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control that the federal government can exercise in those instances may be small as, or even smaller than, when programs are delivered through private sector agents, who often depend on government for contracts and loans and therefore may be very compliant with demands from Washington.

Third, and most important, we are concentrating on the effects of government choices on the lives of individuals within the society. The word *policy* is commonly used in a number of ways. In one usage it denotes a stated intent of government, as expressed in a piece of legislation or a presidential speech. Unfortunately, any number of steps are required to turn a piece of legislation into an operating program, and all too frequently significant changes in the intended effects of the program result from difficulties in translating ideas and intentions into actions. In this analysis we will place greater emphasis on the effects of policies than on the intentions of the individuals who formulated them. We must also have some degree of concern for the legislative process, which produces the good intentions that may or may not come to fruition.

Our definition recognizes the complexity and the interorganizational nature of public policy. Few policy choices are decided and executed by a single organization or even a single level of government. Instead, policies, in terms of their effects on the public, emerge from a large number of programs, legislative intentions, and organizational interactions that affect the daily lives of citizens. For example, environmental issues now are handled not only by the Environmental Protection Agency but also by the Department of the Interior, the Department of Agriculture, the Department of Health and Human Services, and even the Department of Defense. This conception of policy also points to the frequent failure of governments to coordinate programs, with the consequence that programs cancel each other out or produce a costly duplication of effort.⁵ The question about government that Harold Lasswell posed many years ago, "Who gets what?" is still central for understanding public policy.

The Instruments of Public Policy

Governments have a number of instruments through which they can influence society and the economy and produce changes in the lives of citizens. For example, government can choose to provide education by directly supplying that service, by providing vouchers that parents can use to pay for their children's education, or by subsidizing privately managed charter schools (see chapter 13). The choice of which instrument to employ for any particular situation may depend on the probable effectiveness of the instrument, its political palatability, the experiences of the policy designers, and national or organizational tradition. Furthermore, some policy instruments may be effective in some circumstances but not in others. Unfortunately, governments do not yet have sufficient knowledge about the effects of their "tools," or the relationship of particular tools to

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particular policy outcomes, to be able to make effective matches.⁶ It appears that most choices are now made out of habit and familiarity, not out of certain knowledge of effectiveness.

Law

Law is a unique resource of government. It is not available to private actors, who have access to the other instruments of policy discussed here.⁷ Governments have the right to make authoritative decrees and to back up those decrees with the legitimate power of the state. In most instances, simply issuing a law is sufficient to produce compliance, but monitoring and enforcement are still crucial to the effectiveness of the instrument. Citizens may obey speeding laws most of the time, but the prospect of a policeman with a radar set makes compliance more probable. Citizens daily obey many laws without thinking about them, but police, tax collectors, and agencies monitoring environmental damage, occupational safety, and product safety (to name only a few) are also busy attempting to ensure compliance through their enforcement activities.

We should make several other points about the use of law as an instrument of public policy. First, laws are used as the means of producing the most important outputs of government: rights. Such laws are usually of a fundamental or constitutional nature and are central in defining the position of citizens in society. In the United States the fundamental rights of citizens are defined in the Constitution and its amendments, but rights also have been extended in a variety of other legislation. This extension has been most significant for the rights of nonwhites and women, as reflected in the passage of the Voting Rights Act of 1965, the Equal Employment Opportunity Act of 1972, and the Civil Rights Act of 1991. The Americans with Disabilities Act (1990) extended a variety of rights to people with various forms of disability, with the courts tending to expand the applicability of that law to groups, such as AIDS sufferers,⁸ for whom it was perhaps not intended by the framers of the legislation. Law is now being used by some groups to attempt to extend rights to homosexuals, and other groups also use law to attempt to limit those rights (see chapter 16).

Second, the United States uses laws to regulate economic and social conditions to a greater extent than most countries do. The United States is frequently cited as having a small public sector in comparison with other industrialized countries because of lower levels of taxing and spending. If, however, the effects of regulations are included, government in the United States approaches being as pervasive as it is in Europe.⁹ The costs of government's interventions in the United States tend to appear in the price of products, however, as much as in citizens' tax bills.¹⁰ This indirect effect of intervention tends to be less visible to the average citizen than a tax and therefore is more palatable in a society that tends to be skeptical about government.

Third, law can be used to create burdens as well as benefits. This is certainly true for tax laws and is also true, for example, of legislation that mandates the recycling of metal, glass, and plastic. Often a law that creates benefits for one group of citizens is perceived by others to be creating a burden; environmental laws satisfy conservationists but often impose costs on businesses. Any action of government requires some legal peg on which to hang, but the ability of a simple piece of paper to create both rights and obligations is one of the essential features of American public policy.

Services

Governments also provide a number of services directly to citizens, ranging from defense to education to recreation. In numbers of people employed, education is by far the largest directly provided public service, employing more than nine million people. The Department of Defense employs just under another three million people, military and civilian. Government tends to provide services when there is a need to ensure that the service is provided in a certain way (education) or where the authority of the state (policing) is involved. Furthermore, services tend to be delivered directly to parts of the population that are less capable of making autonomous decisions on their own, such as children and the mentally impaired.

The direct provision of public services raises several questions, especially as continuing pressures exist for government to control expenditures and to "privatize."¹¹ An obvious question is whether the direct provision of services is the most efficient means of ensuring that a service is delivered to citizens. Could that service be contracted out instead? A number of public services have been contracted out to private corporations, including traditional government services such as firefighting, tax collection, and operating prisons.¹² Contracting out removes the problem of personnel management from government, a problem magnified by the tenure rights and pension costs of public employees under merit systems. Also, government tends to build a capacity to meet maximum demand for services such as fire protection and emergency medical care, resulting in underutilization of expensive personnel and equipment. This tendency to create too much capacity can be corrected in part by contracting out.

Another interesting development in the direct provision of services is the use of quasi-governmental organizations to provide services.¹³ There are some services that government does not want to undertake entirely but that require public involvement for financial or other reasons. The best example is Amtrak, a means of providing public subsidies for passenger train service in the face of declining rail service in the United States. Government may also choose quasi-governmental organizations for programs that require a great deal of coordination with private sector providers of the same service, or when the service is in

essence a marketable one. At an even greater degree of separation, governments also use not-for-profit organizations to provide public services. The George W. Bush administration pressed for wider use of such organizations, especially faith-based organizations. President Obama continued the emphasis, working to mobilize not-for-profit organizations early in his administration.

Money

Governments also provide citizens, organizations, and other governments with money. Approximately 62 percent of all money collected in taxes by the federal government is returned to the economy as transfer payments to citizens. Transfers to citizens range from Social Security and unemployment benefits to payments to farmers to support commodity prices. Interest on the public debt is also a form of transfer payment, one that now absorbs nearly 8 percent of total federal spending. Another 12 percent of tax receipts is transferred to other levels of government to support their activities.

The use of money transfers to attempt to promote certain behaviors is in many ways an inefficient means for reaching policy goals. The money paid out in Social Security benefits, for example, is intended to provide the basics of life for the recipients, but nothing prevents those recipients from using it to buy food for their pets rather than for themselves. The claims about how "welfare" payments are used and abused are legion, if often inaccurate. Thus, although the direct provision of services is costly and requires hiring personnel and erecting buildings, many transfer programs, though less expensive, are much less certain of reaching the individuals and achieving the goals for which they were intended.

Money dispersed to other levels of government can be restricted or unrestricted. Of the almost \$450 billion given to state and local governments in 2007, most was distributed as categorical grants, with an increasing proportion being given as block grants. Categorical grants channel resources more directly to the problems identified by the federal government as needing attention, but they also tend to centralize decision making about public policy in Washington.¹⁴ Categorical grants also tend to encourage state and local spending through matching requirements and to create clienteles that governments may not be able to eliminate after the federal support has been exhausted. Although this pattern of funding was largely associated with social and economic programs, the Clinton administration's program for funding the hiring of additional policemen created expectations among citizens that local governments will have to fulfill in the future, and Homeland Security funding has created the same effect after the Bush administration.

The federal government has less control over the impact of block grants than over the effects of categorical grants.¹⁵ Block grants allow greater latitude for state and local governments to determine their own priorities, but most still have

some strings attached. Also, giving block grants to the states tends to concentrate power in state governments, rather than allowing local (especially city) governments to bargain with Washington directly. Given that state governments are, on average, more conservative than local governments—especially large city governments that need federal grant money the most—block grants have been a useful tool for Republican administrations.¹⁶

Taxes

The government giveth and the government taketh away. But the way in which it chooses to take away may be important in changing the distribution of burdens and benefits in society. In the United States we are familiar with tax “loopholes,” or, more properly, *tax expenditures*.¹⁷ The latter term is derived from the theory that granting tax relief for an activity is the same as subsidizing that activity directly through an expenditure program.¹⁸ For example, in 2004 the federal government did not collect \$61.5 billion in income tax payments because of mortgage interest deductions, and another \$20 billion because state and local property taxes were deductible. This is in many ways exactly the same as government subsidizing private housing in the same amounts, a sum far greater than the amount spent on public housing by all levels of government. The use of the tax system as a policy instrument as well as for revenue collection is perhaps even less certain in its effects than transfer payments, for the system is essentially providing incentives rather than mandating activities. Citizens have a strong incentive to buy a house, but there is no program to build houses directly. These instruments are, however, very cheap to administer, given that citizens make all the decisions and then file their own tax returns.

Taxes may also be used more directly to implement policy decisions. For example, there are proposals to substitute taxes on pollution for direct prohibitions and regulation of emissions. The logic is that such an action would establish a “market” in pollution; those firms willing to pay the price of polluting would be able to pollute, while those less willing (or, more important, less able) because of inefficient production means would have to alter their modes of production or go out of business. The use of market mechanisms is assumed to direct resources toward their most productive use, whereas regulations at times may inhibit production and economic growth. Critics argue that what is being created is a “market in death,” when the only real solution to the problem is the prohibition or severe restriction of pollution.

Tax incentives are a subset of all incentives available to government to encourage or discourage activities. The argument for their use, as was well expressed by Charles Schultz, is that private interests (e.g., avarice) can be used for public purposes.¹⁹ If a system of incentives can be structured effectively, then demands on the public sector can be satisfied in a more efficient and inexpensive

manner than through direct regulation. Clearly, this form of policy instrument is applicable to a rather narrow range of policies, mostly those now handled through command and control regulation, but even in that limited range the savings in costs of government and in the costs imposed on society may be significant. The use of such incentives also conforms to traditional American ideas about limited government and the supremacy of individual choice.²⁰

Other Economic Instruments

Government has a number of other economic weapons at its disposal.²¹ Governments supply credit for activities such as a farmer’s purchase of land and supplies.²² When it does not directly lend money, the government may guarantee loans, thus making credit available (e.g., for student loans or FHA mortgages) where it might otherwise be denied. Governments can also insure certain activities and property. For example, federal flood insurance made possible the development of some lands along the coasts of the United States, thereby creating both wealth and environmental degradation. Almost all money in banks and thrift institutions is now protected by one of several insurance corporations within the federal government. Thus, in the economic downturn of 2008 and 2009 individual bank accounts were protected.

Although these instruments may be important to their beneficiaries and may influence the spending of large sums of money, they do not appear as large expenditures in most government accounting schemes. Thus, as with regulations and their costs, the true size of government in the United States may be understated if one looks simply at expenditure and employment figures. In addition, the ability of these programs to operate “off budget” makes them not only less visible to voters but also more difficult for political leaders and citizens to control. Only when there are major problems, as in the bursting of the housing bubble and the credit crisis in 2008, do government insurance, guarantee schemes, and federal “bailouts” make the news.

Suasion

When all other instruments of policy fail, governments can use moral suasion to attempt to influence society. Government as a whole or particular political officials are often in a good position to use such suasion because they can speak in the name of the public interest and make those who oppose them appear unprincipled and selfish. As Theodore Roosevelt said, the presidency is a “bully pulpit.” Suasion, however, is often the velvet glove disguising the mailed fist, for governments have formal and informal means of ensuring that their wishes are fulfilled. So when John F. Kennedy “jawboned” steel industry officials to roll back a price increase, the patriotism of the steel officials was equaled by their fear

of lost government contracts and Internal Revenue Service investigations of their corporate and personal accounts.

Suasion is an effective instrument as long as the people regard the government as a legitimate expression of their interests. There is evidence that the faith and trust of American citizens in government has been declining (see Table 1.1) in response to the excesses of Vietnam, Watergate, budget deficits, the inadequate response to Hurricane Katrina, and so forth. Congress members in particular are regarded very poorly by the public. As governments lose some of their legitimacy, their ability to use suasion naturally declines, pushing them toward more direct tools of intervention; that could lead to increases in government employment and taxation and perhaps to an accelerated downward spiral of government authority. In 2005 the public viewed Congress members only slightly more favorably than car salesmen, who anchored the bottom of the scale. On the other hand, policemen had achieved a major increase in respect, in part because of their heroism after 9/11. One exception to the trend of declining trust in government may be in times of war, as President George H. W. Bush showed during the Persian Gulf crisis. The second President Bush also used suasion and

TABLE 1.1 Public Perception of Honesty and Ethics in Various Professions (percentages of "Very high" and "High" responses combined)

| | 1976 | 1981 | 1985 | 1990 | 1992 | 1995 | 2005 | 2008 |
|---------------------|------|------|------|------|------|------|------|------|
| Pharmacists | n.a. | 59 | 65 | 62 | 66 | 66 | 67 | 70 |
| Clergy | n.a. | 63 | 67 | 57 | 54 | 56 | 54 | 56 |
| Medical doctors | 56 | 51 | 50 | 52 | 52 | 54 | 65 | 64 |
| College teachers | 49 | 45 | 53 | 51 | 50 | 52 | n.a. | n.a. |
| Engineers | 49 | 48 | 53 | 50 | 48 | 53 | n.a. | n.a. |
| Policemen | n.a. | 44 | 47 | 49 | 42 | 41 | 61 | 56 |
| Journalists | 33 | 32 | 31 | 30 | 27 | 23 | 28 | 25 |
| Bankers | n.a. | 39 | 38 | 32 | 27 | 27 | 41 | 23 |
| Lawyers | 25 | 25 | 27 | 22 | 18 | 16 | 18 | 18 |
| Business executives | 20 | 19 | 23 | 25 | 18 | 16 | 16 | 12 |
| Local officeholders | n.a. | 14 | 18 | 21 | 15 | 21 | n.a. | 20 |
| Real estate agents | n.a. | 14 | 15 | 16 | 14 | 15 | 20 | 17 |
| Labor union leaders | 12 | 14 | 13 | 15 | 14 | 14 | 16 | 16 |
| U.S. senators | 19 | 20 | 23 | 24 | 13 | 12 | 16 | n.a. |
| State officeholders | n.a. | 12 | 15 | 17 | 11 | 15 | n.a. | 12 |
| Members of Congress | 14 | 15 | 20 | 20 | 11 | 10 | 14 | 12 |
| Car salesmen | n.a. | 6 | 5 | 6 | 5 | 5 | 8 | 7 |

Source: *Gallup Poll Monthly*, November 1995, 31; Gallup Poll, January 18, 2005; Gallup Poll, November 7, 2008.

Note: n.a. = not available.

manipulated powerful national symbols in the "war on terror," although his ability to do so declined as his term ended.

The Effects of Tools

Governments have a number of instruments with which they attempt to influence the economy and society by distributing what burdens and benefits they have at their disposal. The most fundamental benefits governments have to confer are rights. These are largely legal and participatory, but with the growth of large entitlement programs that distribute cash benefits to citizens, rights may now be said to include those programs as well.

Governments also distribute goods and services. They do so directly by giving money to people who fall into certain categories (e.g., the unemployed) or by directly providing public services such as education. They also do so less directly by structuring incentives for individuals to behave in certain ways and to make one economic decision rather than another. Governments also distribute goods and services through private organizations and through other governments, in attempts to reach their policy goals. A huge amount of money flows through the public sector, where it is shuffled around and given to different people.²³ The net effect is not as great as might be expected from the number of large expenditure and revenue programs in operation in the United States, but that effect is to make the distribution of income and wealth somewhat more equal than would be the case through the market alone.²⁴

Finally, governments distribute burdens as well as benefits. They do this through taxation and through programs such as conscription for military service.²⁵ Like expenditures, taxes are distributed broadly across the population, with state and local taxes tending to be collected from an especially broad spectrum. Even the poorest citizens have to pay sales taxes on many things they purchase, and they must pay Social Security taxes as soon as they begin to work. In other words, everyone in society benefits from the activities of government, but everyone also pays for them.

The Environment of Public Policy

Several characteristics of the political and socioeconomic environment in the United States influence the nature of policies adopted and the effects of those policies on citizens. Policy is not constructed in a vacuum; it is the result of the interaction of all the background factors with the desires and decisions of those who make policies. Neither individual decision makers nor the nature of "the system" appears capable alone of explaining policy outcomes. Instead, policy emerges from the interaction of a large number of forces, many of which are beyond the control of decision makers.

Other Economic Instruments

Basic Tools for Government Policies

5. Economic instruments:

These tools focus mostly on the how the government can improve macroeconomic conditions: the state of the overall national economy.

They are less suitable for specific issues such as education or immigration.

Basic Tools for Government Policies

5. Economic instruments:

A. Monetary policy: Federal Reserve alters amount of money in economy: more money stimulates economy but risks inflation

Basic Tools for Government Policies

Monetary policy: Federal Reserve influences money supply by:

1. **Open Market Operations:** buying and selling U.S. Treasury and federal agency securities in the open market
2. **Discount window lending.** Federal Reserve can vary rates charged when lending banks money at "discount window"
3. **Reserve requirements.** Requirements on the amount of funds that banks must hold in reserve against deposits

• **Economic instruments:**
B. Fiscal policy: changing money supply through taxing and spending

John Maynard Keynes: deficits stimulate the economy, surpluses slow it down

If we are entering a recession, such as in 2008-9, the government should "stimulate" things by spending more and taxing less

• **Economic instruments:**
C. Guarantees and insurance
- Can apply so specific issues, such as farming

D. 2008: bailouts!: Extremely rare, but some consider this an important precedent
