

# POLITICS AND ECONOMIC POLICY IN THE UNITED STATES

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# **Preface**

N THE 1930s and 1940s, economic policy was a major interest of political scientists. The economic problems of the Great Depression served as the stimulus for that interest. With the economic rebound of the post–World War II years, however, interest shifted to other policy areas. The ills of the economy during the past two decades have rekindled interest in economic policy among political scientists as well as average citizens and students. There have been few general books about economic policy by political scientists, although studies of the interconnections between politics and the economy have been one of the "growth sectors" of political science research. Rising student and citizen interest and lack of material have led me to write this book.

Politics and Economic Policy in the United States is a general overview of economic policymaking in the United States. My general aim is to introduce students to important terms, ideas, and concepts associated with economic policymaking in the United States. Some of these terms, like fiscal policy, monetary policy, economic efficiency, and equity, are quite technical and complex, but they are discussed in important public and political forums, and voters are asked to decide among competing economic policy proposals by candidates for office. Economic policy often stands center stage in election campaigns and other public policy discussions. I introduce and present these ideas and controversies to help students in their role as citizen but avoid overwhelming them with excessively technical discussions. The basic logic behind the ideas and debates, rather than formal mathematical proofs, is the focus of the material presented in this book. Politics and Economic Policy in the United States is written for the student with no economics or mathematics background and only minimal background in political science and thus can be used safely in lower-division undergraduate courses.

## FEATURES OF THE BOOK

There is a logical structure to the book. The early chapters (1 and 2) set the framework, introduce important vocabulary for understanding economic policymaking, and provide a historical overview. Four middle chapters (3–6) discuss the important participants in economic policy making—the public, the interest groups, such as business and labor, and government officials. The remainder of the book details specific types of economic policies. First, macroeconomic policies—that is, taxation, fiscal, budgetary, and monetary policy—are covered (chapters 7–9). This part of the book ends with a treatment of the interconnections between economics and elections. The last part of the book focuses on sectoral economic policies, including regulation (chapters 10 and 11), distributive economic policy (12), and international economic policy (13). Finally, the last chapter (14) summarizes the discussion of the previous chapters into a framework of concepts, interests, ideas, and institutions and introduces some looming economic policy problems.

Although the book focuses on the United States, comparisons with other countries are offered when instructive. Similarly, the book focuses on the post–World War II era, but important matters are followed back to the early days of the nation. Thus, the book is broad in geographic and historical scope. Moreover, I make extensive use of cases to help illustrate the issues and add concrete details to what might otherwise be a highly abstract discussion. Extensive discussions of the 1995–1996 budget impasse and NAFTA are two examples of the cases used.

### **ACKNOWLEDGMENTS**

Writing a book is always a trying task, one that incurs many debts. I owe my thanks to many people for helping me produce this work. First, I would like to thank the reviewers for Houghton Mifflin: Nathaniel L. Beck, University of California at San Diego; George Krause, University of South Carolina; John T. Williams, Indiana University; and Lawrence S. Rothenberg, University of Rochester. Each made extensive and valuable comments, and the book is better because of their input. Jean Woy, as editor at Houghton Mifflin, first cajoled me into doing this project and initially provided me with encouragement. I am very grateful to her. Later, upon corporate reorganization, Paul Smith replaced Jean as my sponsoring editor. He also prodded me gently, encouraged me, and kept me on a timetable when I would have preferred to be doing something else. Without Jean and Paul, and the staff of Houghton Mifflin, I would never have finished this book.

Several of my colleages in the Department of Political Science at the University of Kansas, especially Burdett Loomis, Al Cigler, and Elaine Sharpe, also made contributions through their collegiality, conversations, citations,

and general wealth of knowledge. Ron Francisco, department chair, created a conducive work environment and provided encouragement throughout. Two close friends and colleagues, David Nice, Washington State University, and John Hamman, Southern Illinois University, provided guidance and suggestions, and John even located some of the data that I present.

My greatest debt goes to my students over the past several years who attended my course, Government and the Economy. They showed interest in the material, forced me to rethink how to present the material, and even on the last day of class asked me to continue lecturing because they found the basic material so interesting and important. They serve as an important inspiration in writing this book. I only wish that those guinea pigs could see and use the product that they inspired. I hope that future students who use this book will find it helpful and interesting.

Lastly, this book is dedicated to Russell Getter, of the Department of Political Science at the University of Kansas. Over the past four years, Russ and I have engaged in literally hundreds of hours of conversation and argument on government, policymaking, politics, and economics. He helped me tighten my arguments and kept me from making silly ones. There is a large measure of him in these pages.

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# Politics and the Economy: Basic Themes

N THE 1994 midterm congressional elections, Republicans won both houses of Congress for the first time since 1952. Many Republican candidates adopted their party's "Contract with America" for their campaign. Once in power, the Republican majorities put the Contract on the legislative agenda; working on it became a congressional preoccupation in 1995.

The Contract was a bold plan designed to reverse many policy directions established over the previous sixty years. A number of its provisions aimed at the relationship between the government and the economy, either directly or indirectly. For instance, of the ten major provisions of the Contract, seven had direct impact on the economy or government economic policy. The Contract called for a balanced budget and line-item veto for the president, limitations of payments to people on welfare to two years, enforcement of child support payments, tax credits for families with children, increase in the earnings limit on social security, regulatory relief and incentives for businesses, and reform of product liability laws. The size and expense of government, and its intrusion into private economic decision-making, were major targets of the Contract and its proponents.<sup>1</sup>

Many criticized the Contract with America. Some viewed the combination of welfare reductions and tax cuts, which would benefit the middle and upper classes the most, as a sign that the Republicans favored the wealthy and advantaged, and believed that their program was a cynical attempt to redistribute wealth and power away from the downtrodden to the better-off.

One can, however, see a more fundamental debate between the Contract's opponents and proponents, a debate that centers first on the relationship between the economy and the government and second on the competing values of economic equity versus economic efficiency. Such issues have

animated much of American politics since the country's founding. The relationship between government and the economy and the tradeoff between equity and efficiency are two of the topics that we will deal with in this book.

# THE POLITICAL SYSTEM AND THE ECONOMY

The two most important problem-solving institutions in modern society are the economy and the government.<sup>2</sup> In earlier times, religion and the family were also major social problem-solvers. Both are still important, but they play a smaller role today than they did generations ago. Our focus will be on the economy and the government, both of which have grown in importance and affect almost all aspects of modern life.

The economy is a production and distribution system: producers make goods and services, which they sell to consumers. We will mostly be concerned with market economies in this book. In market economies, transactions between producers and consumers are voluntary, and the price of the product helps to regulate the market. Higher prices mean that less of a product will be consumed or bought. Lower prices tend to increase consumption.

Scarcity is an essential element of economic systems. Goods attain their value in part because of their scarcity, or limited supply. The law of scarcity<sup>3</sup> means that not enough resources exist to meet the demands of all consumers. Thus, there is ever-present competition for scarce economic goods. Determining how this limited supply of goods is to be distributed is one of the major issues of both economics and politics. In general, the economic system deals with distribution through market mechanisms, such as price adjustments and supply and demand adjustments. Another way to distribute scarce resources is through the political system—the government. As you will see throughout, political solutions to the distribution of limited resources may at times differ from economic solutions.

Although the term *government* refers explicitly to those authoritative institutions that make policy decisions, such as Congress, the presidency, and the courts, other groups can also affect or influence policy decisions, such as voters and lobbyists. Dissemination of knowledge about government actions through the mass media, and other channels, is also important in the policy-making process.

Modern governments and economies have had an increasing impact on people's lives. Governments now have at their command more impressive means of control, such as police, military forces, and other bureaucracies, and a greater ability to communicate swiftly and clearly across large distances. Modern governments have also been bolstered by the rise of nationalism, which has helped to link the aspirations of people to a set of governing institutions. Nationalism, plus the rise of democratic forms of political participation, has legitimized the actions and policies of modern government. Though modern governments, even democratic ones, may have to resort to