Slide 1

Text: America and Arizona Government for Elementary Teachers

Presentation 19: Social Movements and Public Policy

Audio: Welcome to American Arizona Government for Elementary Teachers. This is presentation 19, Social Movements and public policy. This presentation looks at the process through which public policy is made. There are several points in this process where citizens can have a large impact and there are other points in that process that citizens have very little impact. Knowing the difference between those two can help you be an active advocate in achieving your public policy preference. We begin by looking at what public policy is and the different types of policy. We'll then look at the process of policy making in general and then we'll look at a few examples of different policy domains to illustrate that process. Finally we'll look at some of the history of successful social movements in America to illustrate how citizens had engaged the policy process to their advantage.

Slide 2

Text: Presentation Objectives

AEPA Objectives
0008 Understand U.S. foreign policy
0012 Understand the relationship of government to the United States economic system
0017 Understand the rights and responsibilities of U.S. citizenship
0018 Understand basic features of democratic government in the United States

AZ Social Studies Standard, Strand 3
Concept 3: Functions of Government
Concept 4: Rights, responsibilities, and Roles of Citizenship
Concept 5: Government Systems of the World

Audio: This presentation covers several objectives in the AEPA Exam. The first eight: understanding U.S. foreign policy. Twelve: understanding the relationship with the government to the United States economic system. Seventeen: understanding the rights and responsibilities of U.S. citizenship. And eighteen: understanding the basic features of democratic government in the United States. We'll also touch on objectives that are contained within Concept 3, functions of government; 4, rights or responsibilities and roles of citizenship. And 5, government systems of the world. In the Arizona social studies Standard Strand 3, civics and government. You're, again, encouraged to look at the document where those standards are articulated by grade level. And look at the objectives that are listed under these concepts that are connected to the public policy issues we'll be looking at in this presentation. Then at the end of the presentation, review those objectives again to make sure that you have a degree of competence in understanding and the ability to discuss those issues on your own.
Slide 3

Text: The Politics of Public Policy

Public Policy: The action or inaction of the government on a problem or issue of concern to the public.

Who gets to determine whether something really is a problem or issue of concern to the public?

Audio: When we talk about public policy, we're talking about any action or inaction of the government on a problem or issue of concern to the public. So that means when the government decides to do something, that decision is public policy and when the government decides not to do something that also is public policy. One definition of politics is that "it is the determination of who gets what," and then many add the added statements on that, "of who gets what, how, where, and when." Those decisions, the allocation of public resources, are the process of public policymaking. And so the question to ask yourself is: Who gets to determine whether something really is a problem or an issue of concern on the public? How is the public agenda set? And then when something is on the agenda, who gets to decide which out of all of the possible options to take, which of those options are going to be selected? The big question for you to ask as you're looking at this issue is: How do you ensure that the policy that you want is the policy that is actually enacted by the government?

Slide 4

Text: Types of Public Policy:

How can we categorize policies?

• Basic functions of government
  o Distribution
  o Regulation
  o Redistribution

• Nature of their benefits
  o Tangible benefits
  o Symbolic benefits

Audio: There are a few different types of policies that are made, and so we want to go through these so that we can understand what some policies might be versus others. So for example, we have some policies that can be categorized as the basic function of government; the things government does. So you have distribution policies. These would be things like building public schools; deciding where those government services are going to be located; how they'll be
delivered; deciding where the fire stations are going to be; deciding where the sewer lines are
going to run; deciding what roads are going to be put and what the speed limit on those roads
would be, these would be distribution issues of deciding where and how these government
services are going to be put. Now, the second type are regulations. Regulations are rules that are
set forth to govern the actions of government but also the actions of the citizenry. So the speed
limits that I gave are actually examples of regulation. The distribution policy determines where
the roads go; the speed limits and stop signs determine the flow of traffic on those roads.
Building codes that are set up: Does your roof have to have a certain slant to it to guarantee
runoff? Those are the kinds of decisions that government makes. They regulate the actions of the
citizenry to maximize the common good and protect citizens. The next type of policy is
redistribution policies. And what redistribution does is it provides a safety net for the less
successful members of society, the less fortunate members of society. People who are poor or
disabled or the elderly or the infirm; these are people who for whatever reason have been not
able to fully meet their own needs. And so what the redistribution policies do is they take some
of the productive capacity of the society that is succeeding and redistributes it to part of the
society that's not succeeding as a way to -- well, when it works, it's a way to enable that member
of society to succeed or to have the most meaningful life they can given the -- whatever
disabilities they may have been dealt with when they were born. Now, when it doesn't work, it's -
detracts from the productive segment of society by giving resources to an unproductive
segment of society, but those decisions of how much and what kind of resources to transfer from
one part of the population to the other are redistributive policies. The next type of public policy
are the tangible benefits. These are a way to distinguish between the kinds of policy of whether
they provide a real benefit, meaning you can count it, you can put it on a ledger, or a symbolic
benefit, which is the last kind, and that's something that is intangible. It can't be put on a
spreadsheet or counted necessarily. So an example of a tangible benefit would be Medicare.
When an elderly person goes to the hospital and Medicare pays for certain percentage of their
medical care, that is a tangible benefit. It directly benefits that elderly person and you can
calculate to the penny the degree to which that benefit is given to that person. On the other hand,
the symbolic benefits are intangible, and so the things like maintaining the national park system.
What does it benefit you as a taxpayer that there is such a thing called the Grand Canyon and that
that Grand Canyon is maintained as a park so that you can go to that canyon and look at these
vast vistas of unspoiled land? What -- what is the value of that to you as a citizen? Because you
could make an alternate policy choice which is to not have national parks or not protect public
lands, and the Grand Canyon would still be there but there would be uranium mines, maybe
California would have dammed it up to meet their energy and water needs. You know, any
number of things could happen that altered that landscape. And so knowing that that landscape is
there, what is that worth to you? Of what benefit is it? And so that's a symbolic benefit. It's a real
benefit but it's not something that could be measured necessarily. So these are the different types
of public policies that we'll be discussing here.
Slide 5

Text: Ideas and values in Public Policy

Policy Process Model

[Flow chart: Problem Identification—Agenda Setting—Solution formulation—Legitimization of Solutions—Implementation of problem-solving policies—Analysis of the effectiveness of the solution]

Audio: This diagram is one illustration of the policy process model. It's a model to describe how public policy is formed by showing the various steps in that process and the sequence that is typically followed. Now, I say "typical" because just as we saw a similar diagram when we looked at the legislative process, but in reality legislation bypasses a number of steps and you never really know on any given piece of legislation how it's going to happen, but the legislative process is there all the same. But likewise, the public process model gives it a stylized or idealized procedural process or at least a sequential process of the order in which things are done, understanding that real policy may skip some steps. But let's discuss them quickly. The first is problem identification. That is where a policymaker or a citizen identifies a problem and says there ought to be a law, right, we've got to do something about this. Once a problem's been identified, the next step is agenda setting. How do you convince policymakers that this problem is important? There's a no shortage of problems in society, and yet there is a shortage of resources, and so policymakers have to prioritize. They have to decide which problems will get attention and which problems will be put to the side while the more urgent problems are getting attention. If there's a problem that you're passionate, about the agenda setting is an important part of this process because you have to elevate the salience, the importance of your problem so that it draws the attention and the resources of policymakers to address that problem. The next area is solution formulation, and that is simply a fancy way of saying, figure out how to solve the problem. Every problem has its own unique set of circumstances, and there's always going to be more than one way to address that problem. So there will be a variety of solutions that are offered, and likewise, diversity of opinion on which of those solutions are going to be chosen, which one are the optimal solutions. And so this solution formulation process or part of the process can be quite lengthy because this is where consensus is reached or lack of consensus is reached. This is where the argument takes place over which solution's going to be take -- going to occur and what had best solution might be. So it is formulating a solution to that problem is this part of the process. The next step is the legitimization of those solutions. Because if you've got a problem in your house and you decide that it's an important problem and you figure out how to solve that problem, you can just solve that problem because it's in your house. But as soon as it's a community problem, you have to find a way to legitimize your preferred outcome. Let's say, for example, that the playground equipment in my neighborhood play area has been deteriorated, there's been vandalism or the sun or whatever, it needs replaced. Well, I might think that's an important issue because I want my kids to be able to play in a safe playground, so I'm
going to bump that pretty high on the agenda. And I've got a good solution, I found a cheap, durable playground equipment that the kids like and I want to put that in. Now, I could just go buy the equipment and, you know, in the middle of the night tear out the old equipment and put in my own equipment and bolt it down and walk away, problem solved. Well, that sort of vigilante solution is not going to work. There are some members of the community who might appreciate that somebody just took care of it, but there's going to be other parts of the community that will be quite upset because maybe they wanted a different playground or maybe they liked the old equipment or maybe the playground equipment you put in is not safe in their estimation. You can't just do things because you think it's the right thing to do. You have to go through a process by which the community that is affected by that decision has some input, has a way to impact the outcome of that policy process. Because if that step is skipped, if the community that's effected doesn't have a voice in that decision, the solution is not going to be seen as legitimate. They're not going to buy into that solution. Even if it works, even if it's a good solution, they will not participate in it if it is not legitimate. Conversely, if this policy process produces a solution that they disagree with, that they don't like but they have had an opportunity to engage in the process and try to persuade others of their idea they just lost that policy debate, even if the outcome is not what they want, most people will accept that outcome as legitimate and just live with it if the process has been followed properly. So this legitimization step is crucial in development of good policy. And the process for legitimizing a solution is going to vary depending on the policy domain that we're talking about. It typically though involves elected officials making the decision by voting of some kind. And those elected officials then have to stand for reelection at some point in the future which legitimizing the process. Again, it varies by policy domain, but typically it comes down to elected people making choices. The next step is the implementation of that solution; that involves funding it adequately, it may involve community participation. Again, depending on the policy domain, that's going to vary. But the implementation stage is a crucial aspect. Many times public policy there will be a fire storm of debate and then a decision will be made, and then the debate moves on to the next topic of the day and the actual problem never gets solved because the attention span has shifted and whatever solution was decide, was not fully implemented. And so that implementation is a crucial part. Finally, the last step is analyzing the effectiveness of that solution. It may be that it seemed like a good idea at the time but your solution just didn't work. Maybe there was an unintended consequence to your solution. Maybe the environment has changed in some way, the circumstances are different to where that solution is no longer appropriate. So this analysis of the effectiveness of the solution is on ongoing process and what typically happens, and I have not drawn a line between these boxes, but analysis almost always will identify a new problem, and the process then starts over again in a cyclical way.

Slide 6

Text: Foreign Policy

- Actors
President
Executive Branch
Congress
Courts
Attentive Public

Audio: Now, the first policy area that we'll look at to illustrate how this public policy process works is that of foreign policy. Now, foreign policy is policy that relates to things that are outside the borders of our country; as opposed to domestic policy which is relating to issues that affect the American citizens within the borders of our country. And the same processes of problem identification and agenda setting and policy formulation, all of those processes have to be followed when we're deciding what policy -- what approaches we're going to take with those around the world. Now, foreign policy is much more elite-driven than any other policy domain; meaning everyday citizens don't have a whole lot of impact on foreign policy where social elites, meaning the elected officials, the opinion leaders, those who have positions of great economic power, these are the agents that tend to have more influence in foreign policy than your everyday citizen. Now, each actor in that process has its own agenda, and so looking at the various groups that are involved in foreign policymaking, you have the President, clearly, as the CEO of the Executive Branch as the Commander-in-Chief, as chief negotiator. The President is the most dominant actor when it comes to foreign policy. Now, on the other hand, the President is only one person, and so there is an entire security and intelligence and economic apparatus that operates to maintain the national interests of the United States. Those interests include security concerns, but they also include economic concerns, trade issues, and so the vastness of how much bureaucracy is engaged in foreign policy makes it difficult for the President to really dictate the details of foreign policy; however, in this policy domain, the President has more tools at his disposal than almost any other domain and so the President's wishes are most often enacted, unlike other policy domains where the bureaucracy can stall and delay. Congress is a key actor in foreign policy. It sets the budget, it has the power to declare war, It has oversight capacity on the various agencies in the Executive Branch that engage in foreign policy; and so Congress is a key player. The courts are less important in foreign policy but nevertheless have a role because they interpret treaties and they engage in judicial review on the actions of the other actors. And, finally, we have the attentive public. Most people don't pay much attention at all to foreign policy. It is something that grabs the attention of the media because it's, you know, the display of firepower and the threat of violence is always present, and so the media pays a lot of attention to foreign policy, but your average American typically does not unless something major is going on. That's one reason why the public does not have a whole lot of impact on this policy domain; however, there are citizens who do pay close attention, and these would be people who have a financial interest, that maybe they are executives of a multinational corporation, maybe they're import/exporters, maybe they have relatives who live in areas that are under threat and
they want the United States to intervene. For whatever reason, there are members of the public who are attentive to this foreign policy domain, and because so few people pay attention and so few public voices are heard, that does mean that the attentive public has a disproportionate impact on foreign policy; meaning they impact policy beyond what their numbers would suggest, and that's simply because they're some of the few people providing feedback on the policy actions that are taken. Now, one problem with foreign policy is that because these actors each are operating under their own agenda, this often results in sending conflicting signals abroad. So if you're negotiating with the United States, who do you negotiate with? Do you negotiate with the President? Do you negotiate with the Marine Corps corporal who's in front of you with a gun? Do you negotiate with the leadership of Congress? Do you engage in a public awareness campaign to try to sway the public? All of these actors each have their own approach and their own power base in which to act. And so things like the Kyoto Accords, for example, they were negotiated by the Executive Branch but then the Legislative Branch said that there was no way they would consider ratifying such a deal, and so the Executive Branch went back to try to renegotiate those accords. Now, those -- that renegotiating was not successful, and then when there was an election and the presidency shifted from a Democratic Clinton Administration to a Republican Bush Administration, the U.S. government completely withdrew from those negotiations. So that could be quite frustrating from a foreign point of view. As you're engaging negotiations with the United States, who is sometimes there sometimes not, sometimes the answer's yes, sometimes the answer's no depending on the political goings on within the country. Or another example is during the Bush Administration when the Bush Administration was trying to isolate Syria in order to get Syria to stop providing assistance to Hezbollah in Lebanon, and at the same time that strategies being followed Nancy Pelosi, who was the new Speaker of the House after the 2006 elections, took a fact-finding mission and went to Syria. So Syria was able to host a high-ranking member of the American government at the same time the American government was trying not to engage in negotiations with Syria to try to get them to change their behavior. So these conflicting signals complicate the formulation of our foreign policy.

**Slide 7**

**Text:** Two Domains of Foreign Policy

- Security
  - Dept. of State
  - Dept. of Defense
  - National Security Council
  - Intelligence Community

- Economics
  - Treasury Department
  - Dept. of Commerce
Audio: There are two primary domains of foreign policy, and that is security and economics. Security involves securing the safety of Americans and their property at home and abroad. Now, foreign policy is primarily concerned with the abroad part of that equation; to make sure that the enemies of this country are not able to harm Americans. This involves preparing with our military forces for what's called peer-to-peer combat, think World War II where large armies fight large armies. It also, in the modern era, means preparing for asymmetrical warfare, which is where a powerful military like the United States is fighting a smaller, perhaps even nongovernmental group, like a terrorist organization or some tribal disorder or a group that is making demands of an American business and trying to extort that business. So our military has to face the real threats from weak actors and non-state actors. At the same time it tries to maintain the capability of deterring a larger threat from a peer nation in some future government that might field an army. So our army has to know how to fight on both of those levels. Now, in the security domain there are several actors, key agencies that deal with security. Those are listed on the slide. The Department of State is the diplomatic corps; the Department of Defense is the military corps; the National Security Council I mentioned previously in the discussion on the bureaucracy, that's the advisors to the President on formulation on foreign policy; and then there's the intelligence community. And talk briefly about that, we often, you know, due to Hollywood's influence, just think of the CIA when we this can of intelligence, but the CIA's only one of 11 agencies that gather intelligence abroad. And the new Office of the National Director of Intelligence, that job is to coordinate the intelligence-gathering capacity and information from these 11 different agencies and try to make sure that the intelligence that is gathered comes out as a coherent picture. Now, in the economic realm, the United States is also very active. The United States is the largest economy on the planet. We trade; we have the largest export trade of any country. That maybe surprising because we -- it seems that everything in our country's made in China. But while China has a larger volume of trade, our exports generate more money. And so you're buying cheap plastic stuff from China but you're buying high-end industrial manufactured goods from the United States. And so in dollar terms, the United States still exports more than any other nation. So the United States has an interest, then, in maintaining the peace and security of the shipping lanes, which is the military's job; but also in maintaining favorable trading relationships with countries around the globe, that's the state department's job; but also maintaining the economic viability of the global system as a whole. As the largest actor in the economic system, we have responsibility to maintain the health of that system. And so we've got a few actors that main -- that look at economic foreign policy. The Treasury Department is in charge of maintaining the integrity of our currency, and so they go abroad to try to combat counterfeiters. The United States dollar is the currency of choice for global trade, which means it is the favorite for counterfeiters. Most of those are criminal enterprises, although
occasionally governments will use their printing presses to print very difficult-to-detect counterfeits. Iran and Venezuela are suspected of doing this, and North Korea has been caught several times. And North Korea actually is -- the largest volume of counterfeit money in U.S. dollars originates in North Korea. All right, and then there's the Department of Commerce. Their mission is to promote shop U.S.A. abroad to try to make sure that as other countries decide to buy things, that they look hard at American producers of those things that they're trying to buy. And then trade representatives, their job is to ensure that the terms of trade remain fair; meaning that countries don't have tariffs on our goods when we do not have tariffs on theirs. So in both the security and economic realm, the United States is very active and indeed is the dominant actor in both domains on the planet.

Slide 8

Text: US Foreign Policy themes

- Support for Status Quo
- Preference for Action
- Maintenance of American Hegemony
- Prevent WMD proliferation

Audio: I think both of these demands, security and the economic, The United States, is not just dominant but is overwhelmingly dominant. The United States is the richest and most powerful nation that has ever existed on the history of the planet. So there's a couple of themes that ride throughout American foreign policy and the first one of these is to support the status quo. Things are pretty good for the United States right now and the foreign policy establishments charged with keeping it that way. The United States wants to remain not just the most powerful country, but far in a way the most powerful country, so that other countries can't, will not even be tempted to challenge the United States because those challenges usually end up in great power wars like World War I and World War II or the cold war. We don't want to do that and so the argument is if we are so overwhelming powerful, no country can even come close, then other countries will decide it's in their best interest to work with us not against us and that way we maintain our position of dominance without actually having to fight anybody. So maintaining the status quo is one of the main policy themes since the end of the cold war anyways. The next policy theme that has been dominant for a long time for most of our culture is a preference for action. When something happens wrong, Americans don't want to convene a committee to discuss it and explore it and decide what happens, what happened wrong and how we can avoid it in the future. Americans want to know whose fault it is and what you're doing to, to fix it. The American culture has a preference for action. We idolize action heroes that solve problems with, at the tip of a gun in, in very simple ways. Our entertainment is designed around 30-minute programs where problems are given and problems are solved, then tied up in a nice little bow in 30
minutes. Other societies aren't like that. Their literature and film are more ambiguous. The good
guy doesn't always win. They're more prone to discuss and debate things than, than just take
action. But our culture and, there's debate on where this stems from, some say it's our
individualism, some say it's our pioneer background, you know carving out the country in the
wilderness according to the, the manifest destiny myth of America and only myth is in not true, I
mean myth is in ideology that imbues the society. We just prefer someone to go solve the
problem and if the problem's not solved, we usually will point fingers at whose default and
replace them with someone who promises that they will solve the problem. The next solution is
the maintenance of American hegemony and hegemony means that the person who is in charge
is the hegemon, the one who makes the rules is the hegemony and as I mentioned before we, we
prefer that that person, that that actor be us because we can make the rules in a way that benefit
us. Now they also benefit others. American hegemony has been quite beneficial for most of the
world, so it's not a negative thing to have the Americans in charge particularly when you look at
other countries that might be in charge. Suddenly the Americans start looking pretty good when
you look at what the world might look like if it was run by the Russians or the Chinese or even
the French. So maintenance of our hegemony is a theme that is dominant and no matter which
political party is in charge and almost no matter what the exact situation is we're talking about,
questioning our leadership position is not on the agenda. Finally and more recently theme in our
foreign policy is to prevent the proliferation of weapons of mass destruction, so this involves
things like creating a missile defense system which is the, the picture you see on the slide of a
missile being launched as part of a, a missile defense test, preventing missile technology from
proliferating, from spreading. Preventing other countries from developing nuclear weapons or
trying to negotiate with those who do have nuclear weapons to reduce the arsenals and
preventing the spread of biological and chemical and radiological weapons. These weapons are
often preferred to has poor man's nuclear bomb because they can do tremendous damage and
more importantly they can inflict tremendous psychological damage, it, it freaks people out even
if it doesn't kill people. And the threat of engaging those types of weapons and doing the damage
that normally take big countries to do is something that we cannot abide by and so the United
States will actively prevent the development of that capability in even small countries that we
could normally ignore. But we will not ignore if the threat of weapons of mass destruction are
present. So for example in 2010, when I'm recording Iran and the concern about Iran developing
nuclear weapons is a dominant issue. Well Iran is a fairly small country, they have an economy
about the size of Maryland's. They, their military is the dominant conventional military in the
Persian Gulf region mainly because we dismantled and destroyed the Iraqi Army, so it's now the
largest army left. But their army is, is no where near, a pure competitor to the United States.
Their navy is less powerful than the U.S. Coast Guard. Their army is a competent army, but it is
small and weak compared to the United States army. So and, and the amount of money they
spend on the defense is about 1% of the amount of money we spend on defense, so it's, it's
miniscule amount compared to our defense budget. So it's not a country we normally would be
afraid of, but because they're threatening to develop nuclear weapons, this relatively small,
relatively unimportant country has dominated the foreign policy agenda of the United States for the last couple of years. So that's an example of, of how preventing WMD proliferation is a key foreign policy objective. Now again applying the policy process to foreign policy, we see that problems have to be identified and then agendas have to be set and here's where the debates come in on, is Iran a real problem, is China the bigger problem, is Russia a bigger problem? Then you get to policy formation and we have debates which are, how do we solve these problems and there are multiple think tanks that offer advice on how to solve our foreign policy problems. The attentive public offers advice, the different agencies compete with each other on which preferred solution will come about because their budgets are directly related to the policy choice it's made and that policy is legitimized, treaties have to be signed, treaties have to be ratified once they are signed and then the policies are implemented. So that same public policy process takes place within the foreign policy domain.

Slide 9

Text: Social Security

[Flow chart of Social Security System]

Audio: Another important policy area is that involving Social Security. I want to take a minute and explain how Social Security works because a lot people think of Social Security in ways that are not that helpful. Some people think that Social Security is akin to a private insurance plan or private banking account where the premiums that they pay go for policy with a pre-determined payout or that they go to a policy with their name on it, like a savings account. That's not the way Social Security works and so to understand Social Security as a policy and understand that the debates surrounding Social Security; we need to understand how the system operates. So, we begin on the left with the workers, that's you and me, we make it...we have a job, we earn a paycheck and then there's an automatic withdrawal from that paycheck, it's the form of the SSI payroll tax, that money is taken out of your paycheck and paid directly to the Social Security Administration. Now that money goes into a general fund there isn't an account with your name on it that has that money inside it. Now there is an account with your name on it where the Social Security Administration keeps track of the rate at which you pay in but that's to determine your eligibility for the program, not to determine necessarily how much you get out it because that will be determined by whatever the rates are when you retire. Social Security Administration takes that money that comes in through payroll taxes and pay...uses that existing money to pay benefits to the people who are retired. So, the Social Security system transferred money from the workers to the retirees in the form of Social Security checks. Now Social Security in addition to giving checks to retirees has a smaller group that gets Social Security, these are people who are permanently disabled and incapable of working. Also the orphans and children who parents have died, widows, if a primary breadwinner has died, then the heirs to that person receives Social Security benefits until the children are at the age of around eighteen or twenty-one depending on the benefit that is being given. So primarily to retirees, but it is also to people who are not
capable of working or the dependents of somebody who was paying into the system. All right, so the issue though is that there are far more workers than there are retirees and those workers are earning more money and putting more money into payroll taxes than retirees are receiving from the benefits that they are getting. This is how Social Security has always been with more workers giving money to fewer retirees. Presently there are about four workers for every two retirees, so what does the Social Security Administration do with that surplus funds. The money is transferred to the Social Security Trust Fund; now this fund has been gathering money since the inception of the program because of those bonus, excess funds that have been coming in. Now it would not be responsible for them to just hang onto that money sort of a scrooge McDuck money bin. Instead they invest those funds so that they can receive a return while they're waiting to have enough retirees to need to use the surplus funds. So, the place that Social Security Trust Fund invests their money is in Treasury bonds, Treasury bonds are the most stable place to put money there is a low return but it's a very secure investment. So the trust fund buys treasury bonds with that extra money and this then means that Congress has extra cash available because Congress is the one who sells the Treasury bonds, the government sells Treasury bonds, so that money is available to the government for immediate spending which Congress happily does. Congress has spent that money and so...when Congress runs a deficit, they have to borrow the money from some place to finance that deficit, well for most of the time when we've been running deficits, the place that we went to borrow that money has been ourselves, Treasury bonds given to the Social Security Trust Fund as well as other pension funds and grandmother's buying Treasury bonds as lame gifts for their grandkids. That's where the, the money is got...comes from in order to deficit spend, so Congress takes the surplus that Social Security has from year to year and spends it on immediate programs. So to recap, the workers have money taken from their payroll taxes, part of that money goes to payroll benefits, the rest of it goes to current deficit spending and what is left over after that exchange is the Social Security Trust Fund has a growing pile of Treasury bonds as their trust fund. Again those Treasury bonds have a small yield, but they...it's a safe place to park money. Now another way to think of a Treasury bond is a Government I.O.U. So the Social Security Trust Fund is essentially a collection of I.O.U's. Now this sets the stage for the debate that is currently occurring and will likely continue to occur over the future of Social Security.

**Slide 10**

**Text:** Social Security

- **Looming Crisis**
  - Baby Boomers retiring
  - Govt. IOUs (bonds) will have to be cashed

- **Suggested Reforms**
  - Decrease or means-test entitlement
Audio: The concern is that as the baby boomers retire, the baby boomers represent a bulge, a demographic bulge that is going through our distribution of population and right now that big bulge of baby boomers is at the height of their earning potential meaning they are putting more money into Social Security then they ever have and ever will. In a few years though and they have already begun to retire, but over the next 15 years the baby boomers will all retire and that giant bulge that currently is paying into the system will retire and will move from the workers side over to the retiree side. It is such a huge bulge, that at that point there will be more benefits paid to retirees then there are payroll taxes coming in from current workers. The previous generations are simply smaller in size then the boomer generation and they are going to have to support those retirees. The concern is that we will move from a four to two ratio down to a three to two and perhaps even a straight up two to two or one to one ratio. Now the additional concern is that once these retirees retire and Social Security has to pay more in benefits then its drawing from current payroll taxes, the way it will do that is that it will begin to draw from the trust fund to make up the difference. That's why the trust fund exist, is to guarantee that that money is there for those retirees, and that all sounds well and good except when you remember what is the Trust Fund? The trust fund is a pile of IOU's, those IOU's have to be turned into cash in order for those benefits to be paid out which means two things. The first is that the source of deficit financing will disappear. There will no longer be a Social Security surplus that congress can use to pay for their deficit spending. The other problem is that as those IOU's are cashed in they'll have to, the treasury will have to pay cash for those IOU's, now where is that money going to come from? Well the treasury could simply print money which would cause inflation or they can stop selling bonds to other people or try to sell more bonds to other people to pay the existing bonds which just increases deficit spending or they can increase taxes in order to make up the payroll deficits. So here is the looming crisis that the Social Security system will not be bankrupt until about 2060 or 2070. That is when the trust fund runs out but the more immediate concern is that in just a few years, most experts estimate that its going to be about 2015 which is just down the corner, that is just one presidential election away. The trust fund will have to start cashing in those IOU's and so this is going to create a currency crisis where there may not be enough money in the system to pay that out. So this is the looming crisis, its not here yet but it's about to arrive. So there are a couple of suggested reforms to Social Security to try to address this crisis and either push back the date in which it becomes a crisis or engage in a structural fix to actually solve the crisis. The first proposal form is to decrease or means test the entitlement, now that would decrease the amount of money being paid out to retirees depending on how drastically will determine the impact this move will have. You can imagine how politically unpopular this move would be particularly given the fact that old people vote and young people don't which means the retirees vote but the workers do not. So it doesn't take a whole lot of analysis to figure out that the political system is probably unlikely to decrease Social Security benefits. Now means testing
means, what that word means is that it will peg the payout to income so poor people will receive enough Social Security to survive day to day, wealth people will probably not get any Social Security because they don't need it to survive day to day so to means test the entitlement means to peg it to income and it becomes a welfare program at that point. One disadvantage to doing that is some people argue that the only reason Social Security works is because everybody pays into it expecting that everybody pays out. As soon a Social Security becomes a welfare program by means testing the entitlement, the political will for people to continue to pay into the program will evaporate and there could lead to political change, a policy change where Social Security is no longer withdrawn and the system collapses. Another proposed reform is to tax the benefits so go ahead and continue to give everybody Social Security but then tax the Social Security benefit for wealthy and middle class people as if it was income. So you would be taxed at the same level for whatever income that represented as if you had gone out and earned that money even thought it's a Social Security benefit, where poor people would not have to pay a tax because it would be a progressive tax meaning the rich pay more taxes then the poor. The argument against this is that again it becomes similar to a welfare program and the political support for Social Security among the middle class and the wealthy will evaporate and the program itself could go away then. The next suggested form is to just increase the retirement age. The argument here is when Social Security was first formed and the retirement age was set at 65 the average lifespan was 62 and so they set the retirement age at later then the average death age for people so Social Security was there if you lived longer then most people did and were to old to work any more then Social Security would help you out. Well times have changed and the life spans have dramatically increased and so now most people retire, most people live to age 65. So the argument is that we should go back to the original model and move the retirement age back to where people who are capable of working are not eligible for Social Security. The average for men right now, the life expectancy is about 72 to 78 depending on what number you look at and men have 72 and women have 78, and so if you make the retirement age at 75 instead of 65 because people are living longer, hey are healthier longer, they are more capable of working longer and they will continue to pay into the system for another decade and they will draw retirement out of the system for a decade less. The argument against this solution is that it is not fair to people who paid into Social Security their whole life expecting to retire at 65, they made financial plans expecting to retire at 65 only to have that sort of finish goal pushed back a decade. That it would be difficult for them to change their retirement plans by that last decade. Another argument against it is that while that may be well and good for white collar workers and information economy workers, it would be a disaster for blue collar workers. If you spent your career as a machinist you are not going to be able to work those remaining 10 years so that, the argument is that it is not fair to manual laborers to do that. Finally the last suggestion is to increase the payroll tax. This is where the amount of money withdrawn from your paycheck, your paycheck would go up and just increase that tax to the point it is bringing in enough money to cover the cost of those retirees. The argument against this one is that as any tax increase it would put a drag on earnings and decrease the standard of living for the current workers. On order to
pay benefits to retirees who didn't have to pay those higher rates when they were working, so there is a generational equity argument here. Now again the political reality is retirees vote and workers don't and so if it was up to the, just the sheer public deciding what to do, it seem obvious that what would likely happen is we would have increased payroll taxes because again the retirees vote and the workers tend not to, so here is another example of how voting is important for your group interest as well as giving you warm fuzzies for your own personal benefit. So this is how Social Security illustrates the public policy process again we have identified a problem, there is a debate over weather or not it's a problem so the debate on the agenda setting is incurring. There is a tremendous debate over choosing what solution to the problem we'd be taken and then that legitimization process means that an elected body will have to make this decision. If someone was king and not answerable to the voters they could probably solve the Social Security problem. But anybody who is answerable to voters is going to have a very difficult time coming up with a solution to this Social Security problem.

Slide 11

Text: Fiscal Policy

- Government income and spending
- Regulating the economy

[Photo of men in conversation]

Audio: The next policy area to look at is that of Fiscal policy. Fiscal policy refers to how the government gets money and how the government spends money. It also deals with how the government regulates the economy as a whole. So how interest rates are set and how the unemployment is looked at. And so fiscal policy is a key part of the public policy process because anything government does costs money. How to pay for that is the big question here. What we will do is we look at fiscal policy we will look at where the government revenues come from and where the government spends its money and how the difference between those two have created deficits and debts that have created another very serious policy problem that this policy making process is going to need to address.

Slide 12

Text: Revenue

[Graph of Total Revenue US from FY 1995 to FY 2015]

[Pie chart of Total Revenue: $4,448 bn for FY 2010]

Audio: First let's look at revenue. This slide shows where the government, the federal government, gets its money. The pie chart to the right shows that the larger slice of the pie, about a third of it comes from income taxes. These are the taxes you pay that are due on April 15th,
filling out your tax forms every year. The next large percentage is the ad valorem tax, that's a fancy word for taxes on estates, like an inheritance tax, but also tax that is drawn on the value of land. If it was a local government it would be property tax. The federal government doesn't have property tax, but what the federal government does do is it generates fees from the use of public lands. So as farmers in the west use lands for grazing, they pay the government for those rights. Mining companies that mine entire mountains on public lands, they pay for the rights to do that. The oil industry, as they pump oil from the gulf coast pay the federal government for the right to do that and so that is a large portion of the revenue that's brought in. Chopping down forest trees, so a lumber company would pay the government a few pennies for every tree they chop down in the forest. Those types of things are the ad valorem tax. Then the next big chunk is social taxes and this money that is taken from your paycheck directly to go to social security and Medicare and Medicaid. That shows up on your paycheck as FICA, which is social security and Medicare and Medicaid tax. Now you'll notice that those social taxes are almost as much as the income taxes are and that is no surprise, because politicians learned early on that if you increase the income tax everybody notices and people get upset. If instead you increase a withholding tax, then that a little bit is taken from your paycheck, a little bit extra in taken from your paycheck each time and it's not as noticeable, so it's a more politically palatable way to increase taxes than increasing income taxes. The business slice is referring to income taxes that businesses pay. Businesses pay a tax on their profits and the fees are referring to user fees, tariffs, duties, other things. When you pay $50 to go see the Grand Canyon, you're a paying a fee and that goes to that slice as well. So, the total revenue for the government according to this chart in the current fiscal year is estimated to be almost four and half trillion dollars. Now if you look at the bar chart next to it, it shows the revenue patterns that have gone through the past several years. So, the blue charts, or the blue columns are actual revenues the government has drawn in. The red charts represent the projected revenue increases. Now we see the revenue was increasing throughout the 1990's, and then a drop in 2001, that was primarily due to tax cuts that were passed at the beginning of the Bush administration. Those revenues then gradually increased. Another explanation for the drop was the economy fell into recession in 2001 as well because that decreases the overall amount of business which decreases business taxes and income taxes. So, we then have a steady rise in government revenues until 2008 where the great recession hit and revenues dramatically dropped because the economy did so much worse. So, we see that over time revenues have gradually increased and where exactly that money is coming from.

Slide 13

Text: Expenditures

[Pie chart of federal expenditures]

Audio: This slide shows the expenditure side of the federal government. It's a pie chart that breaks down, not in number-wise how much the spending is but proportionally, what federal spendings are so that you can get a sense of what the government spends its money on. And it is
a little confusing -- this particular pie chart because it is so detailed. But I like it because it provides a lot more information than other charts that I looked at. These are the expenditures for the year 2008 which is the latest year at the time this presentation was reported in 2010 for real numbers. And that's because all of the receipts have to come in and -- and all that. The government doesn't really know how much it's spent until a couple of years later, until all the books are balanced. So, what we see is that the largest chunk of the federal pie is Social Security followed by the Defense Department and then Medicare. Now I encourage you to pause the presentation and take advantage of the -- the level of detail here in this pie chart. And look through the many programs that are listed. And these are only the largest budget items on the federal budget are the ones that got a separate pie chart. Now the chart is a little misleading in that it breaks down each program individually. I guess "misleading" is not the proper word because it is factually correct. But it is probably more useful to lump some of these lines together to get a sense of the places, the chunks of where the money goes. For example, the Defense Department has 16.6% of the spending but you'll notice that 5% of the spending is on the global war on terror so, that is, the financing of the Iraq and Afghan wars. It is appropriate to put those two together. So, the total amount we spend on defense is 21.6. Now we could also add the Department of Veterans Affairs which is another 1.4% but that might be splitting hairs so let's not do that. But if we group the defense together, that's 21.6%. And if we then group the entitlements together -- Social Security, Medicare, Medicaid -- if we lump all those together, we come up with 52.7%. Most people don't realize that over half of the federal budget is spent on entitlement programs. And interest to pay off the national debt is another 9%. So, if we add the entitlement programs -- which entitlement means that, if you qualify for the program, you receive the benefit. Nobody decides whether or not you get the benefit. You automatically get it if you meet a certain criteria. So, you get Social Security when you retire. You get Medicare when you're old. You get Medicaid if you're poor. Right? If you meet those criteria, you get the program. That's why it's called an "entitlement." If you group all the entitlements together, it's almost 53%. Defense is almost 21%. Interest is 9%. We add up those programs together and we get a little over 83% of the budget is spent on items that basically you can't remove because the entitlement program's a given Congress can't tinker with. And it's political suicide to decrease defense spending so it's unlikely to come from there. That means that a little under 17% of the budget is everything else the federal government does. Everything. And so, if we were to eliminate federal programs other than these entitlement programs in the Defense Department, there -- very little progress would be made on reducing government spending. One reason to go through this type of a pie chart is to underscore just how difficult it is to reduce government spending when most of the government is off the table as far as spending reductions. People say, "Oh, if we just get rid of waste, then that will solve the problem." Well, you can see from this pie chart that if the -- the -- that doesn't come anywhere near to solving the problem just by eliminating waste at the margins. So, it's good to know where your tax money's coming from. And it's good to know where that money's going to, what you're buying with those tax revenues.
Slide 14

Text: Deficits

[Graph of Annual Deficit Federal Government US from FY 20015 to FY 2015]

[Graph of Annual Deficit Federal Government, Government Spending in US from FY 1900 to FY 2015]

Audio: In all but two of the last 40 years, the amount of money expended by the government has exceeded the amount of revenue brought in. That creates a deficit. So, a deficit is the difference between the two. Essentially, it is the government borrowing money to meet their needs for spending. The charts on this slide show some of the trend lines for those deficits. The one on the left shows the deficits of the last few years with projections for the next few years. And we see that the deficits are running a little under half a trillion dollars throughout the 2000's rising them with the crisis of 2008 that created the recession and the efforts to stem that recession to prevent a deeper depression from forming in the form of the -- the TARP pay bailout of the banks in late 2008. That was agreed upon in 2008 but the money was expended in the 2009 fiscal year. That was combined then with the stimulus package to boost the economy. And we see unprecedented deficits in 2009 and 2010 and projected in 2011 and '12. The estimates are that as the economy recovers that those deficits will decline but are not slated to return to the pre-2008 levels due to larger spending programs that have gone through Congress including the health care package that went through. So, the deficits that are being spent now are tremendous and historic. In raw dollar signs. But sometimes that can be misleading because of inflation. Also, as the economy grows, then it is more sustainable to take on larger debt. It's kind of the equivalent of -- of when you're in high school. It's a real stretch to get enough money to buy a car. But by the time you're in your 30s, managing a -- a debt loan for a car loan is quite sustainable because your income has increased significantly assuming all has gone according to plan. So, likewise as the country's economy grows, then the debt load and the ability to repay its debt can increase without unduly burdening the overall economy. So, while the raw numbers are good to look at and -- and rather alarming, a better figure to look at is to look at the deficit as a percentage of GDP because that is pegging the current deficit to the size of the current economy. For example, we're spending more now. Our deficits are higher than they ever have been in raw dollars. But if you compare the deficits of today to those incurred during World War II, they're less than half in a -- a relative sense because the economy was so much smaller in the World War II era. So, that's what the chart on the right does; is it tracks the annual deficit as a percentage of GDP. And we can see that in times of crisis -- World War I and World War II -- that there were huge spikes in borrowing but that those were temporary measures that ended when the -- when the conflict was over and the country returned to a more stable budget where spending was approximate to revenue. That changed in the late '70s with a combination of the social entitlement spending increases and slowing of growth of the national economy combined with increases in defense spending and decreases in tax revenue. So, combining tax cuts with increases in spending with a
slow down of the economy creates higher deficits. And so, we see starting in the -- the '70s and continuing throughout the '80s fairly significant deficits being racked up. Now, in the 1990s, those deficits began a -- a gradual but steady decline. This was due largely with a deal that President Bush, Sr., had made with the democratic congress in -- during his term. And what essentially happened was the democratic congress agreed to cut spending and put caps on spending meaning they couldn't create a new program without finding the money from it from an existing program. So, congress cut spending. At the same time, President Bush, Sr., agreed to a fairly modest tax increase. So, that combination of -- of increasing taxes a little bit and cutting spending a little bit combined corrected the fiscal situation of the nation. And throughout the 1990s, then we have declining deficits until by the end of the '90s surpluses. That then was reversed in 2000 when the -- we had significant tax cuts passed with Bush, Jr., administration with the republican congress which decreased revenue combined with a recession which also decreases revenue combined with increases in spending with the -- the war on terror, the war in Iraq, the war in Afghanistan as well as new social spending in prescription drug benefits. So, spending dramatically increased while revenue dramatically decreased and we see reversal of that trend and we return to deficits. Those deficits began to decline as the economy continue -- started growing again after that early 2000 recession. Reversed then, again, in 2008 and '09 and '10 which is that -- that last spike there towards the right of the diagram. So, we can look at that diagram and see a measure of the fiscal health of the country as it's gone from -- from deficits to surpluses. And as a percentage of GDP, that chart's going to have a lot of peaks and valleys in it as the size of the economy has grown. So, this one is just looking at the actual dollar amount that is owed. And so, even though, if you recall the previous slide, there's that huge spike in deficits in the 1940s. Because it was the 1940s, once you adjust for inflation, that's quite a -- a low figure actually. So, around the 1980s, though, we have a -- a sharp rise in the amount of debt. The amount of debt essentially tripled during the Reagan administration and then it continued to
increase almost twice as much during the Bush administration -- senior. It then leveled off during the Clinton administration because that was that period where deficits were declining and we actually had a -- a surplus for a couple of years there. And then we have a sharp increase in the Bush administration. And then an almost exponential increase with the recent high deficits of the last couple years with the TARP spending and the stimulus package and health care and all of that added together makes a -- a lot of borrowed money. So, it -- it is a tremendous amount and it is unprecedented historically. Now some people wonder where does that money come from, who do we owe that money to. There's a perception that we owe the money to foreigners. Now that's not accurate. I remember, back in the '90s, there was a presidential candidate named "Bo Grites." His solution to the national debt problem was to force the Federal Reserve to print a $3 trillion coin. And then he would palm it off to the Japanese on a state visit and back away and say, "Oh, you've now been paid." That's kind of a -- a silly solution but it also escapes the reality that we don't owe our debt to Japan. We don't owe it to China. What we do is we owe it to a basket of groups. A large number of people are who we owe that debt to. The government gets the money that it uses to -- for deficit spending. That it borrows money by issuing treasury bonds. And those Treasury bonds turn an IOU into cash which the government then spends. Now who buys Treasury bonds? Well, the Social Security trust fund, as previously mentioned, buys an awful lot of them. Institutional retirement funds like the -- the California pension fund or large corporate pension funds. They buy Treasury bonds. So, most of the debt is owed to ourselves actually. Increasingly, though, in the last decade, foreign holdings of Treasury bonds have dramatically increased. That is partly because of the increase in the last 10 years of the -- of the need to borrow money and so we've issued more bonds than the domestic market normally will consume so we've sold more of them abroad. But the other part of the equation is that other countries have what are called "sovereign wealth funds." And these are money that the government controls because they're state-owned industries or the economy has a large amount of state ownership. So, this would be Venezuela, Saudi Arabia, China. Right. These places have huge piles of money because they sell oil to us or they sell cheap, plastic junk to us. And they sell a lot more of that stuff to us than we buy -- or than -- than we sell manufactured good to them. So, there's a trade surplus with these nations. And so, they have a large pile of money that they have to do something with having sold all those goods to us. Well, their economies are too small to absorb that much money. If Venezuela were to spend all of the money that it makes, it would destroy the Venezuelan economy. If Saudi Arabia were to try to spend all of the billions of dollars it gets in oil money in Saudi Arabia, there would be massive, massive inflation as there would just be pools of money all over the country. So, instead, what they do is they take these piles of money called "sovereign wealth funds" and they invest them abroad. And they take those money -- those piles of money and put them in economies that can handle those infusions of cash. They might buy real estate, they might invest in companies, or a good chunk of them they buy Treasury bonds which finances the U.S. deficit. And so, an increasing amount of our national debt is being held by these foreign sovereign funds and China being the largest of them. And this is a -- a fairly recent development, though. So, the majority of our debt is owed to us. But a -- an
increasing percentage of our debt is coming from the sovereign wealth funds. So, the deficits has add up -- add to debt and that debt has to be paid eventually. Those Treasury bonds tend to be 30-year bonds. And so, 30 years from now that bond has to be repaid at a higher interest rate, a premium on it. And so, currently, bonds that were issued in the 1980s are now starting to be cashed in because we -- we borrowed money in the 1980s expecting to be paid back in the 2010s. Well, because we're currently running a deficit that means that we have to borrow money to pay back the borrowed money. It's kind of like a college student taking out new credit cards in order to pay off their balance on their other credit card. That works for a while but eventually it catches up. And the concern is that, as these debts grow and as we continue to borrow money to pay back previous debts, that the percentage of -- of our spending that is spent servicing the interest on the debt will continue to grow and begin to crowd out other services of government that we would spend the money on. If you go back up a couple of slides to the pie chart on expenditures, you see that 9% of the debt -- 9% of the expenditures are interest on the debt. Now that's not a principal payment. That's interest on the debt. That slice is larger than the budgets of pretty much the rest of the federal government if we exclude the military and entitlement spending. And so, you can imagine what we could do with that money if we weren't paying interest on the debt or how much we could decrease our taxes if we weren't paying the interest on the debt. So, imagine that 9% growing to say 14, 15% and you can see the -- the fiscal burden that will be placed on the country in the next 10 or 15 years as this debt increases. So, it is a serious issue and one to pay attention to particularly within the context of the public policy process.

**Slide 16**

**Text:** Monetary Policy

- Federal Reserve
  - Sets Interest Rate
  - Sets Money Supply
- Inflation v. Unemployment

[Photo of Ben Bernake, Chairman of Federal Reserve]

**Audio:** The next policy area to examine is monetary policy. Monetary policy is -- relates to the -- the flow -- the supply of money, how much money is in the economy. And most countries manage their economies by controlling the flow of currency that is in their economies. They do this by using a central bank. So, England, Germany, France, China, Japan. Pretty much all of our competitors in the international economy have a central bank that manages their economy through controlling the supply of money. The United States does not have a central bank that is controlled by the government. If you recall from a previous presentation, that was one of the debates of the first two generations of Americans is whether or not to create a national bank. The states' rights advocates won that argument and so we have never had a national bank. But as the size of the economy grew, as the complexity of the economy grew, the need to have something
that worked like a national bank continued to rise. And so, at the turn of the century, during the Woodrow Wilson administration, the federal reserve was created. And the Federal Reserve was a way to have a central bank without having a central bank. So, the Federal Reserve is a quasi-government institution. Meaning it is a -- a private entity that pays for itself through profits that it -- it charges fees and -- for its services so that it does not receive taxpayer money. But the directors of the Federal Reserve are appointed by the president and confirmed by congress. So, it is a private institution that is administered by a public entity. And so, it's this strange private-public arrangement that is set up. And the Federal Reserve's job is to control the economy and -- and perform the function of a centralized bank that every other country has by determining the interest rates that lending occurs at and determining the money supplier. Now the main concern for the Federal Reserve is to keep the health of the economy and the main indicator that the Federal Reserve uses to decide on the health of the economy is inflation and growth. Now there's a third indicator which is unemployment. But historically, the Federal Reserve has not particularly been concerned about unemployment. The rationale is that if they can keep inflation down and grow the economy -- meaning increase the growth rates -- that as the economy grows employment will naturally rise. And so, they -- they tend not to enact policies to decrease unemployment. Instead they enact policies to improve the economy and let unemployment naturally follow from that. Now the problem with that is that, as the Federal Reserve focuses on inflation, the way you stop inflation is you restrict the money supply. You pull money out of the economy. You do that by raising interest rates. Now when money is pulled out of the economy, then the economy slows down which decreases inflation but also increases unemployment. On the other hand, when there's a recession or the economy is already slow and the Federal Reserve feels it is unnaturally slow, the Federal Reserve will pump money into the system by lowering interest rates. And as that money increases, the economy grows faster which decreases unemployment but causes inflation. So, inflation and unemployment have an inverse relationship with each other. And the Federal Reserve has to make a choice of whether to keep inflation down or whether to keep unemployment down because they can't do both usually. And historically, they've focused on inflation, not unemployment. Now with the recession that started in 2000 and the -- the massive recession in 2008 with the lending crisis, the Federal Reserve has tried to boost the economy by decreasing interest rates. And interest rates are at historic lows now and yet the economy continues to be sluggish. The concern is once interest rates are near zero the Federal Reserve doesn't have any tools left to try to boost the economy further. So, that's -- the Federal Reserve is primarily responsible for monetary policy. The next slide will look at how they do that.

**Slide 17**

**Text:** Federal Reserve

[Chart of relationship between the Federal Reserve, Regional Reserves and banks]
Audio: When you go to a bank and borrow money, say to buy a car, the bank gives you that money to buy the car and the bank also that same day has people deposit their paychecks into the bank, in their savings account. The bank uses the money you deposit to give to people for their car loans. On any given day the money that comes into the bank might exceed the money that they give out. On other days the money they give out may exceed the money they bring in. On those days the bank has to borrow, on a short term basis, enough money to cover the difference so that it can give you the money for your car loan, even though it's not going to receive enough money to cover that loan until Friday when everyone gets paid and deposits their money in the bank. And so the place that banks go to borrow money are the regional reserves. The Regional Reserve will give the bank that money and charge them, say 2 percent interest for a point of argument. The bank then takes that money that it owes 2 percent interest on and gives it to you for your car loan, and charges you 8 percent interest on. It then gives a couple percentage points of interest to people in their savings account. But the point is that the Regional Reserve functions as the bank to the banks. Now as some banks are drawing money out, other banks are paying money back to the Federal Reserve, or the Regional Reserve. And that Regional Reserve, on any given day, may have more money come in than it sends out, and on other days it may send more money out than it comes in. And so that Regional Reserve may itself run low on cash on a given day, and so the Regional Reserve borrows money from the Federal Reserve. The Federal Reserve then functions as the bank to the Regional Reserves, which function as the bank to the banks, who are the banks for the consumers. Alright, so the Federal Reserve is then the bank of the banks. Now it also has money come in and money go out, but it has the authority to print money. And so that is why it doesn't borrow money from anybody else. Now when the Federal Reserve sets an interest rate, then that is the interest rate that the Federal Reserve charges the Regional Reserves. Those Regional Reserves then charge a slightly higher interest rate to the banks, and the banks then charge a higher interest rate to the consumers. And so the banking system, through the whole is profit driven, so the banks make money, the Regional Reserve makes money, and the Federal Reserve makes money. Now the profits generated by the reserves are used to finance their operations. The... being the bank of the banks gives the Federal Reserve then the ability to set the money supply in the economy. If it lowers interest rates, then that means that regional reserves can lower their interest rates, and banks can lower their interest rates; which means that money is then cheaper to borrow and so more people will borrow money. As they borrow that money they're going to spend that money, so lowering interest rates correlates to more consumer spending and more business investments of capital plants, building factories, things like that, that increases the growth of the economy and tends to decrease unemployment as people go to work to meet that demand. On the other hand, if the problem is inflation, the Federal Reserve can increase interest rates which leads to regional reserves to increase interest rates, which leads the banks to increase interest rates, which increases the cost of borrowing money. So people borrow less money. When they borrow less money they spend less money. They don't build new factories, they don't buy those luxury goods, and that decreases inflation because the price of goods doesn't continue to rise because fewer people are buying;
and it also increases unemployment as the economy cools down. So this diagram illustrates how the Federal Reserve functions, and how it manages the money supply.

Slide 18

Text: Policymaking

[Image of CATO Institute logo] [Image of The Heritage Foundation logo] [Image of the Institute of Policy Studies logo] [Image of the Center for Strategic & International Studies logo]

Audio: So we've discussed a few specific domains in policy making. With foreign policy and fiscal policy and monetary policy, policy making is a never ending debate. The policy making arena is where all the actors and institutions and processes we've talked about in this course come together. Political parties, interest groups, private citizens come together, discuss policy alternatives and using the institutional rules found within the US system of governance, determines which policies will be made. And then the executive branch then executes that policy. Now throughout our history, this process takes place repeatedly, as policies are enacted and debated, they're then reviewed, new problems are found, policies are debated, then enacted, then reviewed and it continues to go on and on.

Slide 19

Text: Civil Rights Movement

[Photo of Civil Rights protestors marching]

Audio: We can examine the civil rights movement in the 1950's and '60s and '70s as an illustration of how this policy process has taken place. So we begin with the problem identification, that African Americans in the American South, and other parts of the nation, felt that the level of discrimination that they suffered and the lack of rights that they Constitutionally should enjoy was enough and they began a series of efforts to try to draw attention to that problem. So, they identified their problem, and then began an agenda setting campaign and most of what we consider the civil rights movement is part of the agenda stage as this community tried to convince the rest of America that their cause was just and demanded attention, that the rights that they had been promised for decades, since the Brown versus Board decision and for centuries since the beginning of the nation, that they were tired of waiting that these rights at last should be realized. And so the protests, the boycotts, the marches, were all efforts to raise this issue high enough on the agenda that action might finally take place. If we think of the interest group discussion, the civil rights movement attempted all of the strategies that interest groups use to change public policy. They lobbied policy makers, they worked at electioneering to try to elect officials who were more likely to aid them in their cause. A good portion of the civil rights movement was increasing public awareness and trying to alter public opinion. In fact, the speech that Martin Luther King gave, his "I Have a Dream" speech, was remarkably successful in that
regard. It is a case study in how an interest group can use a public forum to influence public opinion and that once public opinion changes, the elected branches of government will follow suit. They also use litigation as a way to use the courts as oppressed minority to force the majority to give them rights that they were Constitutionally guaranteed. So through the whole policy process, of identification, agenda setting, policy formation, you know, what are the details of the Civil Rights Act of 1967 going to be? Policy legitimation as elected bodies begin to pass legislation and Executive Branch officials begin to enforce that legislation. We move to policy implementation and then finally, policy evaluation. And the argument over whether or not the civil rights movement achieved its goals or to what degree it achieved its goals is still being debated today. So that policy evaluation stage can be ongoing. So, it's a good illustration of how citizens and interest groups and elected officials used the public policy process to effect change in their society.

**Slide 20**

**Text:** SB 1070 Debate

[Photo of anti-SB10170 sign being held during a protest]

**Audio:** Another illustration closer to home is the debate surrounding Arizona Senate Bill 1070 passed in the 2010 legislature. This also illustrates the public policy process and shows that the success of one group can come at the success of another group. We have again -- we begin with problem identification with groups pointing to the rise in illegal immigration and the perception that there's an increase in crime associated with that and the argument that there's an increase in public cost and governmental cost for these illegal immigrant communities. So the problem identification stage where we're anti-immigrants/pro-securing the border groups attempted for years to get the legislature's attention on this issue. Now that then moves to the agenda setting stage where these groups try to increase the salience of the immigration issue to put it to the top of the agenda rather than at the bottom. On the federal level, it has resided at the bottom for a considerable time. And one argument that the proponents of the Arizona law gave was that by passing this law, it was a warning shot to the federal government that they needed to pay attention to this immigration problem. So 1070 itself can be seen as an agenda setting tactic on the federal level. But here within the state, that debate took place and years went by with the legislature making changes and voter propositions being passed, each of which was designed to make life as miserable as possible for illegal immigrants in Arizona. That then culminated in 1070 which makes it a state crime to be in violation of the federal crime. Now -- so that moves -- something that helped with that agenda setting that pushed the legislature into passing 1070 was the murder of a rancher on the border of Mexico presumably by illegal immigrant smugglers who killed the rancher and then fled back into Mexico: allegedly. Nobody knows because nobody was there. The rancher died so there's no witnesses. That death outraged many in the legislature and pushed this issue up on the agenda. We then go to the policy formation stage where the policy is debated in the legislature. Again because it's the Arizona legislature, the
policy was formulated in the republican caucus. The Arizona legislature does not generate policy with the entire body. It generates policy within the party caucus. And the republicans have the majority so the republican caucus determined to pass 1070 and the language for that bill was written primarily by an out of state activist but tweaked and promoted by Russell Pearce who is a Mesa legislature -- legislator. So policy was formulated. It then went to the policy legitimization process where the legislature passed the law and that process is continuing to occur. That is where this debate currently is, is the policy legitimization because once the legislature passed the 1070 law, it was immediately challenged in court by groups opposed to the 1070. And the courts have put a stay on the implementation of portions of the law. And so the 1070 policy has not moved to the implementation stage of policy process. It is still parked in the legitimization stage as these court battles are being fought out. Now eventually, once this gets through court, if the 1070 law survives the court challenges, then it will be fully implemented. And then we can move to the evaluation stage to see what impact if any, it has on illegal immigration. Now so what we see is two processes working in tandem here. We have one group who is opposed to illegal immigration and trying to create this legislation to make life as miserable as possible to illegal immigrants so that they will either stay in Mexico or at the very least go live in other states so that Arizona doesn't have the costs associated with them. On the other side of the debate, we have the immigrant activists who are arguing that the making life as miserable as possible for a group of people who live here and contribute to our society is inherently wrong. And so those groups are fighting this: not just 1070 but the whole attitude and collection of laws that have been passed over the last few years. And so we have two groups fighting one another over the outcome of public policy. It illustrates that the policy making process is one that is not smooth: particularly when there are post groups. And that all of the government entities and all of the civil society entities can interact with one another in the formation of policy.

**Slide 21**

**Text:** Tea Party Movement

[Photo montage of bag pipe player, student sitting with “Don’t tread on me” banner in his lap, a man speaking at a podium, protestors, two women speaking at a podium, a man speaking at a podium in front of an American flag, protestors holding signs, a crowd at a meeting]

**Audio:** One last example of this policy-making process is the contemporary tea party movement. Here we have a group of people who are trying to engage this policy-making process. And this group is fairly early in the process. So, to be -- look at the process again. We have problem, identification. That's what the tea party is attempting to do; is identify what problems are facing our country. And for the most part, the tea party movement -- it doesn't have a leadership so at times it's -- it's hard to pin down what exactly the tea party is about. But the common denominator among the tea party movements around the country are reducing the size and intrusiveness of the federal government, decreasing deficit spending, and decreasing taxes. Those are the -- the -- those fiscal concerns are the three common denominators. Now local tea party
movements have their own twist on those and add their own concerns to it. So, some tea party groups, in addition to having a fiscal concern, with the size of the federal government have a civil liberties concern. So, they're worried about the federal government being intrusive on their liberties with the Patriot Act and the ability of the federal government to spy on its citizens. Many object to the health care provision that mandates coverage for citizens and they feel that the government doesn't have the right to order citizens to buy a service. So, there's some -- some civil liberties concerns. The tea party in Arizona has anti-immigration at the top of its list of concerns. And so, each of the tea party groups have their own set of concerns. But what they're doing in this process of having these debates and arguments is they're engaged in the problem identification stage. They're trying to articulate a concern they have with the direction the federal government is taking. Now the next step is the agenda setting. And the tea party is actively involved in agenda setting. What they're doing with these rallies, what they're doing with endorsing political candidates is they're attempting to take their concerns -- these fiscal and civil liberty concerns -- and, again, in Arizona, the security and immigration concerns -- and raise them up on the agenda to have a higher priority than they have. They -- they claim to be nonpartisan because they criticized the democratic Obama administration as well as the republican Bush administration for not giving enough attention to the concerns that they have. So, what we can do is we can valuate the success of the tea party movement based on how successful they are at problem identification and agenda setting. And based on those rubrics, they're doing pretty good. They have drawn attention to their concerns. And those concerns -- the -- the priority given those concerns, the salience of their concerns have also dramatically risen particularly in the 2010 election cycle as candidates -- particularly, republican candidates have sought tea party movement endorsement in their primary races against other republicans. In order to gain those endorsements, they've had to assure the tea party movement that they will give a high priority to the tea party's concerns. And so, viewed through the lens of this policy-making process, the tea party movement is doing a fairly good job in that -- in doing their agenda setting. Now the next phase of the policy-making process is policy formation. And here's where the tea party movement will either become a vibrant force in American politics or will dissolve into a -- an uneventful group of internal strife. We can draw parallels from the tea party movement to Ross Perot's reform party movement to -- to illustrate this. The reform party movement in the early '90s did a very good job of identifying the problem which was the fiscal policy and the need to balance the budget. They did a great job of agenda setting. They basically altered the political landscape of the '92 and '96 presidential campaigns. But it then fell apart at the policy formation stage because the various factions -- the only think that united those factions was that they didn't like the debt -- the federal debt and the annual deficits. They had so many differences amongst themselves on how to decrease the debt that they were incapable of putting forward a coherent policy that the main line parties could then consider. Similarly, we may see that the tea party having successfully set the agenda will not be able to take its disparate groups and rally together behind a common policy preference. If they can do that, then it will probably be a powerful and vibrant part of the policy discourse for years to come. If they cannot do that, then
the tea party movement will be seen as a phenomenon of the -- of 2010 and maybe a couple of years but then it will go away. So, as a political scientist, we'll -- we'll stay tuned for the tea party movement where we can explain the movement and we can analyze its success using this public policy process framework. And so, that illustrates why it's -- it's useful to understand this framework.

Slide 22

Text: Conclusion

[Photo of students grouped together in red, white or blue]

Audio: So as we look at these historic and contemporary examples, what we see is that American democracy, it still works, that the American experiment continues to move forward, that the structures of our institutions and the processes that are followed by those wishing to impact those institutions, allow for many opportunities for citizen engagement. The citizenry has avenues that it can use to influence the public policy process at each step of the way. The identification, the agenda setting, the policy formation, the policy legitmation, the implementation, and the evaluation of policy. At each step of that process, citizens have pathways, they have avenues to take to influence the outcome of that process. And so thinking of policy, in terms of an engaged citizenry, helps us see how vibrant American democracy continues to be.

Slide 23

Text: This presentation is courtesy of Brian Dille, Professor of Political Science at Mesa Community College.

[Photo of Brian Dille]

Audio: This presentation is courtesy of Brian Dille. I'm a speaker and I'm a professor of Political Science at Mesa Community College, a college of the Maricopa County Community College District in Mesa, Arizona. I hope you've enjoyed this presentation.