

CHAPTER 18

Economic Policy

REVIEWING THE CHAPTER

CHAPTER FOCUS

The purpose of this chapter is to introduce you to an area of public policy that affects everyone in one way or another: economic policy. The chapter covers both the divided attitudes that voters have toward a “good” economy and the competing theories that economists offer on how to obtain a good economy. The various agencies that participate in formulating government economic policy are reviewed, along with the many stages of producing and implementing the annual federal budget. Finally, the controversial areas of government spending and tax reform are discussed. After reading and reviewing the material in this chapter, you should be able to do each of the following:

1. Show how voters have contradictory attitudes regarding their own and others’ economic benefits.
2. List and briefly explain the four competing economic theories discussed in the chapter.
3. Assess the nature and effect of Reaganomics.
4. List the four major federal government agencies involved in setting economic policy, and explain the role of each.
5. Analyze federal fiscal policy in terms of the text’s four categories of politics.
6. Trace the history of federal government budgeting practices up to the present day.
7. Comment on the prospects and the desirability of lowering federal spending and reforming the income tax.

STUDY OUTLINE

- I. Introduction
 - A. Deficit spending, a feature of the government since 1960
 - B. National debt is the total of all deficits
 - C. Explanations
 1. Economic reason
 - a) Debt is a concern only if payments cannot be met
 - b) Or the currency is no longer regarded as stable and valuable
 - c) Interest on the debt is affordable—8 percent of all federal expenditures
 - d) Future economic demands on the government may create a problem
 2. Substantive reason
 - a) We don’t know what the federal debt is used for
 - b) Borrowing continues regardless of what government gets
 3. Political reason
 - a) Politicians oppose debt because the public does

- b) But they offer opposing remedies
 - (1) Conservatives want to cut spending
 - (2) Liberals want to raise taxes
 - (3) The tension between the positions often leads to no action
 - D. How reliable are projections about the future?
 - 1. Not very
 - a) Unforeseen disasters can have an impact
 - b) Decisions can have a short-term and long-term impact (cutting taxes)
 - 2. Federal agencies and estimates
 - a) Office of Management and Budget (OMB)
 - b) Congressional Budget Office (CBO)
 - 3. Scorecard
 - a) Predicted deficit would be much higher than it actually was from 1993 to 1997
 - b) Predictions concerning budget surpluses
- II. The politics of American economic prosperity
- A. Health of American economy creates majoritarian politics
 - 1. Voters influenced by their immediate economic situation
 - 2. Voters worry about the nation as a whole as well as their own situations
 - 3. Voting behavior and economic conditions correlated at the national level but not at the individual level
 - a) People understand what government can and cannot be held accountable for
 - b) People see economic conditions as affecting them indirectly, even when they are doing well
 - B. What politicians try to do
 - 1. Elected officials tempted to take short-term view of the economy
 - 2. Government uses money to influence elections, but government will not always do whatever is necessary
 - a) Government does not know how to produce desirable outcomes
 - b) Attempting to cure one economic problem often exacerbates another
 - 3. Ideology plays a large role in determining policy
 - a) Democrats tend to want to reduce unemployment
 - b) Republicans tend to want to reduce inflation
- III. The politics of taxing and spending
- A. Inconsistency in what people want out of majoritarian politics
 - 1. No tax increases
 - 2. No government deficit
 - 3. Continued (or higher) government spending
 - B. Difficult to make meaningful tax cuts
 - 1. Politicians get reelected by spending money
 - 2. Strategy: raise taxes on “other people”
- IV. Economic theories and political needs
- A. Monetarism—inflation occurs when there is too much money chasing too few goods (Milton Friedman); advocates increase in money supply about equal to economic growth
 - B. Keynesianism—government should create right level of demand
 - 1. Assumes that health of economy depends on what fraction of their incomes people save or spend
 - 2. When demand is too low, government should spend more than it collects in taxes by creating public works programs
 - 3. When demand is too high, government should increase taxes

- C. Planning—free market too undependable to ensure economic efficiency; therefore government should control it (John Kenneth Galbraith)
 - 1. Wage-price controls
 - 2. Industrial policy—government directs investments toward particular industries
- D. Supply-side tax cuts—need for less government interference and lower taxes (Arthur Laffer)
 - 1. Lower taxes would create incentives for investment
 - 2. Greater productivity would produce more tax revenue
- E. Ideology and theory: people embrace an economic theory partly because of their political beliefs
- F. Reaganomics
 - 1. Combination of monetarism, supply-side tax cuts, and domestic budget cutting
 - 2. Goals not consistent
 - a) Reduction in size of federal government
 - b) Increase in military strength
 - 3. Effects
 - a) Rate of growth of spending slowed (but not spending itself)
 - b) Military spending increased
 - c) Money supply controlled
 - d) Federal taxes decreased
 - e) Large deficits incurred and dramatically increase the size of the national debt
 - f) Unemployment decreased
- V. The machinery of economic policy making
 - A. Fragmented policymaking; not under president's full control
 - 1. Council of Economic Advisers
 - a) Members chosen are sympathetic to president's view of economics and are experts
 - b) Forecasts economic trends
 - c) Prepares annual economic report for president
 - 2. Office of Management and Budget
 - a) Prepares estimates of federal government agencies; negotiates department budgets
 - b) Ensures that agencies' legislative proposals are compatible with president's program
 - 3. Secretary of the Treasury
 - a) Reflects point of view of financial community
 - b) Provides estimates of government's revenues
 - c) Recommends tax changes; represents the nation before bankers and other nations
 - 4. The Fed (Federal Reserve Board)
 - a) Membership, length of term and removal
 - b) Independent of both president and Congress
 - c) Sets monetary policy by controlling the amount of money and bank deposits and the interest rates charged for money
 - 5. Congress creates the nation's fiscal policy
 - a) Approves taxes and expenditures
 - b) Consents to wage and price controls
 - c) Can alter Fed policy by threatening to reduce its powers
 - B. Effects of interest group claims
 - 1. Usually majoritarian: economic health good for all
 - 2. Sometimes interest group: free trade (e.g., NAFTA)
 - C. Globalization
 - 1. Growing integration of the economies and societies of the world

2. Supporters
 - a) Argue it has increased income, literacy and the standard of living around the world
 - b) Favor free trade (makes produces cheaper)
3. Opponents
 - a) Oppose free trade because it undercuts wages of American workers
 - b) See it as being driven by selfish, corporate interests
 - c) Note exploitation of people in poor countries
 - d) Concerned about cultural imperialism

VI. Spending money

- A. Conflict between majoritarian and client or interest group politics
- B. Sources of conflict reflected in inconsistencies in public opinion
- C. Politicians have incentive to make two kinds of appeals
 1. Keep spending down and cut deficit
 2. Support favorite programs of voters

VII. The budget

- A. Overview
 1. Document that announces
 - a) How much the government will collect in taxes
 - b) How much the government will spend in revenues
 - c) How expenditures will be allocated among various programs
 - d) Over the course of the fiscal year (October 1 to September 30)
 2. Spending decisions made with little regard to how much money is available
- B. Earlier practices
 1. Merely adding expenditures before 1921
 2. No unified presidential budget until 1930s
 3. Separate committee reactions after that
- C. Congressional Budget Act of 1974: procedures
 1. President submits budget
 2. House and Senate budget committees analyze budget
 3. Budget resolution in May proposes budget ceilings
 4. Members informed whether or not spending proposals conform to budget resolutions
 5. Committees approve appropriations bills, Congress passes them, and sends them to the president for signature
 6. Hard to make big changes in government spending because of entitlements
 7. Big loophole: Congress not required to tighten government's financial belt
 8. Failures of the process after 1981

VIII. Reducing Spending

- A. Gramm-Rudman Balanced Budget Act (1985) called for
 1. A target cap on the deficit each year, leading to a balanced budget
 2. A spending plan within those targets
 3. If lack of agreement on a spending plan exists, automatic across-the-board percentage budget cuts (a sequester)
- B. "Smoke and mirrors" and failure of the Act
 1. Plan was unpopular, but "necessary"
 2. Congress and president found ways to increase spending about "target" anyway
- C. New strategies
 1. Congress votes for a tax increase
 2. Passage of Budget Enforcement Act of 1990
 - a) Set limits on discretionary spending (i.e., nonentitlements)

- b) Increases in such spending had to be accompanied by cuts elsewhere or an increase in taxes
- IX. Levying taxes
- A. Tax policy reflects blend of majoritarian and client politics
 - 1. “What is a ‘fair’ tax law?” (majoritarian)
 - a) Tax burden is kept low; Americans pay less than citizens in most other countries
 - b) Requires everyone to pay something; Americans cheat less than others
 - 2. “How much is in it for me?” (client)
 - a) Requires the better-off to pay more
 - b) Progressiveness is a matter of dispute: hard to calculate
 - c) Many loopholes: example of client politics
 - 3. Client politics (special interests) make tax reform difficult, but Tax Reform Act passed (1986).
 - B. The rise of the income tax
 - 1. Most revenue derived from tariffs until 1913 and ratification of Sixteenth Amendment
 - 2. Taxes then varied with war (high), peace (low)
 - a) High rates offset by many loopholes: compromise
 - b) Constituencies organized around loopholes
 - 3. Tax bills before 1986 dealt more with deductions than with rates
 - 4. Tax Reform Act of 1986: low rates with smaller deductions
 - 5. Will Bush tax cuts expire in 2010 or be made permanent?

KEY TERMS MATCH

Match the following terms and descriptions:

- | | |
|--|---------------------------------|
| 1. A group that forecasts economic trends | a. budget |
| 2. The theory that the health of an economy depends on what fraction of their incomes people save or spend | b. budget resolution |
| 3. General term for deductions, exemptions and exclusions in the tax code | c. budget surplus |
| 4. Legislation that authorizes budget ceilings | d. Congressional Budget Act |
| 5. An organization that provides estimates of tax revenues | e. Council of Economic Advisers |
| 6. The theory that voters worry about community and national interests | f. deficit |
| 7. The total deficit from the first presidency down to the present | g. discretionary spending |
| 8. The use of the amount of money in bank deposits and the price of money to affect the economy | h. economic planning |
| 9. A combination of monetarism, tax cuts, and domestic budget cutting | i. entitlements |
| 10. The mechanism that regulates the supply and price of money | j. Federal Reserve System |
| | k. fiscal policy |
| | l. fiscal year (FY) |
| | m. globalization |
| | n. gross domestic product |
| | o. Keynesianism |
| | p. loopholes |
| | q. monetarism |

- | | |
|---|--|
| <p>11. The theory that voters are mostly influenced by their own immediate economic situation</p> <p>12. What occurs when the government in one year spends more money than it takes in from taxes</p> <p>13. The total of all goods and services produced in the economy during a given year</p> <p>14. The use of taxes and expenditures to affect the economy</p> <p>15. The theory that inflation occurs when there is too much money chasing too few goods</p> <p>16. The theory that government should control wages and prices</p> <p>17. A document that announces how much the government will collect in taxes and spend in revenues and how those expenditures will be allocated</p> <p>18. Electoral behavior that regards the condition of the national economy more so than one's own personal finances</p> <p>19. A recommendation for budget ceilings to guide legislative committees in their spending decisions</p> <p>20. A situation in which the government takes in more money than it spends</p> <p>21. An economic philosophy that assumes that the government should plan some part of the country's economic activity</p> <p>22. The period from October 1 to September 30 for which government appropriations are made and federal books are kept</p> <p>23. The growing integration of the economies and societies of the world</p> <p>24. Government regulation of the maximum prices that can be charged and wages that can be paid</p> <p>25. Automatic, across-the-board cuts in certain federal programs when Congress and the president cannot agree on a spending plan</p> | <p>r. monetary policy</p> <p>s. national debt</p> <p>t. other-regarding voter theory</p> <p>u. planning</p> <p>v. price and wage control</p> <p>w. Reaganomics</p> <p>x. self-regarding voter theory</p> <p>y. sequester</p> <p>z. sociotropic voting</p> <p>aa. supply-side theory</p> <p>bb. Treasury Department</p> |
|---|--|

26. An economic philosophy that holds that sharply cutting taxes would increase the incentive to invest, leading to more tax revenues
27. Spending not required to pay for contracts, interest on the national debt or entitlement programs
28. Mandatory government spending (e.g., Social Security, Medicare, Food Stamps)

DATA CHECK

Figure 18.2 (Page 488): Bad Economic Guesses

1. What is the general impression made by this chart?

2. Can you identify an instance where, for a period of time, the two lines are actually close?

Figure 18.4 (Page 500): Tax Burdens in Democratic Nations

3. What country has the highest tax burden?

4. What country has the lowest tax burden?

5. How does the tax burden of the United States compare with other nations in the Figure?

Figure 18.6 (Page 501): Federal Taxes on Income, Top Percentage Rates, 1913–2002

6. How far back must we go in history to find top-bracket tax rates for individuals that are lower than they were during the Reagan era?

7. How far back must we go in history to find top-bracket corporate tax rates that are lower than they were during the Reagan era?

PRACTICING FOR EXAMS

TRUE/FALSE QUESTIONS

Read each statement carefully. Mark true statements *T*. If any part of the statement is false, mark it *F*, and write in the space provided a concise explanation of why the statement is false.

1. T F In a typical year, the government will spend more on the interest of the national debt than it will on national defense.

2. T F President Clinton and the American economy produced budget surpluses between 1998 and 2000.

3. T F Low-income people are more likely to vote Democrat.

4. T F Higher-income people are more likely to worry about unemployment.

5. T F A “sociotropic” voter votes on the basis of his/her own pocketbook.

6. T F The text suggests that only recently has the government tried to use money in order to affect elections.

7. T F Economics played a role in the defeats of Ford (1976), Carter (1980) and Bush (1992).

8. T F Republicans are more likely to attempt to reduce inflation.

9. T F Cutting taxes will tend to be more popular than increasing spending.

10. T F Most tax issues produce majoritarian politics.

11. T F Keynes believed the market would not automatically operate at a full-employment, low-inflation level.

12. T F If you are a liberal, monetarism would appeal to you.

13. T F If you are a socialist, economic planning would appeal to you.

14. T F “Reaganomics” was not dictated by any single economic theory.
-
15. T F Kennedy tended to pick monetarists for the Council of Economic Advisors (CEA).
-
16. T F Members of the Federal Reserve System (“the Fed”) serve terms of fourteen years.
-
17. T F No member has ever been removed from the Federal Reserve System (“the Fed”).
-
18. T F Bill Clinton reappointed Ronald Reagan’s choice for Fed Chairman, Alan Greenspan.
-
19. T F When Congress passes a law governing foreign trade, it is responding to majoritarian politics.
-
20. T F The United States has not extended NAFTA to other countries.
-
21. T F Voters consistently say they want a balanced budget and lower government spending.
-
22. T F Voters consistently say they want increased spending on education and crime control.
-
23. T F Supporters of globalization are generally skeptical of “free trade.”
-
24. T F There was no federal budget at all before 1921.
-
25. T F The procedures adopted by Congress affect the policies adopted by Congress.
-
26. T F The Gramm-Rudman Act called for a series of cuts in the federal budget until the deficit disappeared.
-
27. T F The sequester required across-the-board percentage cuts in federal programs if the president and Congress failed to agree on a total spending level.
-
28. T F The text suggests that the Balanced-Budget Act of 1985 was “successful.”
-
29. T F Tax policy is a mixture of majoritarian and client politics.
-

30. T F Most other democratic nations have a higher tax rate than the United States.
-
31. T F There is evidence to suggest Americans evade their income taxes more than citizens in France or Italy.
-
32. T F Progressive tax rates are not part of the federal income tax scheme.
-
33. T F The Seventeenth Amendment created the federal income tax.
-
34. T F If taxes are progressive, those who make more money pay a lower rate than the less affluent.
-
35. T F Democrats have traditionally accepted loopholes as part of a political compromise.
-
36. T F In the early years of the federal income tax, high-income people paid a significant amount in income.
-
37. T F Loophole politics is client politics.
-
38. T F The big gainers in the Tax Reform Act of 1986 were businesses.
-
39. T F Presidents Bush (the elder) and Clinton both proposed tax increases.
-
40. T F Few Democrats voted for George W. Bush's tax-cut plan in 2002.
-

MULTIPLE CHOICE QUESTIONS

Circle the letter of the response that best answers the question or completes the statement.

1. The total federal debt is around
- a. \$1 trillion.
 - b. \$3 trillion.
 - c. \$5 trillion.
 - d. \$8 trillion.
 - e. \$30 trillion.

2. When we survey the economic guesses of the OMB and the CBO regarding the deficit over the last forty years, we see that such estimates are
 - a. quite reliable.
 - b. almost perfect, in most instances.
 - c. highly accurate in the last two decades.
 - d. remarkably close given all of the uncertainties involved.
 - e. not very reliable.
3. A sociotropic voter
 - a. considers his/her personal economic fortune a major factor in the voting decision.
 - b. does not consider economics in his/her voting decision.
 - c. votes for incumbents.
 - d. considers the economic health of the nation as a whole when voting.
 - e. votes against incumbents.
4. The text suggests the massive system of Civil War pensions for Union army veterans and the Social Security system are examples of how
 - a. economic decisions tend to be sociotropic.
 - b. politicians regard institutional change in economic terms.
 - c. the federal deficit has little relation to annual expenditures.
 - d. the government has used money to affect elections.
 - e. popular governmental programs are rarely held accountable by Congress.
5. Democrats tend to be more worried than Republicans about
 - a. inflation.
 - b. international politics.
 - c. unemployment.
 - d. business investment.
 - e. recessions.
6. Lower taxes, less debt, and spending on new government programs produce _____ politics.
 - a. entrepreneurial
 - b. majoritarian
 - c. interest group
 - d. client
 - e. B and D
7. Politicians have a strong tendency to get reelected by
 - a. decreasing taxes.
 - b. lowering the deficit.
 - c. cutting expenditures.
 - d. spending money on specific programs that are popular.
 - e. raising taxes.
8. Milton Friedman's economic philosophy is called
 - a. economic planning.
 - b. supply-side theory.
 - c. industrial policy.
 - d. monetarism.
 - e. planning.

9. Friedman takes the position that inflation is caused when
 - a. there is too little money chasing too few goods.
 - b. there is too much money chasing too many goods.
 - c. there is too little money chasing too many goods.
 - d. there is too much money chasing too few goods.
 - e. the government has a predictable increase in the money supply.
10. Keynesians believe that if people save too much
 - a. they will pay too little in taxes.
 - b. they will invest too little.
 - c. production and money supply will increase.
 - d. demand will decrease and production will decline.
 - e. demand and production will increase.
11. A follower of Keynes would probably agree with all of the following statements *except*
 - a. the government should make sure there is the right level of demand.
 - b. the government should take an activist role in the economy.
 - c. money should be taken out of the economy when demand is too great.
 - d. if demand increases too fast, prices will go up.
 - e. the government should balance the budget each and every year.
12. In the economic planning approach of John Kenneth Galbraith, the government should address inflation by
 - a. printing more money and lowering taxes.
 - b. regulating the maximum prices that can be charged and wages that can be paid.
 - c. standing back and allowing the market to adjust itself.
 - d. reducing the number of regulations on businesses.
 - e. creating public works programs.
13. A key element of the supply-side theory of the economy is the
 - a. importance of incentives.
 - b. need for careful control of the money supply.
 - c. need for a balanced budget.
 - d. need for close attention to trade imbalances.
 - e. importance of regulations.
14. People are *most* likely to embrace a particular economic theory because of
 - a. their race.
 - b. the condition of the world economy.
 - c. their political beliefs.
 - d. their religious beliefs.
 - e. the condition of their state's economy.
15. Which of the following statements is *incorrect*?
 - a. Conservatives might find monetarism appealing.
 - b. Socialists find economic planning appealing.
 - c. Liberals find Keynesian economics appealing.
 - d. Conservatives might find supply-side economics appealing.
 - e. None of the above.

16. All of the following were true under “Reaganomics” *except*
 - a. spending on some domestic programs was reduced.
 - b. military spending was sharply increased.
 - c. there were sharp, across-the-board, cuts in personal income taxes.
 - d. business activity decreased.
 - e. there was a drop in the unemployment rate.
17. The “troika” that assists the president in making economic policy is composed of the chairman of the Council of Economic Advisers, the director of the Office of Management and Budget, and the
 - a. advisory council of the Federal Trade Commission.
 - b. Secretary of the Treasury.
 - c. Secretary of Labor.
 - d. Federal Reserve Board.
 - e. head of the Department of Labor.
18. The Office of the Management and Budget has something of a “split personality” because it
 - a. makes recommendations, then criticizes its own recommendations.
 - b. negotiates budgets with departments, but recruits members from them as well.
 - c. prepares spending estimates while discouraging long-range planning.
 - d. works with the legislative branch while instituting litigation in the judicial branch.
 - e. provides both expert analysis and activist partisan support for the president’s programs.
19. The Secretary of Treasury is expected to argue the point of view of
 - a. the financial community.
 - b. Congress.
 - c. the president.
 - d. industrial leaders.
 - e. taxpayers.
20. Which statement about the Federal Reserve Board is *incorrect*?
 - a. It has fifteen members.
 - b. Each member is appointed by the president and confirmed by the Senate.
 - c. A member’s term is fourteen years.
 - d. Since its founding in 1913, no member has ever been removed.
 - e. The Chairman serves a four-year term.
21. In 2001, the Fed _____ eleven times in order to help reduce the recession.
 - a. sold government securities
 - b. increased bank deposits
 - c. increased the supply of money
 - d. raised interest rates
 - e. lowered interest rates
22. The most important part of the economic policy making machinery is the
 - a. Federal Reserve Board.
 - b. Congress.
 - c. Council of Economic Advisers.
 - d. General Services Administration.
 - e. Secretary of Labor.

23. Republicans tend to support free trade, but George W. Bush imposed sharp increases in taxes on imported steel because
- he opposed NAFTA from the beginning.
 - Democrats in Congress insisted that the steel industry was receiving special treatment.
 - the automobile industry threatened to strike.
 - he was interested in electoral support from Ohio and Pennsylvania.
 - of a lack of compliance with environmental laws.
24. The fiscal year begins
- October 1.
 - October 30.
 - September 1.
 - September 30.
 - None of the above.
25. The Congressional Budget Act of 1974 was intended to
- impose some budget discipline on committees.
 - increase the power of the president.
 - allow interest groups more access to the budget process.
 - implement zero-based budgeting.
 - invite members of Congress to allocate funds in creative ways.
26. Entitlements (that is, mandatory spending) makes up about ____ of what government spends.
- one-tenth
 - one-fourth
 - one-half
 - two-thirds
 - very little
27. The “sequester” featured in the Gramm-Rudman Act (1995) called for what action if the president and Congress could not agree on a total spending level?
- Reduction in congressional salaries.
 - A freeze on congressional salaries.
 - Across the board cuts in all federal programs
 - Resubmission of all budget requests with special attention to elimination of programs.
 - Resubmission of all budget requests with special attention to consolidation of programs.
28. The law enacted by Congress that imposed a cap on discretionary spending (that is, nonentitlement spending) was the
- Budget Enforcement Act of 1990.
 - Balanced-Budget Act of 1985.
 - Budget and Impoundment Act of 1974.
 - Budget and Accounting Act of 1921.
 - Monetary Control Act of 1973.
29. Many other nations rely more heavily on sales taxes than we do because such taxes are
- more popular with the public.
 - easy to raise without opposition and protest.
 - supported by political elites.
 - harder to evade.
 - more traditional and progressive.

30. The text states that tax policy is a blend of majoritarian and client politics. What is an example of the latter?
- Progressive taxation.
 - A low tax burden.
 - Tax loopholes.
 - A requirement that everyone pay something.
 - A and D.
31. Prior to the creation of the income tax, the money that the government needed came mostly from
- property taxes.
 - loans.
 - state contributions.
 - tariffs.
 - highway tolls
32. The _____ Amendment created the federal income tax.
- Eleventh
 - Thirteenth
 - Sixteenth
 - Twenty-first
 - Twenty-second
33. In the first half of the twentieth century, Republicans expressed bitter opposition to
- high marginal rates.
 - tax loopholes.
 - incentives.
 - income adjustments.
 - tax exemptions.
34. Early on, tax loopholes particularly helped
- average citizens.
 - those who were well off.
 - businesses.
 - self-employed persons.
 - farmers.
35. In 1993, President Clinton proposed a law which raised the top tax rate to
- 28 percent
 - 31 percent
 - 39 percent
 - 43 percent
 - 52 percent

ESSAY QUESTIONS

Practice writing extended answers to the following questions. These test your ability to integrate and express the ideas that you have been studying in this chapter.

- What are three reasons why the government can spend more than it brings in, essentially operating while constantly in debt?
- Explain the difference between pocketbook and sociotropic voting. How do these approaches affect the outcomes of recent presidential elections?
- Summarize the economic views of Milton Friedman and monetarists.

4. Explain the relationship between the economy and spending and saving according to John Maynard Keynes.
5. Outline the steps that were taken under the program known as Reaganomics. Detail the impact of these steps on the deficit, the national debt, unemployment, business activity and productivity.
6. Describe the structure and membership of the Fed. Then identify the tools employed by the Fed in order to implement monetary policy.
7. What are some arguments for and against globalization?
8. Discuss loophole politics and the Tax Reform Act of 1986. How did the Act affect rates and deductions and who were the winners and losers?

ANSWERS TO KEY TERMS MATCH QUESTIONS

1. e
2. o
3. p
4. d
5. bb
6. t
7. s
8. r
9. w
10. j
11. x
12. f
13. n
14. k
15. q
16. h
17. a
18. z
19. b
20. c
21. u
22. l
23. m
24. v
25. y
26. aa
27. g
28. i

ANSWERS TO DATA CHECK QUESTIONS

1. The economic guesses of the experts are not always quite so accurate.
2. 1987–1990.
3. Denmark (30.5).
4. Switzerland (8.6).

5. The tax rate in the United States (11.3) is relatively low.
6. 1930s, Hoover administration.
7. 1950s, Truman administration.

ANSWERS TO TRUE/FALSE QUESTIONS

1. F More is spent on social welfare and defense.
2. T
3. T
4. F They are more likely to worry about inflation.
5. F These voters are said to consider the economic health of the nation as a whole, or “the economy” when they cast their vote.
6. F The text notes the role of patronage in the nineteenth century and the government distribution of Civil War pensions as examples of such behavior.
7. T
8. T
9. F Increased spending tends to be more popular than cutting taxes.
10. T
11. T
12. F Monetarism is more likely to appeal to conservatives.
13. T
14. T
15. F Kennedy tried to appoint Keynesians to the CEA.
16. T
17. T
18. T
19. F Such laws would be samples of interest group politics.
20. T
21. T
22. T
23. F Supporters of globalization support free trade because they believe it results in lower prices.
24. T
25. T
26. T
27. T
28. F It failed because, by “smoke and mirrors,” Congress and the president found ways to spend higher than the targeted amounts.

29. T
30. T
31. F Americans evade such taxes much less.
32. F Progressive taxation is a part of our system. The only debate surrounds the degree to which our taxes are progressive.
33. T
34. F If taxes are progressive, then those who make more will pay a higher percentage in taxes.
35. T
36. F Only a small percentage of high income people paid any significant amount.
37. T
38. F The big gainers were individuals. Businesses were the big losers.
39. T
40. T Many Democrats and most Republicans voted for it.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1. d
2. e
3. d
4. d
5. c
6. b
7. d
8. d
9. d
10. d
11. e
12. b
13. a
14. c
15. e
16. a
17. b
18. e
19. a
20. a
21. e

- 22. b
- 23. d
- 24. a
- 25. a
- 26. d
- 27. c
- 28. a
- 29. d
- 30. c
- 31. d
- 32. c
- 33. a
- 34. a
- 35. c