CHAPTER 18

Economic Policy

OBJECTIVES

The purpose of this chapter is to introduce the student to the theories and substance of economic policy. After reading and reviewing the material in this chapter, the student should be able to do each of the following:

1. Show how voters have contradictory attitudes regarding their own and others' economic circumstances.
2. Discuss the origin of the national deficit, its magnitude, and the various approaches to solving deficit spending.
3. List and briefly explain four competing economic theories. Assess the nature and impact of Reaganomics.
4. List the four major executive branch agencies involved in setting economic policy and explain the role of each.
5. Analyze federal fiscal policy in terms of the text's four categories of policy-making politics.
6. Trace the history of federal government budgeting practices.

OVERVIEW

There are three kinds of economic indicators that matter to voters. These are (1) the economic health of the nation, (2) the amount and kinds of government spending, and (3) the level and distribution of taxes. Different kinds of politics influence policies for each of these outcomes.

The politics of inflation, unemployment, and economic growth tend to be majoritarian. The president is held responsible for national conditions, even though there are only imperfect economic theories to direct clumsy government tools controlled by divided political authorities. Still, national economic health has powerful effects on election outcomes, as much through people's perceptions of national conditions as from their worries about personal finances.

When economic ill health occurs in some industries and places, but not in others, the politics of economic health are shaped by interest-group politics. Tariff policies are a good illustration of these politics. Firms that import foreign products or sell to foreign nations try to avoid trade restrictions, while firms and unions hurt by foreign competition try to impose such restrictions.

The amount of government spending is only theoretically determined by the budget. In fact, the president and Congress struggle over particular spending bills, whose amounts often reflect interest-group and client pressures.

The general shape of federal tax legislation is determined by majoritarian politics, but the specific provisions (especially deductions, exemptions, and exclusions) are the result of client and interest-group politics. The Tax Reform Act of 1986 was a remarkable example of the reassertion of majoritarian politics over client and interest-group pressures. It was made possible by policy entrepreneurs and political incentives.

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CHAPTER OUTLINE WITH KEYED-IN RESOURCES

I. Most Americans think it is not a good idea for the federal government to spend more money than it takes in (THEME A: POLITICS AND ECONOMICS)
   A. Deficit: spending more than one earns
      1. National debt: the total amount of deficits we have had since George Washington was president
      2. Federal government never has to declare bankruptcy because it has spent more than it has brought in
   B. Federal government can borrow money by selling bonds
      1. Bonds are always repaid
      2. Interest on bonds is paid every year
      3. Interest payments are the 3rd biggest item in the national budget (after income redistribution and defense)
   C. Debt is currently about 40% of GDP
      1. GDP: gross domestic product; the total of all goods and services produced in the country in a given year
      2. National debt in 2004 is about the same percentage of GDP as national debt in 1964
      3. Debt can be reduced if spending is cut or taxes are raised
   D. Both the deficit and the balanced budget have led to policy debates
      1. Republicans wanted to return the 1999 surplus to the public, while Democrats wanted to use it for new programs
      2. Both goals were served
         a) Republicans: Economic Growth and Tax Relief Reconciliation Act of 2001, one of only three large tax cuts since WWII
         b) Democrats: Most tax cuts end in 2010; and spending was increased to many federal programs
      3. Economic forecasts are always uncertain—September 11th attacks and subsequent military actions had significant economic implications
      4. When the nation is in recession
         a) Tax revenues decrease
         b) Spending on social programs needs to increase

II. The politics of economic prosperity
   A. Disputes about economic well-being tend to produce majoritarian politics
      1. Voters see connections between nation as a whole and their own situations
      2. Voting behavior and economic conditions are not always correlated at national and individual levels—people do not always vote their pocketbooks
         a) People understand what government can and cannot be held accountable for
         b) People see economic conditions having indirect effects on them even when they are doing well
   B. What politicians try to do
      1. Elected officials are tempted to take a short-term view of the economy and satisfy the self-regarding voter
         a) Patronage
         b) Veterans' benefits
         c) Social Security increases
      2. Government will not always do whatever is economically necessary to win the election
         a) Government does not know how to produce all desirable outcomes
         b) Economic pressures are often inter-related

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3. Ideology plays large role in shaping policy choices
    a) Democrats tend to want to reduce unemployment
    b) Republicans tend to want to reduce inflation

III. The politics of taxing and spending
- A. Majoritarian politics yields conflicting recommendations: lower taxes, less debt, new programs are all wanted
- B. Key is to raise taxes on "other people"
    1. "Other people" are always a minority of voters (e.g., cigarette smokers, affluent voters)
    2. Example: fund new medical research with tax on cigarettes
- C. Meaningful tax cuts are politically difficult; new programs tend to be more popular with politicians

IV. Economic theories and political needs
- A. Monetarism
    1. Asserts that inflation occurs when there is too much money chasing too few goods (Milton Friedman)
    2. Advocates increasing the money supply at a rate about equal to economic growth and then letting the free market operate
- B. Keynesianism
    1. Argues that government should create the right level of demand
    2. Assumes that the health of the economy depends on what fraction of their incomes people save or spend
    3. When demand is too low, government should pump money into the economy by spending more than it collects in taxes
    4. When demand is too high, government should take money out of the economy by increasing taxes or cutting expenditures
- C. Planning
    1. Asserts that the free market is too undependable to ensure economic activity
    2. Government should plan parts of a country's economic activity
    3. Wage-price controls (John Kenneth Galbraith)
    4. Industrial policy—government directs industrial investments
- D. Supply-side tax cuts
    1. There is a need for less government interference in the market and lower taxes (Arthur Laffer, Paul Craig Roberts)
    2. Lower taxes would create incentives for investment
    3. Greater economic productivity will then produce more tax revenue
- E. Ideology and theory
    1. Economic ideologies have clear political consequences
    2. People embrace an economic theory partly because of their political beliefs
- F. Reaganomics
    1. Combination of monetarism, supply-side tax cuts, and domestic budget cutting
    2. Goals being sought were not entirely consistent
        a) Reduction in size of the federal government
        b) Stimulate economic growth
        c) Increase military strength
    3. Effects
        a) Rate of growth of spending slowed, but not the spending itself
        b) Military spending increased sharply
        c) Money supply controlled—cut inflation but allowed interest rates to rise
        d) Personal income taxes cut, but Social Security taxes were increased
        e) Large deficits were incurred, dramatically increasing size of national debt

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f) Stimulated economy—unemployment decreased, business activity increased
g) Debate continued about the effect of tax cuts on productivity and investment

V. The machinery of economic policy-making
  A. Fragmented policy-making; not under president's full control
    1. Within the executive branch, numerous organizations influence economic policy
      a) Council of Economic Advisers (CEA)—members chosen are professional economists sympathetic to the president's view of economics
        (1) Forecasts economic trends, analyzes issues
        (2) Prepares the annual economic report that the president sends to Congress
      b) Office of Management and Budget (OMB)
        (1) Prepares estimates of amounts to be spent by federal government agencies; negotiates department budgets
        (2) Ensures that departments' legislative proposals are compatible with the president's program
      c) Secretary of the Treasury—reflects the point of view of the financial community
        (1) Provides estimates of government's revenues
        (2) Represents the nation with bankers and other nations
      d) The Federal Reserve Board (The Fed)
        (1) Members are appointed by the president, confirmed by the Senate; serve a nonrenewable fourteen-year term; removable for cause
        (2) Chair serves for four years
        (3) Somewhat independent of both the president and Congress
        (4) Regulates the supply and price of money
        (5) Sets monetary policy: the effort to shape the economy by controlling the amount of money and bank deposits and the interest rates charged for money
  B. Congress
    1. Most important part of economic policy-making machine
    2. Approves all taxes and almost all expenditures
    3. Consents to wage and price controls
    4. Can alter/influence Fed policy by threatening to reduce its powers
    5. But Congress is also internally fragmented, with numerous committees setting economic policy
    6. Creates fiscal policy: how high taxes should be and how much money the government should spend
  C. Effects of claims by interest groups
    1. Supporters of free trade find it easy to sell their goods abroad
    2. Supporters of tariffs find it hard to compete with foreign imports
    3. NAFTA a victory for free trade, but note that it was not extended to all Latin American countries

VI. Spending money
  A. Majoritarian, client, or interest group politics all result from policy debates
  B. Sources of conflict are reflected in the inconsistencies in public opinion
  C. Politicians have an incentive to make two kinds of appeals
    1. Keep spending down and cut deficit
    2. Support voters' favorite programs
  D. Inconsistency of these appeals is evident in the budget

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VII. The budget (THEME B: THE BUDGET PROCESS)
   A. Budget: a document that announces how much the government will collect in taxes and spend in revenues and how those expenditures will be allocated among various programs
   B. Fiscal year: time period covered by the budget, running from October 1 to September 30 of the following year
   C. Federal budgeting in practice: not allocating revenues, but recording expenditures
      1. No federal budget before 1921
      2. No unified presidential budget until the 1930s
      3. Congressional committees continued to respond independently
   D. Congressional Budget Act of 1974: established procedures to reform past practices
      1. President submits budget
      2. House and Senate budget committees analyze the budget, with the Congressional Budget Office
      3. Each committee proposes to its house a budget resolution that sets a total budget ceiling and ceilings for each of several spending areas
      4. Congress is supposed to adopt these resolutions, to guide its budget debates
      5. Congress considers appropriations bills and sees whether they are congruent with the budget resolution
      6. Appropriations bills cannot make big changes in the budget because approximately two-thirds of government spending is on entitlements
      7. Nothing requires Congress to make cuts, but the process has made some links between spending and revenues
      8. Reagan secured large cuts in 1981, but was unsuccessful in subsequent years

VIII. Reducing spending
   A. Passage of the Gramm-Rudman Balanced Budget Act (1985) placed the first cap on spending
      1. Called for automatic cuts from 1986–1991, until the federal deficit disappeared
      2. If there was a lack of agreement between the president and Congress on the total spending level, there would be automatic across-the board cuts (a sequester)
      3. President and Congress still found ways to increase spending
   B. 1990, a new budget strategy
      1. Congress voted a tax increase and the Budget Enforcement Act capped non-entitlement (discretionary) funding
      2. If entitlement spending increased, there had to be cuts in discretionary spending or taxes had to be raised

IX. Levying taxes
   A. Tax policy reflects blend of majoritarian and client politics
      1. "What is a 'fair' tax law?" (majoritarian politics)
         a) Tax burden is kept low
         b) Requires everyone to pay something
         c) Requires the better-off to pay at a higher rate than the less well-off
      2. "How much is in it for me?" (client politics)
         a) Requires the better-off to pay more
            (1) Extent to which taxes are progresive is a matter of dispute because it is hard to calculate
            (2) Loopholes are an example of client politics
         b) Client politics (special interests) makes tax reform difficult
         c) Still, Tax Reform Act (1986) passed and eliminated many loopholes

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B. The rise of the income tax
   1. Most revenue was derived from tariffs until ratification of the Sixteenth Amendment (1913)
   2. Taxes then varied with war (high) and peace (low)
      a) High rates for the rich were offset by many loopholes: a compromise
      b) Constituencies organized around loopholes
   3. Tax bills before 1986 dealt more with deductions than with rates
   4. 1986: low rates with smaller deductions, upsetting the old compromise
   5. George H.W. Bush and Clinton increased tax rates, keeping deductions low
   6. Balanced budget switched policy debates to tax cuts, but Social Security and Medicare policy problems remain

WEB RESOURCES

Center for Economic Policy Research: http://www.cepr.org/

Congressional Budget Office (CBO): http://www.cbo.gov/

Economic Policy Institute: http://www.epinet.org/

Federal Reserve Board: http://www.federalreserve.gov/

Federal Reserve, Economic Data: http://research.stlouisfed.org/fred/

Federal Reserve, Economic Education Program: http://www.federalreserveeducation.org/

Office of Management and Budget (OMB): http://www.whitehouse.gov/omb/

U.S. Bureau of the Public Debt: http://www.publicdebt.treas.gov/bpd/bpdhome.htm

U.S. Department of State, Country Reports on Economic Practice and Trade: http://www.state.gov/www/issues/economic/trade_reports/

U.S. Department of Treasury: http://www.ustreas.gov/

U.S. Internal Revenue Service (IRS): http://www.irs.gov/

RESEARCH AND DISCUSSION TOPICS

Which is more important, fiscal or monetary policy? Of course, neither policy is more important than the other, but students frequently think that one must be dominant—if for no other reason than their coordination is so difficult. Ask students to think about the connections between budgetary politics (conducted by elective officials) and monetary decision making (conducted by appointed officials). What kinds of expertise are required for each kind of policy? Why would one policy be managed by elected officials while the other is managed by appointed officials? Is there sufficient accountability, on the part of the Federal Reserve Board to the public?

Compare and contrast: the federal deficit and the federal debt. These terms are notoriously difficult for students to define, perhaps because they are related in their workings. Ask students to visit the website of the U.S. Bureau of the Public Debt (http://www.publicdebt.treas.gov/bpd/bpdhome.htm) and to comment on the significance of the debt for the country's political and economic decision-making. You may also wish to have students compare the national debt of the United States with that of other nations, and then consider how those debts influence the course of international politics.

Does the United States have a progressive income tax? Should it? As the text notes, it is extremely difficult to assess the extent to which the federal income tax is progressive. In addition to various loopholes that favor special interests, there are other provisions that are popular among the general

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public. These include tax code provisions that encourage home ownership and charitable giving. Are all "loopholes" relative, so that we approve of those that advance our interests and object to those that do not? Or are there more enduring standards that can be set for the tax code? Should all loopholes and deductions be eliminated, perhaps with the tax rates lowered across the population? What connections do students draw between taxes, political participation, and socio-economic inequalities?

IMPORTANT TERMS

***budget** A document that states tax collections, spending levels, and the allocation of spending among purposes.

***budget resolution** A congressional decision that states the maximum amount of money the government should spend.

***deficit** What occurs when the government in one year spends more money than it takes in from taxes.

***economic planning** The belief that government plans, such as wage and price controls or the direction of investment, can improve the economy.

***entitlement** A claim for government funds that cannot be changed without violating the rights of the claimant.

***fiscal policy** Managing the economy by the use of tax and spending laws.

***fiscal year (FY)** For the federal government, October 1 to September 30.

***gross domestic product (GDP)** The total of all goods and services produced in the economy during a given year.

***Keynesianism** The belief that the government must manage the economy by spending more money when in a recession and cutting spending when there is inflation.

***monetarism** The belief that inflation occurs when too much money is chasing too few goods.

***monetary policy** Managing the economy by altering the supply of money and interest rates.

***national debt** The total deficit from the first presidency down to the present.

***Reaganomics** The belief that a combination of monetarism, lower federal spending, and supply-side economics will stimulate the economy.

***sequester** Automatic spending cuts.

***supply-side economics** The belief that lower taxes and fewer regulations will stimulate the economy.

THEME A: POLITICS AND ECONOMICS

Instructor Resources

Sandra M. Anglund, *Small Business Policy and the American Creed.* Westport, CT: Praeger Publishers, 2000.

Carl Boggs, *The End of Politics: Corporate Power and the Decline of the Public Sphere.* Guilford Press, 2000.

George J. Borgas, *Heaven's Door: Immigration Policy and the American Economy.* Princeton: Princeton University Press, 2001.

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Business and Society: Corporate Strategy, Public Policy, and Ethics, 8th ed. New York: McGraw Hill, 2000.

Kenneth W. Dam, *The Rules of the Global Game: A New Look at U.S. International Economic Policymaking.* Chicago, IL: University of Chicago Press, 2001.

Gosta Esping-Andersen, *Why Deregulate Labour Markets.* New York: Oxford University Press, 2000.

Jefrey A. Frankel and Peter R. Orszag, eds., *American Economic Policy in the 1990s.* Cambridge, MA: MIT Press, 2002.

Martha Liebler Gibson, *Conflict Amid Consensus in American Trade Policy.* Washington, D.C.: Georgetown University Press, 2000.

Gene M. Grossman and Elhanan Helpman, *Interest Groups and Trade Policy.* Princeton: Princeton University Press, 2002.

Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities.* New Haven, CT: Yale University Press, 1984.

Michael Perelman, *The Pathology of the U.S. Economy Revisited: The Intractable Contradictions of Economic Policy.* New York: Palgrave MacMillan, 2002.

David B. Reynolds, *Taking the High Road: Communities Organize for Economic Change.* Armonk, NY: M.E. Sharpe, 2002.

Daniel Shaviro, *Do Deficits Matter?* Chicago: University of Chicago Press, 1999.

Constantine J. Spilotes, *Vicious Cycle: Presidential Decision-Making in the American Political Economy.* College Station, TX: Texas A&M University Press, 2002.

Robert M. Stern, ed., *Issues and Options for U.S. – Japan Trade Policies.* Ann Arbor, MI: University of Michigan Press, 2002.

Wyatt C. Wells, *Antitrust and the Formation of the Postwar World.* New York: Columbia University Press, 2002.

Bob Woodward, *Maestro: Greenspan's Fed and the American Boom.* Touchstone Books, 2001.

Summary

A central fact about the federal government's role in the economy is presidential accountability to the voters. Unfortunately, the White House cannot control the economy's progress, because external variables (such as world trade conditions) and the proliferation of economically influential federal agencies can frustrate the proposed fiscal game plan. Furthermore, economic forces are so unpredictable and volatile (a specific policy can easily backfire) that the search for economic prosperity begins to resemble a game of Russian roulette. Accordingly, partisan ideological preferences for a specific economic theory usually shape policy directions on such matters as unemployment, inflation, and reduction of the federal debt.

Four major theories on the management of the economy are discussed in the text.

1. *Monetarism.* Monetarists such as Milton Friedman hold that inflation is the result of too much money chasing too few goods. This occurs when government prints too much money. When government tries to stop inflation by decreasing the money supply, unemployment increases. Rather than adopting these start-and-stop policies, it would be better if government allowed the money supply to increase steadily and consistently at a rate about equal to the growth in the productivity of the economy. This should, however, be the extent of the government's involvement in the economy.

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2. *Keynesianism.* For Keynesians, the market will not automatically operate at a full-employment, low-inflation level. When people spend too little, unemployment results, and government should pump more money into the economy by running a deficit (that is, by spending more than it takes in). When demand is too great, government should run a surplus. That is, it should take more from the economy than it returns to the economy (through spending). Thus an activist government fiscal policy is necessary.

3. *Planning (price and wage controls, industrial policy).* Economists such as John Kenneth Galbraith feel that large institutions in the economy (corporations and labor unions) have the ability to escape competitive pressures and raise prices, whatever the money supply or level of consumer demand. Thus the government must control wages and prices. But with the curbing of inflation in the 1980s and the voluntary lowering of wages and prices, a different type of planning by government was considered. Industrial policy reflected the federal government's desire to direct investment to declining but vital smokestack industries—steel and auto—in imitation of the Japanese model. This model was endorsed by Robert Reich.

4. *Supply-side tax cuts.* This relatively new theory, propounded by people such as Arthur Laffer and Paul Craig Roberts, holds that high taxes create inflation and economic stagnation by removing people's incentive to work. Thus cutting tax rates will encourage work and investment and even bring in more tax revenue as economic activity expands. This theory formed the core of *Reaganomics.*

Although economic forecasting and policy implementation are inexact, economists do provide important data to government. Presidents must have economic policies that can reconcile the self-regarding and other-regarding perspectives of the voters.

Discussion Questions

1. Why is the president held accountable for the economy? Remember that Congress plays an important role in setting fiscal policy and that the Federal Reserve Board is largely independent in setting monetary policy.

2. Each of the four theories defined above has played a dominant role in United States economic policy, though each has dominated in a distinct historical period. Under what circumstances would you recommend implementing which theory? What are the particular strengths of each theory? the particular weaknesses?

3. Which of the four theories of economic management is guiding the current presidential administration? How well is the theory performing, in regards to predicting economic developments and aiding in the development of strong economic policies?

4. Why is political ideology so influential in economic policy? Why are politics and economics so interwoven?

THEME B: THE BUDGET PROCESS

Instructor Resources

Angela Antonelli and Peter Sperry, eds., *A Budget for America.* Heritage Foundation, 2001.

Naomi Calden and Aaron B. Wildavsky, *The New Politics of the Budgetary Process*, 4th ed. Addison Wesley, 2000.

James J. Gosling, *Budgetary Politics in American Governments.* New York: Routledge, 2002.

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Dennis S. Ippolito, *Why Budgets Matter: Budget Policy and American Politics.* University Park, PA: Pennsylvania State University Press, 2004.

Allen Schick and Felix Lostracco, *The Federal Budget: Politics, Policy, Process*, revised ed. Washington, D.C.: The Brookings Institution, 2000.

Marcia Lynn Whicker and Ruth W. Epps, *Public Money Managers: A Profile of Budget and Finance Officers.* Armonk, NY: M. E. Sharpe, 2000.

Summary

The budgetary process invariably involves choices about which specific areas should be funded and which ones should be cut, about who stands to benefit from the shape of the budget and who will pay for the programs. Client politics cannot be ignored, so budgetary policy must be constructed through the collective (and frequently opposing) viewpoints of a number of federal institutions and individuals.

In the executive branch, the *troika* consists of:

1. *The Council of Economic Advisers (CEA),* which generally represents the promarket views of professional economists. Presidents do, however, appoint ideologically sympathetic economists.
2. *The Office of Management and Budget (OMB),* which has the responsibility of preparing a federal budget in accordance with the president's program. It tries to be both a nonpartisan analyst of spending and budget patterns and an activist imposing the president's wishes on the bureaucracy.
3. *The secretary of the treasury,* who is generally expected to represent the finance community's point of view.

The Federal Reserve System, which regulates the nation's money supply and interest rates, is theoretically independent of both the president and Congress, because its members serve fourteen-year terms. Actually the president has some influence over the Fed, through appointment politics.

Then, of course, there is Congress, which must approve all taxes and almost all expenditures. Until 1974 the annual *budget* of the United States was pretty much the sum of what the committees in a decentralized Congress wanted to spend. The *Congressional Budget Act of 1974* attempted to impose some centralization on the process. Now budget committees in each house produce a *budget resolution* that, when adopted, imposes ceilings on overall spending and on spending in each area (such as health and defense). These ceilings are supposed to guide legislative committees in drawing up specific appropriations bills. President Reagan used the process in 1981 to get Congress to vote about $36 billion in spending cuts for fiscal 1982. It was necessary to his strategy to get Congress to vote for a total package of cuts before it voted on any individual cut.

Cutting spending is necessarily a difficult matter, because about three-fourths of all federal outlays are relatively *uncontrollable.* Many of these uncontrollable expenditures could in fact be controlled if Congress were willing to reduce benefits to individuals, but this is politically risky.

Cutting taxes, by contrast, would seem to be politically very popular. However, people object less to income taxes, which are withheld from paychecks and never seen, than to local property taxes. Further, Americans are more concerned about balancing the budget than about cutting taxes. Tax cuts also exacerbate the chronic series of deficits that the federal government ran over the last quarter of the twentieth century. Thus when Reagan attempted to implement the supply-side economic theory in 1981, he found it quite difficult to round up the votes in Congress. He was able to do so only by adding a large number of "sweeteners" for special-interest groups to his basic three-year, 27 percent, across-the-board cut. Over the long run, the most important provision of this tax bill was the *indexing* of tax brackets, beginning in 1985. This was intended to eliminate automatic *de facto* tax increases caused by *bracket creep* and to force the Congress to explicitly raise taxes if it wished to generate more revenue. George H.W. Bush and Clinton also proposed tax increases, and their bills passed with very narrow

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majorities. In 1997, though, there was a cut in taxes, as part of a legislative-executive compromise intended to balance the budget.

Generally, however, the George H.W. Bush and Clinton administrations combined tax increases and spending cuts to cut the deficit. In particular, the Budget Enforcement Act of 1990 imposed a cap on discretionary (non-entitlement) spending: Money could be moved from one discretionary area to another, but any additional spending would require increasing taxes. The tax increase and the 1990 act had some effect in cutting the deficit, but most of the budget surplus in Clinton's second term was the product of Social Security taxes.

In 2001, the George W. Bush administration negotiated to secure passage of the Economic Growth and Tax Relief Reconciliation, which is one of only three large tax cuts since the second world war. Democrats had wanted to use the budget surplus to finance government programs, rather than to provide tax cuts, and so had opposed this bill. They did succeed in their efforts, in that the legislation provides tax cuts only until 2010; they also secured increased levels of funding for many federal programs. Following the terrorist attacks of September 11th, however, the issue of a budget surplus seemed moot. Increased spending for the war on terrorism and for homeland security, and an on-going economic recession, decreased the likelihood of a budget surplus.

Discussion Questions

1. Does the president have the necessary tools to manage the economy? Is there any justification for such a decentralized system?

2. Why are the majority of federal expenditures considered uncontrollable? Are there any that Congress really could not cut if it wanted to? In the 1990s, Congress began to control this spending. Why did Congress take this action?

3. Why is the government not a neutral, efficient instrument for controlling the economy? Which of the following is the chief problem?

    - The incompetence, rigidity, or lack of coordination of the federal bureaucracy
    - Lack of knowledge or ability on the part of the president or Congress
    - The activities of interest groups
    - The attitudes and opinions of the American public

4. How do politicians manipulate monetary and fiscal policy for political purposes? Is this a new development? Is this a process of buying votes? If so, how is it morally different from passing out cash in front of a polling place? If people want more money rather than less, is it not democratic for politicians to try to give it to them?

5. To what extent does the public have a say—through things like elections—in economic policy? Does the public demand particular economic policies? If not, how does the public have an effect?

    Instructor's Note: Discuss here the difference between prospective policy voting and retrospective evaluation. This distinction will be very important in foreign policy, also.

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6. How would economic policy-making change if the public were better informed about economics and politics? Which of the following would change?
   - The difficulty of closing tax loopholes
   - Uncontrollable spending in the federal budget
   - Social Security increases in election years
   - Government's desire to stimulate economic growth

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