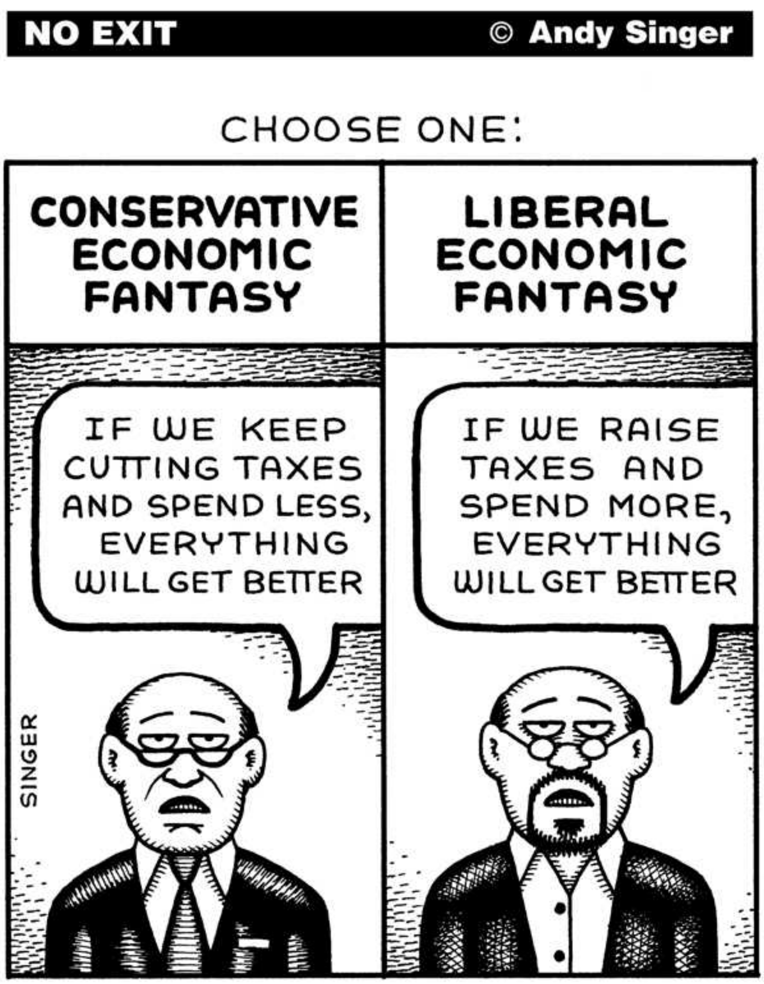
Keynesian Versus Supply-Side Economics

Supply-side economic theory, as advocated by presidents Ronald Reagan and George W. Bush, represents a great departure from Keynesian economic theory, which has guided Democratic economic policymaking ever since the New Deal. Whereas Keynesian theory recommends government spending to combat economic downturns by increasing demand, supply-side economics advocates tax cuts in order to stimulate the supply of goods. The scope of government expands when Keynesian policies are enacted but contracts when supply-side economics is put into effect.

Point to Ponder

This cartoon portrays extreme versions of Keynesian and supply-side economic policies.

Do you think either of these approaches is fairly reasonable? If you think neither one is reasonable, can you envision a third way that falls somewhere in the middle?



Why It Is Hard to Control the Economy

Many politicians and voters—and even some political scientists—seem to believe that the economy can be easily controlled. Thus, some political scientists have argued that politicians manipulate the economy for short-run advantage to win elections, in a sort of "political business cycle."[10] Presidents, their argument goes, take special care to get the economy moving nicely just before elections, putting more money in voters' hands through either tax cuts or transfer payments such as Social Security and food stamps. A neat trick if you can do it—controlling economic conditions precisely in order to facilitate reelection. However, as economist Robert Samuelson points out, "If presidents could create jobs, the unemployment rate would rarely exceed 3.5 percent."[11]

The American free enterprise system makes it particularly difficult for elected officials to effectively control the economy. The billions of economic choices made by consumers and businesses are more important in their impact than are government policies. Because the private sector is much larger than the public sector, it dominates the economy. Big as the federal government is, it still spends only about a quarter of our GDP. Consumers and businesses make the vast majority of our economic decisions. Fiscal and monetary policy can influence these decisions—but not control them.

Another problem that policymakers face is that trying to control economic indicators like unemployment and inflation with precision is like attempting to stop on an economic dime. Government makes economic policy very slowly. Most policies must be decided on a considerable time before they can be implemented, let alone have their full impact on the economy. The federal budget, for example, is prepared many months in advance of its enactment into law, and once enacted, it is usually quite a while before new policies will have their full impact on the economy. Furthermore, the budgetary process is dominated by "uncontrollable expenditures," which are mandated by law. These expenditures include interest on the national debt, which must be paid, and benefits for which some groups are automatically eligible, such as Social Security. Not only do Social Security benefits go up automatically as the cost of living increases, but other programs like food stamps can become more expensive if more people become eligible for them due to an economic downturn. The remaining sections of this chapter will sketch out how the federal government impacts people's pocketbooks via a wide assortment of social welfare policies.

Types of Social Welfare Policies

16.2 Compare and contrast entitlement and means-tested social welfare programs.

Our lives are affected by many government policies, but it is social welfare policies that most directly affect us as individuals. Such policies include hundreds of programs through which government provides support and assistance to specific groups of people—for example, Social Security checks for retired workers, food stamp benefits for poor families, and Medicare and Medicaid coverage of medical expenses for the elderly and the poor, respectively. Not surprisingly, social welfare policies are expensive. Expenditures on social programs dwarf what government spends on anything else, including national defense.

No area of public policy causes more confusion or stimulates more argument than does social welfare. One common misperception is to equate social welfare with government aid to the poor. In fact, these programs distribute far more money to the nonpoor than to people below the poverty line. Political scientist Martin Gilens notes that about five-sixths of all money for social programs goes to programs that people across all income levels are eligible for, such as Social Security and Medicare; only 17 percent of social spending goes to programs that target the poor.[12] Few Americans have qualms about assisting older Americans through government programs. However, government assistance to the poor is a different matter. As political scientists Stanley Feldman and Marco Steenbergen put it, Americans may be humanitarians, but they are not egalitarians.[13] To clarify the picture, it is useful to distinguish between two types of programs that social welfare policies consist of.

Entitlement programs provide benefits to individuals regardless of need. They are sometimes called "social insurance" programs because typically people (and their employers) pay into them and later get money from them. Thus, you don't have to be poor to get an entitlement, nor does being rich disqualify you. The two main entitlement programs, Social Security and Medicare, are the largest and most expensive social welfare programs in America. These programs have had a positive effect on the health and income of older Americans, who receive more and better medical treatment as a result of Medicare and in many cases are kept out of poverty by Social Security payments. Entitlement programs are rarely controversial and are often overwhelmingly popular (perhaps because everyone is *entitled* to them).

In contrast, **means-tested programs**, such as food stamps and Medicaid, provide benefits only to people with specific needs. To be eligible for means-tested programs, people have to prove that they qualify for them. Means-tested programs generate much political controversy, with the positions taken depending largely on how people see the poor and the causes of poverty. Poverty may be seen as largely a consequence of the individual's decisions and behaviors or as largely beyond the individual's control. When the poor are seen as victims of forces beyond their control (loss of a breadwinner, disabilities, poor economic opportunities), government programs are relatively uncontroversial, for liberals and conservatives alike. However, when the poor are seen as responsible for their poverty, by conservatives in particular, government programs tend to be seen as encouraging dependency. As Weil and Finegold summarize the situation, American welfare policy is frequently caught between two competing values: "the desire to help those who could not help themselves, and the concern that charity would create dependency."[14]

Let's look, therefore, at income and poverty and at what public policy has to do with each.

entitlement programs
Government programs providing benefits to qualified individuals regardless of need.

means-tested programs
Government programs providing benefits only to individuals who qualify based on specific needs.

Why It *Matters* to You

Perceptions of Poverty

Some people see the poor as lazy; others believe that most of the people who are poor are victims of circumstance. These perceptions of the poor affect the kinds of social welfare policies they favor. Conservatives tend to believe that means-tested welfare programs only discourage people from working. Liberals are more likely to see these programs as helping people weather difficult circumstances.

Income, Poverty, and Public Policy

16.3 Assess the extent of economic inequality in America and the role of government in lessening it.

The United States has one of the world's highest per capita incomes, and when cost of living and tax rates are taken into account, only a few small countries (for example, Norway, Brunei, and Luxembourg) rank ahead of the United States in terms of purchasing power. According to the Census Bureau, in 2010, the median American household income was $49,445—that is, half of American households made more than $49,445, and half made less. Thus, Americans are an affluent people.

Yet, no industrialized country has wider extremes of income than the United States—and the extremes in the United States have been widening. Timothy Smeeding,

One of the goals of the Occupy movement has been to draw attention to inequality in the distribution of income. Here, Occupy supporters gathered and formed a large "99%" in the middle of Freedom Plaza, in Washington, D.C. Chanting slogans like "We are the 99%," they tried to point out the growing income gap between the top 1 percent and the rest of Americans.

income distribution
The way the national income is divided into "shares" ranging from the poor to the rich.

relative deprivation
A perception by an individual that he or she is not doing well economically in comparison to others.

one of the leading researchers on poverty in America, points out that "over the last four decades, the United States has seen large increases in income inequality" and that "many developed countries have experienced at least modest increases in the inequality of … income, but none so sustained as in the United States."[15] Americans like to think that theirs is the land of opportunity and that people who start off poor can work their way up the income ladder. But recent studies have come to the conclusion that social mobility is actually more limited in the United States than in most other established democracies.[16]

Income is important to politics, just as it is important to people. McCarty, Poole, and Rosenthal argue that American politics is becoming more polarized and that the main "conflict is basically over income redistribution."[17] Liberals and conservatives are divided about many things, but "who gets what" in terms of income is a major battleground.

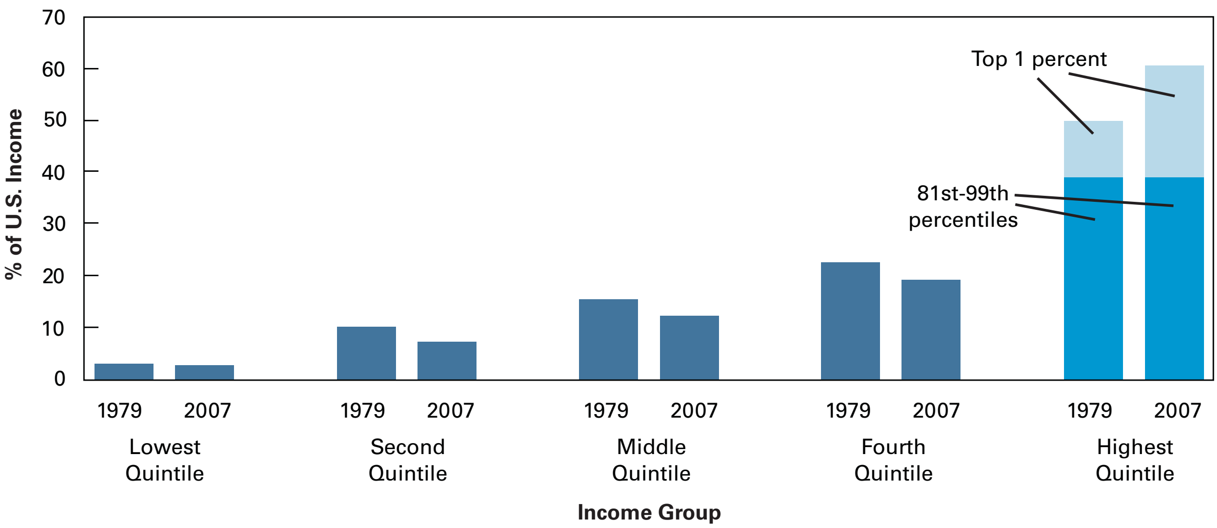
Who's Getting What?

The novelist F. Scott Fitzgerald once wrote to his friend Ernest Hemingway, "The rich are different from you and me." "Yes," replied Hemingway, "they have more money." Like Hemingway, social scientists focus on the monetary difference. They use the concept of **income distribution** to describe how the national income is divided up. If we divide the population into groups based on income, say, into fifths, income distribution tells us what share goes to each group, from the bottom one-fifth to the top one-fifth. In the United States, the distribution of income across groups is quite uneven. The repercussions of different income distribution patterns can be considerable. Thomas B. Edsall remarks that "the distribution of income and wealth in a democratic country goes to the heart of its political ethic, defining the basic contours of a nation's sense of justice and equality."[18]

Income distribution in the United States has changed considerably in recent decades, as you can see in Figure 16.2. This change in income distribution has come about because the very rich have gotten much richer while others, especially the poor, have seen their incomes stagnate. Increasing inequality in the distribution of income can contribute to a situation known as **relative deprivation**, in which people believe

FIGURE 16.2 THE INCREASE IN INCOME INEQUALITY AND THE RISE OF THE TOP 1 PERCENT

The following graph demonstrates how much of the nation's income was received by people within each quintile (or fifth) of the population in 1979 and in 2007. Thus, in 2007, for example, people whose income placed them in the lowest 20 percent of households received just about 3 percent of the nation's income while those in the highest 20 percent took in 60 percent of the nation's income. In recent decades, the share of the highest fifth has grown while the shares of the other fifths have declined. Yet, not everyone in the top fifth has gained. The share of income received by people in the 81st through 99th percentiles has actually held steady at about 40 percent. It is only the people in the top 1 percentile of income who have gained, increasing their share of the nation's income from 10 percent in 1979 to a stunning 20 percent in 2007.



SOURCE: "Trends in the Distribution of Household Income Between 1979 and 2007." Congressional Budget Office, October 2011, p. xi. This report can be found online at http://www.cbo.gov/ftpdocs/124xx/doc12485/10-25-HouseholdIncome.pdf.

they are not doing well compared to some reference group. For many observers, a sense of relative deprivation is becoming more common in America.

So far we have focused on **income**, the amount of money collected between two points in time. Income is different from **wealth**, the value of one's assets, including stocks, bonds, bank accounts, cars, houses, and so forth. Studies of wealth show even more inequality than those of income: one-third of America's wealth is held by the wealthiest 1 percent of the population, another one-third is held by the next 9 percent, and the remaining one-third is held by the other 90 percent.

income
The amount of money collected between any two points in time.

wealth
The value of assets owned.

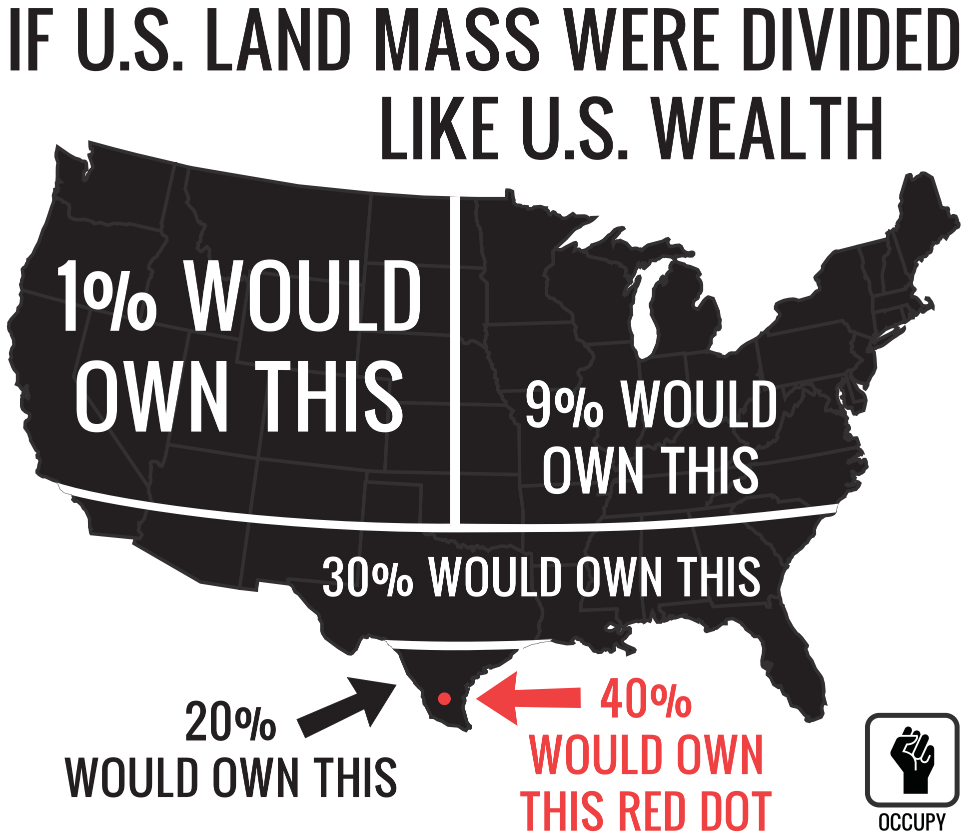
poverty line
The income threshold below which people are considered poor, based on what a family must spend for an "austere" standard of living, traditionally set at three times the cost of a subsistence diet.

Who's Poor in America?

Counting the poor may seem easy, but it is not. First, one needs to define poverty. Compared with most people in Haiti, poor Americans seem almost prosperous. Russia is a poor country by American standards, but it is not afflicted with the poverty of rural Mexico. Mexico City may look poor to an American visitor, but many people come there from the Mexican countryside seeking prosperity—relatively speaking.

To define this inherently relative concept, the U.S. Census Bureau is charged with determining the **poverty line**, the income threshold below which an individual is considered impoverished. Whether the Census Bureau classifies a person as living in poverty depends on how his or her family's income falls with regard to the poverty threshold, which varies according to the number of adults and children in the family.

This official statistic was designed by Mollie Orshansky, a statistician with the Social Security Administration who realized that in order for politicians to do something about poverty, they first needed to have a way of measuring it. From her earlier work for the Department of Agriculture, Orshansky had learned that a family barely managing to make ends meet spent roughly one-third of its money on food. To set the poverty level,



This graphic was designed and distributed by the Occupy movement as part of their campaign against the concentration of wealth in America. Others view inequality as inevitable in a system of capitalism and believe that it results in large part from individual variations in effort and talent.

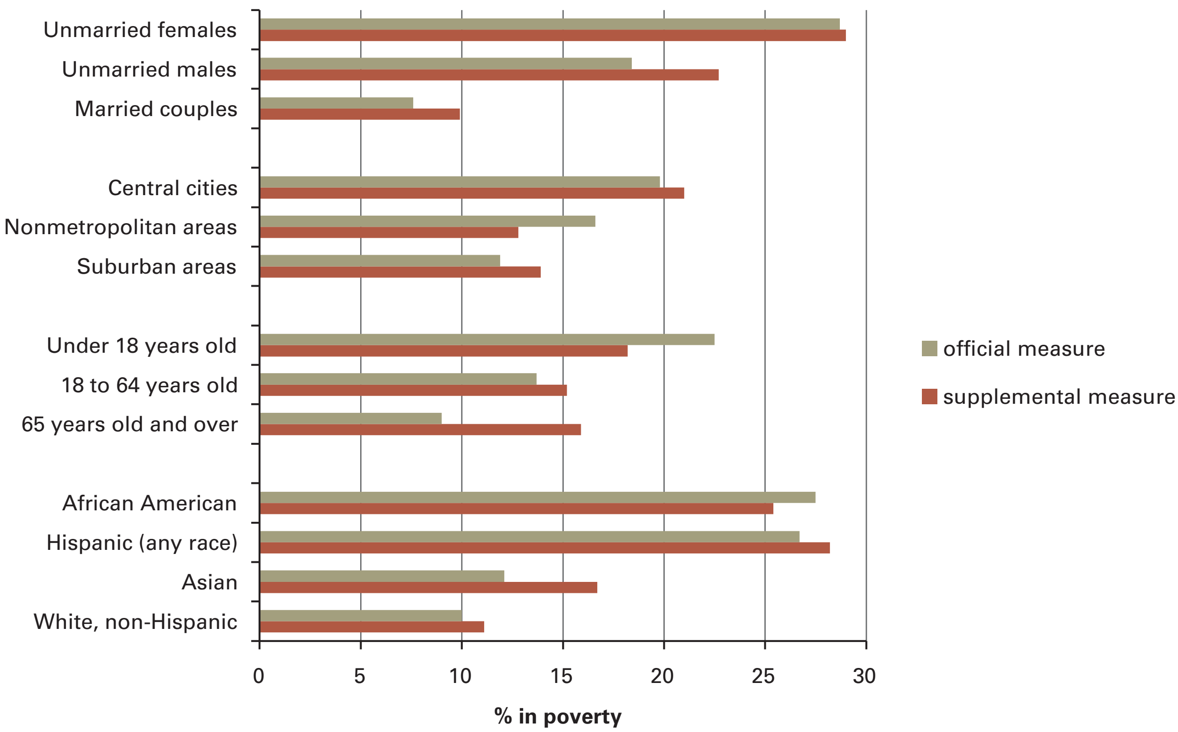
she took the cost of the Department of Agriculture's subsistence diet and multiplied it by three. The federal government adopted this formula as its official measure of the poverty threshold in the mid-1960s and has continued to update the formula every year by factoring in inflation. In 2010, the poverty threshold for a single adult was $11,139, for two adults it was $14,218, and for a single parent with two children it was $17,374.

Orshansky never intended to create a permanent formula. She believed that if spending habits changed, then the measurement of poverty ought to be adjusted accordingly. Many scholars believe that today, because the cost of food has declined relative to the cost of other goods, an income equal to three times a subsistence food budget leaves a family in need of many necessities. For years, experts on the subject of poverty have called for a return to Mollie Orshansky's basic concept: what it really takes to maintain an austere standard of living. Moreover, in the decades since Orshansky's basic work was done, the Census Bureau has expanded its data collection efforts to assemble detailed information about spending patterns and income, thereby making a more complex and refined measurement of poverty possible. In 2010, the Obama administration announced that it had settled on an alternative measure, which takes into account a wide range of expenses, such as housing, utilities, child care, and medical treatment, as well as variations in the cost of living.[19] Because the traditional measure has been identified in much legislation as determining the eligibility for various government programs, it remains the official measure of poverty.

Officially, 46.6 million Americans, or about 15.2 percent of the population, were poor in 2010, according to the traditional measure employed by the Census Bureau. However, the official poverty counts tend to *underestimate* poverty in America, not only for the reasons discussed above but, more generally, because it is a snapshot in time rather than a moving picture. That is, a count of the poor at any one point in time can conceal millions who quickly drop into and out of poverty. Divorce, the loss of a breadwinner, job setbacks, and a new mouth to feed can precipitate a fall below the poverty line. Economic insecurity—the chance of suddenly falling into a much lower

FIGURE 16.3 POVERTY RATES FOR PERSONS WITH SELECTED CHARACTERISTICS, 2010: A COMPARISON OF THE OFFICIAL AND SUPPLEMENTAL MEASURES

In the following chart, you can see the poverty rates for various groups as determined by surveys conducted by the Census Bureau in 2010, based on both the traditional, official measure of poverty and the new, supplemental measure. The differences between the two measures are due to two extra considerations that the new measure takes into account. First, the new measure takes into account the benefits from government programs such as food stamps and the National School Lunch Program; this explains why it finds a significantly lower level of poverty among children. Second, it takes into account differences between groups in various cost of living factors, such as medical care; this explains why the new measure finds a much higher percentage of poverty among the elderly.



SOURCE: U.S. Census Bureau, "The Research Supplemental Poverty Measure: 2010."

feminization of poverty
The increasing concentration of poverty among women, especially unmarried women and their children.

income bracket—is higher in the United States than in most industrialized countries. Over half of all Americans between the ages of 25 and 75 will spend at least one year in poverty during their lives, according to Jacob Hacker's analysis.[20]

Who's officially poor? Although the poor are a varied group, poverty is more associated with certain demographic characteristics, as you can see in Figure 16.3. Poverty rates are higher for African Americans, Hispanics, unmarried women, children, and inner-city residents. African Americans and Hispanics have a more than 20 percent chance of living in poverty, as opposed to roughly a 10 percent chance for white, non-Hispanics. Although poverty had long been a problem especially for the elderly, the creation of Social Security in 1935 and its expansion over time significantly reduced poverty among the elderly. Today, poverty is particularly a problem for unmarried women and their children. Experts often refer to the **feminization of poverty**. The poverty rate for female-headed families is almost 30 percent, as opposed to less than 10 percent for families with two parents.

How Public Policy Affects Income

To eradicate poverty, some people believe, the government should ensure that everyone has a minimal level of income, as well as adequate access to education and health care. But, of course, income is determined by many factors that are clearly not subject to governmental control—how hard people work, what opportunities are available in the area where they reside, and what kind of education parents could afford to provide. However, because government (national, state, and local) spends one of out every

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progressive tax
A tax by which the government takes a greater share of the income of the rich than of the poor—for example, when a rich family pays 50 percent of its income in taxes, and a poor family pays 5 percent.

proportional tax
A tax by which the government takes the same share of income from everyone, rich and poor alike.

regressive tax
A tax in which the burden falls relatively more heavily on low-income groups than on wealthy taxpayers. The opposite of a progressive tax, in which tax rates increase as income increases.

Earned Income Tax Credit
Also known as the EITC, a refundable federal income tax credit for low- to moderate-income working individuals and families, even if they did not earn enough money to be required to file a tax return.

three dollars in the American economy, it is bound to have a major impact on citizens' income and wealth. There are two principal ways in which government affects a person's income. One is through its taxing powers; the other is through its expenditure policies.

TAXATION "Nothing," said Benjamin Franklin, "is certain in life but death and taxes." Taxes can be termed progressive, proportional, or regressive, depending on their effects on citizens' incomes. A **progressive tax** takes a bigger bite from the incomes of the rich than from those of the poor, for example, charging millionaires 50 percent of their income and the poor 5 percent of theirs. A **proportional tax** takes the same percentage from everyone, rich and poor alike. And, finally, a **regressive tax** takes a higher percentage from those at lower income levels than from the well-to-do.

A tax is rarely advocated or defended because it is regressive, but some taxes do take a bigger bite from the poor than the rich. Chief among these are sales taxes, from which many states derive more than half their revenues. A sales tax looks proportional—6 percent of every purchase, for example, is taxed. However, since poor families spend a higher percentage of their income on purchases—of food, clothing, school supplies, and other necessities—they wind up paying a higher percentage of their incomes in sales taxes than do the rich.

Federal income taxes are progressive; you only have to look at the rates on your tax forms to see this. The rich send a bigger proportion of their incomes to Washington than the poor. Americans who earn over a million dollars currently pay an average of 23 percent of their adjusted gross income in federal income taxes. By comparison, individuals in the $40,000 to $50,000 income range pay an average of 8 percent.[21] If your income is low enough, you can even get money back from the government rather than paying income tax. The **Earned Income Tax Credit** (EITC) is a special tax benefit for working people who earn low incomes. In 2010, workers who were raising one child in their home and had family incomes of less than $16,420 could get an EITC of up to $3,043. Estimates indicate that the EITC puts as much as $20 billion a year into the hands of poor and near-poor families.[22]

A sign at a farmers market in northern California announces the acceptance of Electronic Benefit Transfer (EBT) cards, which food stamp recipients can use to buy groceries. In 2012, fewer than a quarter of the nation's farmers markets were set up to use the EBT system. The federal government has allocated $4 million to provide wireless "point of sale" equipment, which will enable more of these markets to use EBT cards.

GOVERNMENT EXPENDITURES The second way in which government can affect personal income is through its expenditures. Each year millions of government checks are mailed to Social Security beneficiaries, retired government employees, veterans, and others. Unemployed workers receive payments through state-run unemployment insurance programs. The government also provides "in-kind" benefits, which give assistance in ways other than simply writing a check. Food stamps and low-interest college loans are both examples of in-kind benefits. These and other benefits—cash and in-kind—are called **transfer payments**; they transfer money from federal and state treasuries to individuals. In the case of state-run programs, such as unemployment insurance, benefits vary widely among the states. For example, as of 2009 unemployment benefits ranged from a high of $942 per month in Massachusetts to a low of $230 in Mississippi.

transfer payments
Benefits given by the government directly to individuals—either cash transfers, such as Social Security payments, or in-kind transfers, such as food stamps and low-interest college loans.

It is clear that many recipients are better off after these transfers than before, particularly the elderly, whose poverty rate declined from 35 percent in 1959 to 9 percent in 2010 primarily because of Social Security payments and Medicare. Many of the poor have been raised above the poverty line by these cash and in-kind transfers. In April 2012, 46.2 million Americans were receiving food stamps. The average monthly benefit of about $133 per person helped many families weather the worst of the recent economic downturn. A recent study by sociologists Mark Rank and Mark Hirschl startled some policymakers with its finding that half of Americans receive food stamps, at least briefly, by the time they turn 20. Among black children, the figure was 90 percent.[23]

Table 16.1 summarizes the major government social welfare programs that affect our incomes, both programs providing cash benefits and those providing in-kind benefits. We have already mentioned Social Security and Medicare as entitlement programs; notice that unemployment insurance is the other major entitlement program. The other programs are means tested and are available only to the near-poor or the poor. In addition to Medicaid and food stamps, they include Temporary Assistance for Needy Families and Supplementary Security Income, providing cash to needy families and the needy with disabilities, and the Children's Health Insurance Program, subsidizing health care for children in poor families.

TABLE 16.1 THE MAJOR SOCIAL WELFARE PROGRAMS

Program	Description	Beneficiaries	Funding
Entitlement Programs—"Social Insurance"			
Social Security	Monthly payments	Retired or disabled people and surviving members of their families	Payroll tax on employees and employers
Medicare (Part A)	Partial payment of cost of hospital care	Retired and disabled people	Payroll taxes on employees and employers
Medicare (Part B)	Voluntary program of medical insurance (pays physicians)	Persons 65 or over and disabled Social Security beneficiaries	Beneficiaries pay premiums
Unemployment Insurance (UI)	Weekly payments; benefits vary by state	Workers who have been laid off and cannot find work	Taxes on employers; states determine benefits
The Means-Tested Programs			
Medicaid	Medical and hospital aid	The very poor	Federal grants to state health programs
Food stamps	Debit cards that can be used to buy food	People whose income falls below a certain level	General federal revenues
Temporary Assistance for Needy Families (TANF)	Payment	Families with children, either one-parent families or, in some states, two-parent families in which the breadwinner is unemployed	Paid partly by states and partly by the federal government
Supplemental Security Income (SSI)	Cash payments	Elderly, blind, or disabled people whose income is below a certain amount	General federal revenue
Children's Health Insurance Program (CHIPs)	Subsidies for insurance	Poor families with children	Federal and state revenues

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Social Security Act of 1935
Created both the Social Security program and a national assistance program for poor families, usually called Aid to Families with Dependent Children.

Helping the Poor? Social Policy and the Needy

16.4 Trace the changes over time in major federal welfare programs.

Historically, societies considered family welfare a private concern. Children were to be nurtured by their parents and, in turn, care for them in their old age. Governments took little responsibility for feeding and clothing the poor or anyone else. The life of the poor was grim almost beyond our imagining. In England, governments passed Poor Laws providing "relief" for the poor but intended, historians argue, to make the life of the poor so miserable that people would do almost anything to avoid the specter, disgrace, and agony of poverty.[24] It was scarcely better in the United States as late as the Great Depression, in the 1930s.

"Welfare" as We Knew It

The administration of Franklin D. Roosevelt implemented a host of policies to deal with the Depression, thus establishing a safety net for less fortunate Americans. The most important piece of this New Deal legislation was the **Social Security Act of 1935**. In addition to creating the Social Security entitlement program for the aged, this bill also created a program to assist some of the nation's poor. Known eventually as "Aid to Families with Dependent Children," this program brought various state programs together under a single federal umbrella to help poor families that had no breadwinner and had children to care for. The federal government established some uniform standards for the states and subsidized their efforts to help families. However, states were free to give generous or skimpy benefits, and payments ranged widely. For the first quarter-century of the program, enrollments remained small. Spurred in part by the civil rights movement, in 1964 President Lyndon Johnson declared a national "War on Poverty," and added food stamps and other programs to the arsenal of poverty-fighting policies. These programs—collectively called "welfare"—came to bitterly divide Republicans from Democrats and conservatives from liberals.

If Lyndon Johnson had declared war on poverty, President Ronald Reagan declared war on antipoverty programs. In 1981, he persuaded Congress to cut welfare benefits and lower the number of Americans on the welfare rolls, arguing that welfare had proved to be a failure. Conservative economist Charles Murray offered an influential and provocative argument that the social welfare programs that began with Johnson's War on Poverty not only failed to curb the advance of poverty but actually made the situation worse.[25] The problem, Murray maintained, was that these public policies discouraged the poor from solving their problems. He contended that welfare programs made it profitable to be poor and thus discouraged people from pursuing means by which they could rise out of poverty. For example, Murray claimed, since poor couples could obtain more benefits if they weren't married, most would not marry and the result would be further disintegration of the family. Many scholars disagreed,[26] but their arguments and interpretations of the data were overwhelmed by the public's extremely negative perception of welfare. "Deadbeat dads" who ran out on their families, leaving them on welfare, and "welfare queens" who collected money they didn't deserve became common images of a broken system.[27]

No one was clearer or blunter about American antipathy toward welfare than political scientist Martin Gilens.[28] He found that Americans tended to see welfare recipients as overwhelmingly African American. Whites' welfare attitudes were strongly influenced by whether they held negative stereotypes of African Americans, for example, perceiving them as "lazy."[29] Negative views of African American welfare mothers generated opposition to welfare in a way that views of white welfare mothers did not. Moreover, when Gilens counted magazine and newspaper stories about poor people over a period of several decades, he found that although only a third of all welfare recipients were African American, about three-quarters of these stories concerned African Americans.[30] Attitudes toward welfare, in short, became "race coded" and it was commonly concluded that many "undeserving poor" were on welfare.

The stage for a major welfare reform was set when Bill Clinton pledged to reform America's system of welfare in his successful bid for the presidency in 1992.

Personal Responsibility and Work Opportunity Reconciliation Act
The welfare reform law of 1996, which implemented the Temporary Assistance for Needy Families program.

Temporary Assistance for Needy Families
Replacing Aid to Families with Dependent Children as the program for public assistance to needy families, TANF requires people on welfare to find work within two years and sets a lifetime maximum of five years.

Ending Welfare as We Knew It: The Welfare Reform of 1996

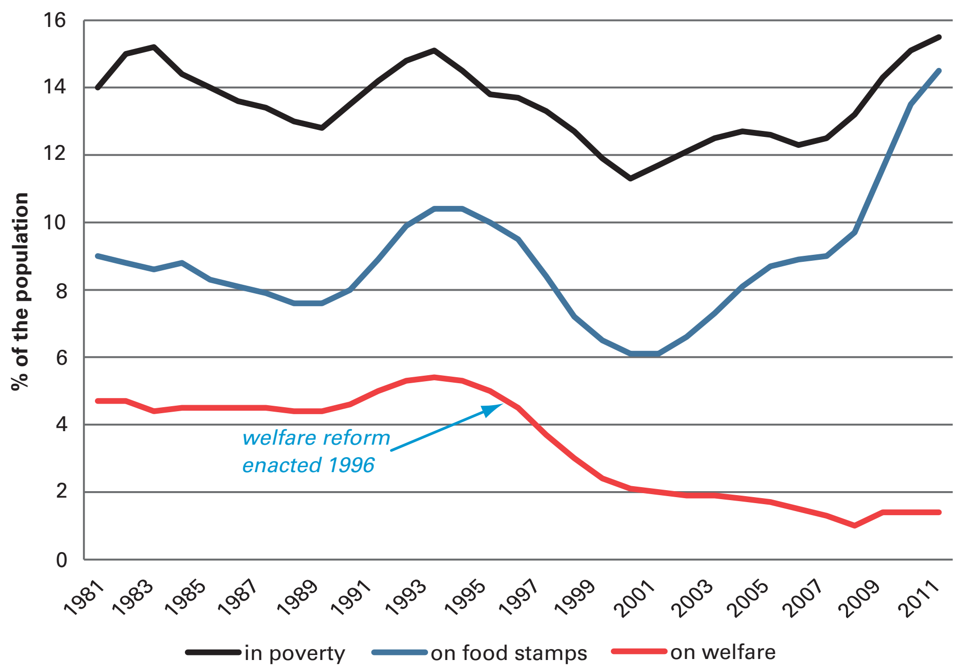
Bill Clinton was determined to be a "centrist" president, fearing the "tax and spend" label Republicans applied to liberal Democrats. Clinton promised to "end welfare as we know it" by providing welfare recipients with two years of support—training, child care, and health care—in exchange for an agreement to find work. Republicans in Congress were even more enthusiastic about welfare reform than the new president. In August 1996, the president and congressional Republicans completed a welfare reform bill that received almost unanimous support from the Republicans but was opposed by about half of the congressional Democrats. Under the lofty name of the **Personal Responsibility and Work Opportunity Reconciliation Act** (PRWORA), this bill provided that (1) each state would receive a *fixed* amount of money to run its own welfare programs, (2) people on welfare would have to find work within two years or lose all their benefits, and (3) there would be a lifetime maximum of five years for welfare. With the reform, the name of welfare was also changed, from Aid to Families with Dependent Children to **Temporary Assistance for Needy Families** (TANF).

Today, the benefits from this means-tested program for the poorest of the poor are small and declining. Recipient families collect an average of about $363 monthly in TANF benefits. The number of families receiving aid has also declined: as you can see in Figure 16.4, the 1996 welfare reform bill has had its intended effect of dramatically reducing the percentage of the population receiving welfare benefits.

Since 1996, welfare reform policies have tried to reduce the welfare rolls and get recipients to work. The young single pictured here said that she had gained new hope from the Climb Wyoming job training program that she was enrolled in while temporarily receiving welfare payments. You can find out about this program for single mothers at www.climbwyoming.org.

FIGURE 16.4 HOW WELFARE REFORM DRASTICALLY REDUCED THE WELFARE ROLLS

Prior to the adoption of the welfare reform bill of 1996, the percentage of the population receiving welfare and food stamps fluctuated in sync with the poverty level. Whenever more people were in poverty, more people qualified for them and hence received benefits; the reverse was of course true whenever times were good and the poverty rate declined. However, once welfare reform was enacted the fact that states now had only a fixed amount of money to dole out under Temporary Aid to Needy Families (TANF) restricted their ability to expand the distribution of welfare benefits during economic hard times. Thus, even during the severe recession that began in 2008 the percentage of the population receiving welfare increased only slightly. In contrast, the percentage receiving food stamps went up markedly, as there were no such restrictions on this program.



SOURCE: "Indicators of Welfare Dependence," U.S. Department of Health and Human Services, *Annual Report to Congress*, 2008. Updated by the authors based on welfare caseload data reported by the U.S. Department of Health and Human Services' Administration for Children and Families, poverty statistics reported by the U.S. Census Bureau, and caseload data for food stamps as reported by the Department of Agriculture.

Why It *Matters* to You

The 1996 Reform of Welfare

Because, since the reform, the states have been faced with fixed amounts to spend on welfare and individuals limited in terms of how long they could receive benefits, the percentage of poor people who receive welfare assistance has declined markedly. Many liberals are concerned that a hole has been opened in the safety net; conservatives tend to be pleased that incentives for the poor to find gainful employment have been increased.

Today, welfare spending remains unpopular compared to most other governmental expenditures. The 2008 General Social Survey asked a random sample of the public whether spending should be increased or decreased in 22 categories. Education ranked as the American public's top priority for more spending; welfare ranked nineteenth with only aid to big cities, space exploration, and foreign aid ranking lower.[31]

One reason that welfare remains unpopular may be that TANF, along with food stamps and health benefits, is seen as contributing to a flood of immigrants. In some states, controversial policies have been considered that would deny benefits to people who cannot prove that they are legal residents, as you can read about in "You Are the Policymaker: Should Government Benefits Be Denied to Illegal Immigrants?"

You Are the Policymaker

Should Government Benefits Be Denied to Illegal Immigrants?

In states such as Texas and California, which have experienced an influx of illegal immigrants particularly from Mexico and Central America, there is concern that providing public services to illegal immigrants is seriously draining state resources. The issue gained prominence as early as 1994, when Californians voted on Proposition 187, labeled by its proponents as the "Save Our State Initiative." This measure sought to cut illegal immigrants off from public services and benefits, such as education, and welfare benefits. Not only would Proposition 187 save the state treasury, its proponents argued, but it would discourage illegal immigrants, who came largely to take advantage of the free goods offered.

Opponents replied that although illegal immigration is surely a problem, the idea of cutting off public services could easily do more harm than good. They pointed out the public-health risks of denying illegal immigrants basic health care, such as immunizations that help control communicable diseases. If denied an education, some children of illegal immigrants, with nothing to do all day, they argued, would turn to crime. They also had a fairness argument: by paying sales taxes and rent, part of which goes to landlords' property taxes, illegal immigrants contribute to the tax base that pays for public services and thus should be entitled to make use of them.

The proponents of Proposition 187 won at the ballot box. However, they lost in their attempts to get the measure enforced. When Hispanic groups challenged the law, the courts ruled that the proposition violated the rights of illegal immigrants, as well as national laws concerning eligibility for federally funded benefits. Overall, the proposition was held to be an unconstitutional state scheme to regulate immigration.

California's experience with Proposition 187 has not stopped other states from trying to follow a similar course. In 2007, Oklahoma governor Brad Henry signed into law the "Taxpayer and Citizen Protection Act," which many advocates of cracking down on illegal immigration highly praised. Like California's Proposition 187, this act was designed to deny illegal immigrants the right to receive services and benefits such as welfare benefits, scholarships, and medical care other than emergency care. The act also made it a crime to transport or house illegal immigrants in Oklahoma. As with California's law, the Oklahoma law was successfully challenged in court by Hispanic groups on the grounds that responsibility for enforcing immigration laws belongs to the federal government, not the states.

What do you think? Should illegal immigrants be denied government benefits, such as welfare and in-state tuition? Or should illegal immigrants who have paid their fair share of taxes receive some or all of the benefits that American citizens do? What are the advantages and disadvantages of each approach?

Social Security: Living on Borrowed Time

16.5 Outline how America's Social Security program works and the challenge of keeping it financially solvent in the coming years.

Every year, the Social Security Administration sends out over 100 million letters titled "Your Social Security Statement" to Americans detailing their contributions to the **Social Security Trust Fund** and the likely benefits they can expect to receive from it when they retire. About 75 million baby boomers will be retiring between 2010 and 2030. Chances are that they will live longer and healthier lives than previous generations—and run up bigger costs for Social Security. Many experts, as well as politicians, believe that Social Security is badly in need of reform. They argue that it is moving inexorably toward a day, not very far off, when the income being paid into the program will not be enough for paying out benefits, at least not at the level that people have come to expect from their yearly Social Security statement. But what exactly is Social Security? Let's look at its history—and at its future.

Social Security Trust Fund
The "account" into which Social Security employee and employer contributions are "deposited" and used to pay out eligible recipients.

The Growth of Social Security

Social Security, officially called Old Age, Survivors and Disability Insurance (OASDI), has proved to be a highly successful and popular program. Year after year, more than 90 percent of people polled support Social Security. Although its benefits are relatively modest—the average monthly check for a retired worker in 2012 was $1,229—Social Security has lifted many elderly people out of poverty. Social Security taxes and benefits have both grown over the years because the program worked.

Social Security, now the most expensive public policy in the United States, began modestly enough, as part of Franklin Roosevelt's New Deal. President Roosevelt famously said that he wanted the fiscal basis to be so solid that "no damn politician can ever scrap my social security program." The fiscal soundness derived from the fact that, before money could go out to the beneficiaries, it would have to come into the federal treasury in payroll taxes. Indeed, over the years, Americans have tended to look on their Social Security benefits as getting back what they paid in. But from the start, taxes and benefits were not necessarily equivalent. The first Social Security recipient, a woman named Ida May Fuller from Brattleboro, Vermont, contributed a mere $22.54 and received benefits totaling $22,888.92, because she lived to an old age.[32] Today, however, a worker in his or her twenties may be facing the prospect of paying in more than he or she can expect to get back. To understand the problem, we have to look at how Social Security works.

Government taxes employees and their employers a percentage of each employee's income up to a maximum contribution. Both employee and employer contributions are paid into the Social Security Trust Fund, from which distributions are made to eligible retirees and those who are no longer able to work due to disability. Up until 2010, more money was paid in every year than paid out, with the consequence that a substantial sum was saved for the future. Since then, however, the Social Security Trust Fund has been running in the red, and unless some major changes are made to the program the surplus will be gradually depleted over the coming years. The reason is simple: there aren't enough workers paying in to the system to support all the people who are entitled to claim benefits from it. The ratio of workers to Social Security beneficiaries has been heading downward for quite some time and is projected to fall yet further. Thus, the Social Security program may be living on borrowed time.

Various demographic factors explain the changing ratio. When Social Security was established, average life expectancy for Americans was lower than the 65 years of age at which workers could begin to collect benefits. With medical advances, average life expectancy has soared to 78 years. The bottom line is that while the number of Social Security contributors (the workers) is growing slowly, the number of Social Security recipients (the retired) is growing rapidly.

In short, as the number of retirees grows (and their average benefit is increased to adjust for inflation, in what are called cost-of-living adjustments), Social Security payouts will exceed income, and within a number of years, the Trust Fund will be depleted. At that point, Congress will have to also use regular appropriations to pay out benefits to retirees—monies that thus would not be available for other purposes. There is no politically pleasant solution to this Social Security dilemma. Some experts say benefits must be cut, others say the rate of Social Security taxes must be increased, and yet others believe that both measures will be necessary.

Reforming Social Security

Politicians tread gingerly on the terrain of Social Security, fearing a backlash from older Americans,[33] a concern accentuated by the fact that older Americans are an age group with a high voting rate.[34] Nonetheless, the looming problems of Social Security are so serious that recent presidents have tried their hands at reform.

President George W. Bush proposed diverting about a third of individuals' Social Security contribution to private retirement funds. The idea was that individuals could reduce their contribution and put that part of the money into a private account, a stock, a bond, or another investment and then collect their gains—or perhaps face their losses—when they were eligible to collect Social Security. President Bush appointed a Commission to Strengthen Social Security, which advocated this idea of limited privatization of Social Security. The Commission argued that contributions put into the stock or bond market over the long haul would produce greater returns, making it possible for today's young people to receive more benefits when they retire. Critics countered that the problem was that permitting people to divert money from the system would merely hasten its bankruptcy. Moreover, the report couldn't have come at a worse time for advocates of privatization: stocks were slumping, and as their value declined, so did public support for President Bush's proposal.

In 2010, President Obama appointed a commission to draft a proposal for dealing with the nation's long-term fiscal problems, including the deficit that the Social Security Trust Fund will soon be facing. Unlike Bush, Obama has adamantly opposed any privatization of Social Security. Other than the privatization proposal, however, Obama insisted that all ideas should be on the table for the commission's consideration. The commission made four recommendations to put Social Security on a sound fiscal course for the future: (1) gradually increase the age by which people would be entitled to benefits; (2) revise the inflation adjustment formula for benefits so that recipients would receive less of a raise every year; (3) reduce benefits for retirees who have substantial income from other sources; and (4) raise the maximum contribution that workers pay in to the system, thereby taxing wealthy Americans more. Which option, or combination thereof, Congress and the president ultimately agree to implement will determine the future of America's most popular social welfare policy.

Social Welfare Policy Elsewhere

16.6 Distinguish American social welfare policy from that of other established democracies.

Most industrial nations tend to be far more generous with social welfare programs than is the United States. This greater generosity is evident in programs related to health, child care, unemployment compensation, and income maintenance for the elderly. Europeans often think of their countries as "welfare states," with all the generous benefits—and, by U.S. standards, staggering taxes—that this implies.[35] One example can be seen in "America in Perspective: Parental Leave Policies."

Most Americans would be amazed at the range of social benefits in the average European country. French parents, for example, are guaranteed the right to put their toddlers in *crèches* (day care centers), regardless of whether the parents are rich or poor, at work or at home. French unemployment benefits are generous by American standards, although French unemployment rates are considerably higher than ours. In many European countries, free or low-cost government health care policies even include treatments at health spas.

Europeans pay a high price for generous benefits. Tax rates in Western European nations far exceed those in the United States; in some cases top tax rates exceed 50 percent of income. Moreover, the problems that the United States faces in funding Social Security occur to an even greater extent in many European countries, not only because of the level of benefits but also because their populations are shrinking due to very low birthrates, which compounds the issue of fewer taxpayers supporting an aging population.

Americans tend to see poverty and social welfare needs as individual concerns, whereas European nations tend to support greater governmental responsibility for these problems. For example, 71 percent of Americans believe that the poor could escape poverty if they worked hard enough, compared to just 40 percent of Europeans.[36] Also, Europeans often have a more positive attitude toward government, whereas Americans are more likely to distrust government action in areas such as social welfare policy.

America in Perspective

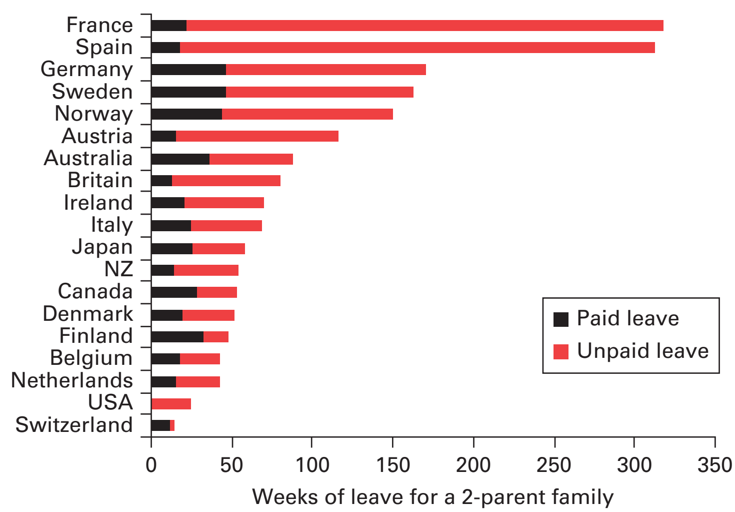
Parental Leave Policies

Since 1993, U.S. federal law has required employers with 50 or more employees to provide workers (both women and men) with up to 12 weeks of *unpaid* leave for the birth or adoption of a child or the illness of a close family member. When President Clinton signed this law he hailed this as a landmark piece of legislation, whereas the majority of Republicans denounced it as yet another example of intrusive government. Compared to all other advanced industrialized democracies, though, the provisions of the American Family and Medical Leave Act are relatively meager. As you can see in the accompanying chart, all of the other established democracies provide for at least 10 weeks of *paid* leave for a 2-parent family to care for a new child and most allow *unpaid* leave that greatly exceeds what American law provides for.

During the 2008 presidential campaign, Barack Obama proposed that *unpaid* family leave in America be extended to companies with at least 25 employees, and that the federal government provide grants to states to help them implement programs to provide *paid* family leave.

CRITICAL THINKING QUESTION

Would you favor or oppose these proposals? If you favor them, would you go even further and bring American family leave policy into line with the norm in other advanced industrialized democracies?



SOURCE: Rebecca Ray et al., "Parental Leave Policies: Assessing Generosity and Gender Equality," Report of the Center for Economic and Policy Research, June 2009, p. 6. Updated by the authors for Australia, which implemented its first *paid* family leave in 2011.

Understanding Economic and Social Welfare Policymaking

16.7 Assess the impact of economic and social welfare policies on democracy and the scope of government in America.

Economic and social welfare policies are bound to be controversial in a capitalist, democratic political system. Very few issues divide liberals and conservatives more sharply. Americans struggle to balance individual merit and the rewards of initiative with the reality of systemic inequalities and the need to provide economic support to those who need it. Citizens disagree on how much government can or should do to even out the competition and protect those who are less able or too old to compete. In short, Americans seek to retain a commitment to both competition and compassion. Sorting out the proper balance of these values is at the heart of policy disagreements about economic and social welfare programs.

Democracy and Economic and Social Welfare Policies

The solutions to many of the problems of the free enterprise economy were achieved in America through the democratic process. As the voting power of the ordinary worker grew, so did the potential for government regulation of the worst ravages of the free enterprise system. Political pressure grew for action to restrict unfair business practices and protect individual rights. Over time, the state assumed responsibility for setting the age at which one could work, determining the normal work week, establishing standards for safety on the job, protecting pension funds, and many other aspects of economic life. Just as the right of free speech is not interpreted so as to allow someone to shout "Fire!" in a crowded movie theater, so the right to free enterprise is no longer interpreted as a giving businesses the right to employ 10-year-olds or to have employees work in unsafe conditions. It is now generally agreed that such practices should be forbidden by the government. Through their choices at the ballot box, Americans essentially decided to give up certain economic freedoms for the good of society as a whole.

It would be an exaggeration, however, to say that democracy regularly facilitates an economic policy that looks after the general rather than specific interests. In a democracy, competing demands are resolved by government decision makers. But these policymakers do not act in a vacuum. They are aligned with and pay close attention to various groups in society. In the social welfare policy arena, the competing groups are often quite unequal in terms of political resources. For example, the elderly are relatively well organized and often have the resources needed to wield significant influence in support of programs they desire. As a result, they are usually successful in protecting and expanding their programs. For the poor, however, influencing political decisions is more difficult. They vote less frequently and lack strong, focused organizations and money. Larry Bartels finds that elected officials are often unresponsive to the policy preferences of low-income citizens.[37]

Although government benefits are difficult to obtain, especially for the poor, the nature of democratic politics also makes it difficult to withdraw benefits once they are established. Policymaking in the United States is very incremental in nature. Once put into place, policies develop a life of their own. They engage supporters in the public,

As American workers have gained more political power, they have demanded government action to improve working conditions and regulate business practices. No longer can children be found working in factories, as did this 11-year-old girl in a Tennessee textile mill around 1910.

in Congress, in the bureaucracy, and among key interest groups. Tremendous pressures come from these supporters to expand, or at least keep, existing programs. These pressures persist even when the size and costs of programs seem to have grown beyond anything originally envisioned, as has often been the case with social welfare programs.

Economic and Social Welfare Policies and the Scope of Government

Liberals and conservatives fundamentally disagree about the scope of government involvement in the economy. In general, liberals look to the writings of economists such as John Maynard Keynes and Robert Solow, whose work offers justification for an expanded role of government in stimulating the economy. Conservatives, on the other hand, rely on Friedrich Hayek's influential theories on the free market and on Milton Friedman's arguments against government intervention. Whereas liberals focus on the imperfections of the market and what government can do about them, conservatives focus on the imperfections of government. For example, while liberals often propose government spending to create new jobs, conservatives argue that businesses can create new jobs and prepare people for them if government will just get out of the way.

Ever since the New Deal and the creation of Social Security, the growth of government has been largely driven by the growth of social welfare policies. Conservatives complain about the "welfare state." Even if ours is small relative to those of other nations, the American social welfare system grows generation by generation. American attitudes toward the growth of social welfare often depend on their assessment of what Schneider and Ingram call "target groups."[38] The elderly and the "deserving poor"—groups viewed favorably—are one thing; the "undeserving poor" are quite another. The debate about the scope of social welfare policies is influenced by the controversy concerning how deserving various groups are, as well as by the political resources of the beneficiaries.

Review the Chapter

Listen to Chapter 16 on MyPoliSciLab

Economic Policymaking

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.

Two major instruments are available to government for managing the economy: monetary policy and fiscal policy. Republicans have become the party of supply-side economics, believing that tax cuts will lead to economic growth and jobs. Democrats disagree, sticking to Keynesian economic theory, which recommends government spending in order to stimulate demand for goods during economic downturns.

Types of Social Welfare Policies

16.2 Compare and contrast entitlement and means-tested social welfare programs, p. 558.

Means-tested social welfare programs provide benefits only to people who qualify for them based on specific needs. In contrast, entitlement programs provide benefits to individuals without regard to need. Because entitlement programs can provide benefits to everyone, they are generally more popular with the public than means-tested programs.

Income, Poverty, and Public Policy

16.3 Assess the extent of economic inequality in America and the role of government in lessening it, p. 559.

Despite America's affluence, the extent of inequality—the disparity between incomes—is quite substantial and has been increasing in recent decades. America's means-tested social welfare programs help to reduce inequality by helping the poorest individuals. Progressive taxes, such as the federal income tax, also alleviate inequality by taking a bigger bite out of the rich than the middle class.

Helping the Poor? Social Policy and the Needy

16.4 Trace the changes over time in major federal welfare programs, p. 566.

The Aid to Families with Dependent Children (AFDC) program was begun during FDR's New Deal, greatly expanded during the period of LBJ's Great Society, and then reduced in scope by the Reagan administration. When he ran for president in 1992, Bill Clinton promised to "end welfare as we know it." With the help of a Republican majority in Congress in 1996, the AFDC program was replaced by Temporary Assistance to Needy Families (TANF). The major innovation of the new law was that recipients of aid can only be on the welfare rolls for two consecutive years and five years during their lifetime.

Social Security: Living on Borrowed Time

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

The Social Security program collects a payroll tax from workers and their employers each month and pays out monthly benefits to retirees. It has proved to be a highly successful and popular program. However, demographic trends have put the program in danger, as soon there will not be enough workers per beneficiary to keep the program solvent. The government will soon need to decide on and implement difficult changes such as raising Social Security taxes or reducing benefits.

Social Welfare Policy Elsewhere

16.6 Distinguish American social welfare policy from that of other established democracies, p. 571.

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.

Understanding Economic and Social Welfare Policy

16.7 Assess the impact of social welfare policies on democracy and the scope of government in America, p. 572.

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. Thus, the elderly have been very successful in preserving their Social Security and Medicare benefits, whereas the poor have faced difficulties in preserving welfare funding. Overall, 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.

Learn the Terms

Study and **Review** the **Flashcards**

social welfare policies, p. 549
unemployment rate, p. 550
underemployment rate, p. 552
inflation, p. 552
consumer price index, p. 553
laissez-faire, p. 553
monetary policy, p. 553
monetarism, p. 554
Federal Reserve System, p. 554
fiscal policy, p. 555
Keynesian economic theory, p. 555
supply-side economics, p. 556
entitlement programs, p. 559
means-tested programs, p. 559
income distribution, p. 560
relative deprivation, p. 560
income, p. 561
wealth, p. 561
poverty line, p. 561
feminization of poverty, p. 563
progressive tax, p. 564
proportional tax, p. 564
regressive tax, p. 564
Earned Income Tax Credit, p. 564
transfer payments, p. 565
Social Security Act of 1935, p. 566
Personal Responsibility and Work Opportunity Reconciliation Act, p. 567
Temporary Assistance for Needy Families, p. 567
Social Security Trust Fund, p. 569

Test Yourself

Study and **Review** the **Practice Tests**

1. The most important tool the government has for directing the economy is

a. its control over trade policy.
b. its control over government subsidies.
c. its control over labor laws.
d. its control over the money supply.
e. its control over investment practices.

2. Keynesian economic theory has as a central idea that the

a. government should not interfere with business practices.
b. government should decentralize economic policymaking.
c. government should take an activist role in managing the economy.
d. government should manage interest rates in economic policymaking.
e. government should erect trade barriers to protect the economy.

3. Compare and contrast Keynesian and supply-side approaches to economic policy. Which one do you prefer and why do you lean that way?

4. Which of the following is characterized as an entitlement program?

a. Medicaid
b. Medicare
c. Supplemental Security Income
d. Children's Health Insurance Program
e. food stamps

5. Compare and contrast entitlement and means-tested social welfare programs. How does each type balance "the desire to help those who could not help themselves, and the concern that charity would create dependency"? Explain your answer.

6. Among which of the following groups is poverty most common?

a. unmarried women with children
b. inner-city residents
c. African Americans
d. children
e. older Americans

7. Changes in income distribution in the United States over the past few decades have led to an increased sense of relative deprivation among U.S. citizens.

True_____ False_____

8. Compare and contrast the ways in which the government can affect personal income and income distribution through taxation. Provide an example of each, and explain which you think is the fairest form of taxation.

9. How accurate is the poverty line as a measure of poverty? What are some problems with the measure, and how has the Obama administration attempted to resolve these problems?

10. Which of the following is NOT true about welfare reform legislation passed in 1996 and its consequences?

a. Benefits for the poor have declined.
b. The number of families receiving aid has declined.
c. The role of state governments in welfare has declined.
d. The number of years for which families are eligible for benefits has declined.
e. The amount of money spent on welfare benefits has declined.

11. The government spends more money on transfer payments for the poor than on transfer payments for other citizens.

True_____ False_____

12. Discuss the history of major federal welfare programs for the poor. Based on evidence provided in the textbook, how successful have these welfare programs been? In your opinion, what is the likely future of welfare programs in the United States?

13. Which of the following is the major reason why the future of the Social Security Trust Fund is thought to be in financial trouble?

a. Social Security taxes have been cut.
b. The majority of Americans oppose the program.

c. The ratio of retired beneficiaries to contributing workers has declined.
d. Congress has no control over the Social Security program.
e. None of the above.

14. In your opinion, what should be done to reform Social Security so that funds will be available for future generations? Explain what obstacles you think your proposal faces and why you think it might work.

15. Which aspect of social welfare spending is the United States *less* generous with than most European nations?

a. health care
b. child care
c. unemployment compensation
d. maintaining living standards for the elderly
e. all of the above

16. Americans are more likely than Europeans to believe that the poor can escape poverty if they work hard enough.

True_____ False_____

17. How does political participation affect the distribution of social welfare benefits in the United States? Do you think that this is a problem for America's democracy?

18. Which of the following statements is an accurate characterization of economic policymaking approaches?

a. Liberals focus more on the imperfections of the market than imperfections of government.
b. Liberals believe government spending is often the key to creating new jobs.
c. Conservatives focus more on the imperfections of government than imperfections of the market.
d. Conservatives believe that the best way to create more jobs is often through less government regulation of business.
e. All of the above.

Explore Further

WEB SITES

www.whitehouse.gov/cea
Reports of the President's Council of Economic Advisers, such as the annual Economic Report of the President.

www.federalreserve.gov
Information about the activities of the Federal Reserve Board.

www.aspe.hhs.gov/hsp/indicators-rtc/index.shtml
The Department of Health and Human Services issues an annual report to Congress on indicators of welfare dependence, which it posts at this site.

www.equalitytrust.org.uk/
A good site for information about inequality in the United States and other countries.

www.feedingamerica.org/
Information on who is going hungry in America and what is being done about it.

FURTHER READING

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