CHAPTER 19 Domestic Policy

Parallel Lecture 19.1

I. Government Policies and Individual Welfare

A. The promotion of social and economic equality through government policies is controversial because it requires government to redistribute income, and thus compromises freedom in pursuit of equality.

B. Almost every modern nation can be characterized as a **welfare state⎯**the provider and protector of individual well-being through economic and social programs.

1. **Social welfare programs** are designed to provide the minimum living conditions necessary for all citizens.

2. Both poor and non-poor Americans agreed that government should protect its citizens against risks they are powerless to combat.

C. The development of the American Welfare State

1. The **Great Depression** had a dramatic effect on the role of government in the twentieth century.

a) Market forces that had previously stemmed such declines were unable to check spreading unemployment.

b) Private industry and commercial farmers produced more than they could sell profitably.

2. The **New Deal** policies advocated by the Roosevelt administration sought to remedy the effects of the Depression.

a) New Deal legislation comprised two phases.

(1) The first phase was aimed at boosting farm prices and lowering unemployment.

(2) The second phase helped the forgotten and dispossessed. The crown jewel of this phase was the Social Security program.

b) Lower unemployment and higher prices were the elusive goals of the New Deal. The economic surge was provided only by World War II.

c) Americans were closely divided over New Deal policies, until those policies eventually became the status quo, when they grew satisfied with them.

1. Economists still debate over the actual economic benefits of the New Deal

3. President Johnson’s **Great Society** included a variety of programs designed to redress chronic political, social, and economic inequality.

a) The **War on Poverty** implemented a variety of programs designed to eradicate poverty by providing training, education, and jobs.

b) Though the War on Poverty did not achieve substantial income redistribution, it did make the poor aware of their political power.

4. In the 1970s critics seized on the shortcomings of the growing American welfare state.

5. In 1984 the Reagan administration reexamined social welfare programs. They abolished some and redirected others, shifting emphasis from economic equality to economic freedom.

6. In the 1990s there were important reforms to the American welfare state.

II. **Social insurance** is a government-backed guarantee against loss by individuals without regard to need.

A. **Social security**: social insurance that provides economic assistance to persons faced with unemployment, disability, or old age. It is financed by taxes on employers and employees.

B. Unemployment and distress caused by the Depression led to the **Social Security Act** of 1935.

1. The act provided three types of benefits:

a) Old-age and surviving spouse benefits and unemployment assistance.

b) Grants-in-aid to the states for assistance to the needy aged, needy families with dependent children, the blind and (since 1950) the permanently and totally disabled. (By the 1990-s the disabled category had grown to include learning disabled and drug and alcohol dependent)

c) Health and welfare services through federal aid to the states.

C. How social security works

1. The federal government collects taxes from employers and employees to pay benefits to persons who are retiring.

a) Social security is not a form of savings; it is a pay-as-you-go system: today’s workers support today’s elderly.

b) Participation is universal, and compulsory by law.

c) Declining birth rates or economic depression could endanger the benefits now scheduled to be paid to future retirees.

2. The political system must address the issues of who pays and who benefits from social security.

a) Annual cost-of-living adjustments (COLAs) granted by Congress increase the benefits received by retirees.

b) “Stagflation” during the 1970s meant increased social security benefits and a smaller revenue base.

c) In 1983, Congress and President Reagan increased social security taxes and reduced benefits to guarantee the viability of the social security system in the future.

3. The political risks associated with cutbacks are too great to expect a major change in the way social security works; still, social security reform is an important topic for elected officials.

a) Most Americans do not count on social security as their main source of retirement income (55 percent of adults according to a CBS News/New York Times poll from November 2002).

b) In the 2000 election campaign, Republicans proposed a plan for social security reform that would allow individual workers to invest their own payroll taxes in the stock market.

c) The Democrats also proposed a private investment plan, but theirs would be in addition to the existing program rather than a part of it (or a reform of it).

III. **Public assistance** (what is commonly meant by the term *welfare*) is government aid to individuals who can demonstrate a need for that aid. It is directed toward those who lack the ability or resources to provide for themselves or their family.

A. There are four types of categorical assistance programs under the Social Security Act; these programs have become **entitlements** (benefits to which everyone has a legal right and the government cannot deny).

1. Old age assistance for the needy elderly

2. Aid to the needy blind

3. Aid to needy families with dependent children

4. Aid to the totally and permanently disabled

B. Until 1996, the national government distributed funds to states in proportion to the number of people in each state with incomes below the federally-defined **poverty level.**

1. The **poverty level** is calculated as three times the cost of an economy food plan.

2. Though it is an imperfect tool, the **poverty level** standard is useful because it allows us to measure how the American promise of equality stands up against the performance of our public policies. .

3. The poverty rate in the United States has generally declined since the mid-1960s.

4. Poverty is still a problem, especially among children; 16.7 percent of Americans under the age of eighteen live in poverty.

5. Poverty has particularly become a problem for women and their dependents, a trend known as the **feminization of poverty** (See Politics in a Changing World)

6. Critics argue that poverty level calculations should also include income other than cash.

C. In 1996 Congress passed, and President Clinton signed, a welfare reform bill (Temporary Assistance for Needy Families Act-TANF) that altered sixty-one years of national welfare policy.

1. The new law abolished the **Aid to Families with Dependent Children** program, affecting more than one-fifth of American families with children.

2. Individual adult recipients will have to find employment within two years.

3. Under federal guidelines, families can receive only five years of benefits (in a lifetime). States may set a lower limit, and may offer waivers of the five-year limit under certain conditions.

4. This new law continues the devolution of power to the states.

5. Under TANF the number of families on welfare has declined, former welfare recipients have found steady jobs.

6. Despite former welfare recipients’ increased level of employment, they have been unable to find jobs that pay good wages and offer valuable benefits.

7. Economic recession of 2001 provided an important test for TANF. Increasing numbers of female-headed households and children with no access to employment or TANF income during 2001 was documented.

D. The U.S. is the only major industrialized nation without a universal health care system. Government programs to provide health care include: Medicare, Medicaid, and the State Children’s Health Insurance.

E. Health-care debate is focused on the two main problems: cost and access

1. Access doesn’t depend on having insurance coverage only. Rural versus urban areas problem
2. The U.S. spends the largest proportion of its economy on health care (14.9 percent of GDP)
3. Access and cost give rise to a dilemma: greater equality in terms of universal coverage and cost controls versus a loss of freedom in markets for health care and in choosing a doctor.
4. Health insurance providers have extended coverage of routine, preventative care while limiting individuals’ freedom to choose when and what type of medical specialists to see.
5. New types of insurance fall into two main categories: health maintenance organizations (**HMOs**) and preferred provider organizations (**PPOs**).

F. Government programs to provide health care

1. **Medicare** is the health care system for all people sixty-five years old or older.

2. Despite entrenched opposition to government’s intrusion in the field of medicine, Medicare was passed in 1965.

3. Medicare consists of the following parts:

a) Compulsory hospitalization insurance for the elderly (Medicare Part A).

b) Voluntary government-subsidized insurance to cover physician’s fees (Medicare Part B).

c) Part A and Part B (referred to as the Original Medicare Plan) has expanded to attempt to meet additional health-care needs. Supplemental plans are known as *Medigap* plans (run by private insurance companies)

d) In 2003, the Medicare Prescription Drug, Improvement and Modernization Act was passed.

e) As Medicare costs have risen, the government has required certain incentives to cut costs; those incentives may reduce the quality of care.(payment to hospitals a fixed fee based on a patient’s diagnosis)

4. **Medicaid** – a need based comprehensive medical and hospitalization program

a) Unlike Medicare (a solely federal program), Medicaid is jointly run and financed by the federal government and the states

b) Medicaid participants fall into four groups: children under 21, adults, those who are blind and disabled, and those aged 65 and over.

5. **State Children’s Health Insurance Program (SCHIP)** – a health insurance program designed to provide children in families with low incomes access to medical care.

a) Like Medicaid, it is jointly funded and administered by the federal government and the states.

b) The law provides states with flexibility in how they administer the program

c) An important design of the program involved reaching out to potentially eligible families so they were sure the program existed.

d) In 2002 and 2003 several states adopted cutbacks in Medicaid and SCHIP.

V. Americans have traditionally believed that **education** could help individuals attain social and economic equality.

A. **The Elementary and Secondary Education Act of 1965** was the first time the government provided direct aid to local school districts.

B. Since 1990, the gap in educational achievement between black and white Americans has begun to grow again.

1. There is a strong correlation between educational achievement and economic success, particularly for minority group members.

2. Globalization means that nations are competing to attract highly educated and skilled workers.

3. Polls taken during the 2000 election season revealed that 50% of the electorate believes education to be an “extremely important” issue.

C. Education reform is difficult, though⎯particularly on the national level.

1. The national government plays a limited role in primary and secondary education (this is primarily a state and local function).

2. Most parents are relatively satisfied with their local schools.

3. Yet, people still express dissatisfaction with the nation’s educational system as a whole. The latest effort at reform, the “No Child Left Behind Act of 2001,” has already met resistance and has not been adequately funded.

4. Freedom vs. equality is at the center of the reform debate.

a) Republican reform efforts focus on accountability and empowering parents; increased local control and allowing parents greater freedom in choosing which schools their children attend are at the center of their proposed changes.

b) Democrats propose reforms that would guarantee equality of opportunity for all; their proposals center on issues like teacher competency, availability of affordable preschool, and access to technology.

VI. How can the government provide benefits in a way that is fair?

A. The national government provides two types of benefits.

1. **Means-tested benefits** impose an income test to qualify.

2. **Non–means-tested benefits** impose no such income tests. An example is Medicare, which provides equal benefits to wealthy and poor Americans.

B. Some people argue that non-means-tested benefits are not fair: some people need benefits, and others do not.

C. Transforming some non–means-tested benefits into means-tested benefits has allure during times of budget deficits.