

**A SAGE
White Paper**

**DEALING WITH THE
MAJOR UNRESOLVED
GOVERNMENT
POLICY ISSUES**

Democracy in Decline

DEALING WITH THE MAJOR UNRESOLVED GOVERNMENT POLICY ISSUES

‘Problems can become opportunities when the right people come together.’

Robert Redford

The American people and their representatives must decide on a great number of issues each year. Many of the most important issues continue year after year without any resolution. Congress seems to prefer to ‘kick the can down the road’ rather than collaborate on real policy solutions.

I have chosen to comment on 16 of the most persistent policy issues. They are, in alphabetical order:

- 1 Abortion
- 2 Campaign finance
- 3 Climate and pollution
- 4 Consumer protection
- 5 Drug wars
- 6 Gun control
- 7 Healthcare
- 8 Immigration
- 9 Incarceration and prisons
- 10 Infrastructure
- 11 Military and defense
- 12 National debt
- 13 Poverty
- 14 Social Security and retirement
- 15 Student loans
- 16 Taxes

Let’s now take a brief look at each one.

1. ABORTION

Roe v. Wade, 410 U.S. 113 (1973), is a landmark decision by the U.S. Supreme Court on the issue of abortion. Decided simultaneously with a companion case, *Doe v. Bolton*, the Court ruled 7-to-2 that a right to privacy under the due process clause of the 14th Amendment extended to a woman's decision to have an abortion, but that this right must be balanced against the state's two legitimate interests in regulating abortions: protecting women's health and protecting the potentiality of human life. Arguing that these state interests became stronger over the course of a pregnancy, the Court resolved this balancing test by tying state regulation of abortion to the third trimester of pregnancy. Once the newborn could potentially live outside the mother's womb, this decision might no longer be allowed. 'Viability' is usually placed at about 7 months (28 weeks) but could occur earlier, even at 24 weeks.¹

Over time, those who despised this decision attempted to weaken it by legal and other means. They called themselves 'pro-life' as opposed to the supporters of this decision who were for 'pro-choice.' The pro-life group argued that a human being begins at the point of conception and aborting that human being is tantamount to murder. They said that the fetus has civil rights as well as the mother. The extreme members of the pro-life group say that an abortion should not be allowed in the case of rape or even when the unborn child is likely to be born defectively as indicated by a medical preview early in the pregnancy. This group has taken to vigorous grassroots demonstrations near planned parenthood clinics, in a few cases even killing a physician who has conducted abortions.

Pro-life supporters have taken legal steps to get state legislatures to put more difficulties in the path of a woman's right to choose abortion. Texas has ruled that clinics need medical equipment and procedures up to the standards of modern hospitals. Some planned parenthood centers have had to close their doors because they could not afford that level of equipment. Other states want a woman to submit to seeing the unborn fetus in her womb before she makes a decision. Some states require a young woman to get her parents' agreement or to go through a waiting period.

The pro-choice group argue that women face a very difficult decision that they are not happy to make but that they have weighed the pros and cons and decided abortion is the best solution. Thus a pregnant teenager might have to give up the idea of going to college and take care of a baby without a husband or good job prospects. Each woman should be free to do what she sees as being in her best interest. The pro-choice group does not believe that a human being

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exists at the time of conception and does not believe that the particular beliefs of a religious movement are relevant to this scientific question of whether a human being exists at the moment of fertilization.

The prospects of finding a compromise on this issue are very low. The law remains on the side of the mother's freedom to choose. At the same time, the pro-life group continues to try to stop or delay abortions to the extent possible.

2. CAMPAIGN FINANCE

Political election campaigns used to be simple: Get a lot of citizens to sign a petition backing you as a candidate; get your political party to endorse you as one of the candidates; start talking to different groups about your beliefs and experience; smile, shake hands, kiss babies, and you might win the nomination.

Today the first thing is to find some rich folks who believe in you. You will need a lot of money. If you can score with a billionaire, you are off to a good start. But don't neglect ordinary Joes and be sure to collect their \$5 as well.

Here are the current rules for donor gifts to campaigns and candidates:

- A donor can give as much as \$2,700 per candidate in that election cycle.
- A donor can give as much as \$5,000 to a PAC per election cycle.
- A donor can give as much as \$33,400 to a political party per year.
- A donor (individual or corporation) can give an unlimited amount to a Super PAC that election cycle but the donor's name will be public.
- A donor (individual or corporation) can give an unlimited amount to a social welfare organization and their name can remain private.

The Supreme Court's 5-to-4 decision in favor of *Citizens United* means that every company and organization is free to give money to PACs and Super PACs. A PAC exists to support a particular candidate and must publicly list the donors and amounts. The Supreme Court's 2010 *Citizens United* decision led to the set-up of Super PACs. Technically, Super PACs must be 'operated exclusively to promote social welfare.' Political activity is allowed but must not be the organization's 'primary' mission. Yet the current IRS commissioner said that groups could spend up to 49% of revenues on political activity and still keep their tax exemption.

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Clearly, rich donors and corporations have many ways to give lots of money to candidates and parties of their choice. Many proposals have been advanced for limiting the amount of political campaign expenditures:

- Require all candidates to apply for public funds to finance their campaign. All candidates would receive the same amount to spend as they wish. They would also agree not to accept additional money from individual donors, corporations, unions, or nonprofit organizations. The election period would be confined to 30 days of electioneering as in the U.K.
- Keep the present arrangement but require Super PACs to list the names and amounts from donors and strictly limit the percentage that can go to supporting a candidate as opposed to promoting a social issue.
- Terminate the *Citizens United* decision which said that companies are people who are free to promote candidates. Severely limit the amount of funds that all organizations can give to support a political candidate.

3. CLIMATE AND POLLUTION

According to the World Health Organization (WHO), 223,000 people died in 2010 from lung cancer caused by exposure to air pollution. Many of the cities in China and East Asia are polluted. European cities such as Sofia (Bulgaria) and Krakow (Poland) are highly polluted as well as U.S. cities such as Bakersfield and Fresno, California. U.S. and Western European cities are relatively less polluted than Asian cities because of tighter anti-pollution investments required from companies.

Water pollution is a growing problem as well. Our oceans have been a dumping ground for harmful chemicals and refuse that have been poisoning fish and sea life. Currently micro-beads used in preparing cosmetics are populating our waters, causing more fish to die.

The U.S. established the Environmental Protection Agency (EPA) in 1970 under President Nixon to protect human health and the environment. The EPA established fair practices for sharing the cost and responsibility of producing pollution. One policy is to set a limit on the amount of permissible carbon pollution and require companies to use cap and trade. Currently some politicians are impugning the leadership of the EPA as putting too much of a regulation burden on industry.

The ultimate question is how much curbing of pollution is desirable given that it will slow down the rate of economic growth. The columnist George Will denies climate change as scientifically established and complains about how many jobs and economic growth are being lost due to regulatory measures to reduce pollution.

Can Congress develop a clearer estimate of how many jobs are lost with different levels of effort to reduce air and water pollution?

4. CONSUMER PROTECTION

Capitalism has been a driving force in raising the living standards of people around the world. Companies are free to design and sell products and services to whoever might be interested in buying them. Companies set up sales goals and train and motivate their marketers to sell as many units as possible. Marketers are rewarded according to how much they sell. Sales people might try to convince a family to buy a home or car that they cannot really afford. They offer easy finance so that the monthly payments seem small and feasible even though they might carry a high hidden financing charge.

In this context, we can cite a number of reasons why consumers might require some protection:

- Credit card firms, banks, and retailers might make it too easy for consumers to buy things that they cannot afford.
- Some sellers might make or sell products that can hurt consumers. Tobacco companies make products that injure the health of smokers. Food companies or restaurants might sell food that is out of date or harmful to people's health. Manufacturers might make products such as ladders or cars that carry a defect that might harm the user or others.
- Some sellers might sell perfectly safe products but exaggerate their performance. Consider a pharmaceutical company claiming that its pill will bring relief when it is only a placebo. Marketers are storytellers and might claim much more product performance or benefits than will be delivered.

For these and other reasons, countries establish and fund laws and a consumer protection bureau that tests products, makes sure of their safety, and makes sure that the sellers' claims are supportable.

5. DRUG WARS

President Nixon declared a 'war on drugs' in June 1971 and he increased the size of federal drug control agencies. He pushed through measures including mandatory sentencing. The drugs included marijuana, opium, cocaine, heroin, and psychedelics.

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Regarding marijuana, in 1972 a commission recommended decriminalizing the possession and distribution of marijuana for personal use, but Nixon rejected this. Yet between 1973 and 1977, 11 states decriminalized marijuana possession. In October 1977, the Senate Judiciary Committee decriminalized possession of up to one ounce of marijuana for personal use.

In the 1980s, parents began to complain about the high rates of teen marijuana use. President Reagan started a highly-publicized anti-drug campaign with the slogan 'Just Say No' and pushed for zero tolerance policies. This led to skyrocketing rates of incarceration increasing the number of people in prison from 473,368 in 1980 to over 2,042,479 in 2001.

Bill Clinton, during his 1992 presidential campaign, advocated treatment instead of incarceration but after winning the presidency his administration continued to escalate the drug war. Only toward the end of his presidency did he call for a re-examination of the policy of imprisonment and preferred to see marijuana decriminalized.

President George W. Bush allocated even more money to fight the drug wars, including launching 40,000 paramilitary-style SWAT raids on Americans every year.

Yet efforts at reforming the drug laws continued. Many notable figures—Michael Bloomberg, Barack Obama—publicly admitted to using marijuana in their youth. The mood is changing now, especially in view of 2,220,300 adult inmates in 2013. States such as Colorado and Oregon are currently engaged in liberalizing the use of marijuana, especially for medical use, but moving toward recreational uses.

What should America's hard drug policy be? There are six possible policies:

- 1 Keep spending on the 'War Against Drugs' and imprison drug sellers and keep a zero tolerance for drug users with continued stiff prison sentences.
- 2 Keep spending on the 'War Against Drugs' but lighten the sentence for personal marijuana use, let judges have discretion to go below the normal sentence level, and put more money into treatment than incarceration.
- 3 Give more inmates the chance to earn early release by participating in educational and other rehabilitative programming; seal or expunge juvenile records so that people are not burdened for life because of crimes they committed when they were young; and make it easier for older inmates to seek early release.
- 4 Make personal hard drug use a personal matter: Imprison drug sellers only.
- 5 Make personal hard drug use a personal matter: Open state-owned and operated stores to sell marijuana and other drugs to keep them safe and earn revenue.
- 6 Make personal hard drug use a personal matter: Let private enterprise manage the sale of marijuana.

Progress is inevitably slow but there is new momentum behind drug policy reform right now. We look forward to a future where hard drug policies are guided by scientific research and effective promotion is used to convince young people and others to say no to drugs.

6. GUN CONTROL

The U.S. is the most gun-toting nation in the world. In many states, people can buy a gun without much background check regarding mental stability or criminality. They can buy as many guns as they want. They can carry their guns into shopping centers, schools, and churches.

This love for guns goes back into American history. Movies dramatize the role of guns in the lawless West and in the hands of famous gangsters such as John Dillinger and Al Capone. The right to own guns is an interpretation of the 2nd Amendment to the U.S. Constitution which states that 'a well-regulated militia, being necessary to the security of a free state, the right of the people to keep and bear arms, shall not be infringed.' Technically, this was a right for militias but not for individuals. The Supreme Court failed to go back to the Constitution's intent.

Many people get killed by guns—including gang wars and gangster wars, love quarrels, and children playing with a gun, and an occasional madman who shoots down several people before being captured or killed. Every incident gets the public stirred to press Congress for legislation to curb gun ownership. President Obama has spoken out in these dark moments, some would say correctly while some would say inappropriately during times of mourning, to make the case for stricter gun laws.

However, the powerful National Rifle Association (NRA) and hunting associations constantly lobby the members of Congress not to pass any legislation restricting the right to own guns. The NRA makes it clear that any Congress member who supports curbing guns will not get any financial support from the NRA and even will suffer from advertising against his or her re-election. The NRA is considered the most powerful lobby group in Washington.

What could be done about gun ownership? Here are some options:

- Do nothing and allow the status quo to continue. Concede that not much can be changed. Accept arguments that murderers are the problem rather than their weapons.
- Pass a law that requires gun ownership information from every individual on the specific guns owned.

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- Limit the number of guns owned to two and prohibit guns that can be loaded with more than six bullets.
- Ban guns from being carried in public. Their use is limited to homes and hunting grounds.

7. HEALTHCARE

The U.S. has established four health insurance programs: Medicare, Medicaid, the Children's Health Insurance Program (CHIP), and the Affordable Care Act. These insurance programs account for 24% of the federal budget in 2014, or \$836 billion. About \$511 billion went to Medicare to provide health coverage to around 54 million people over the age of 65 or who have disabilities. Medicaid and CHIP made up the remainder to provide health care or long-term care to about 70 million low-income children, parents, elderly people, and people with disabilities. Medicaid and CHIP require matching payments from the states.

On March 23, 2010, President Obama signed into law the Affordable Care Act (ACA) which introduced many new benefits, rights, and protections with the aim of ensuring that more U.S. citizens have access to affordable, quality health-care. All persons are entitled to buy health insurance whatever their condition. ACA has as one of its purposes to decrease the rate of growth of healthcare spending and include other reforms.

Before ACA, an estimated 45 million Americans were without any insurance coverage. Either insurance companies refused to cover them or many Americans did not have the money to buy the insurance at its stated level of cost. This was viewed as a national disgrace. Many previous bills had been passed to remedy this situation but were unsuccessful until the State of Massachusetts under Governor Mitt Romney introduced a health care reform bill that became the model for the ACA.

ACA requires everyone to pay for healthcare insurance and choose the plan of their liking. This was required in order to raise the money needed to finance the new Act. Young people would have to buy health insurance. They could oppose this on the grounds that they are healthy and would prefer to buy health insurance when they are much older. The plan provided that those who were poor and who could not pay for insurance would be subsidized.

Ever since the plan was enacted, a majority of Republican members of Congress have tried to repeal the ACA or vitiate it in some way. The plan to repeal it came to the Supreme Court on June 28, 2012 and the Court upheld

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the plan. The general consensus is that the ACA has improved the nation's health coverage and reduced the rate of cost growth in healthcare.

The Medicaid program, which was created in 1965 by adding Title XIX to the Social Security Act, was also controversial in that the states had to bear some of the cost. Under this Act, the federal government provides matching funds to states to enable them to provide medical assistance to low-income individuals and families with limited resources. All U.S. citizens and legal residents with income up to 133% of the poverty line, including adults without dependent children, would qualify for coverage in any state that participates in the Medicaid program. Each state currently has broad leeway to determine who is eligible for its implementation of the program but must meet certain standards. States cannot be compelled to meet plans that aim to expand the program. But these reluctant states will continue to receive previously established levels of Medicaid funding. Many critics worry that Medicaid will not be able to continue to meet its financial requirements. Some states would like to limit or eliminate Medicaid and let poor consumers use the emergency rooms of hospitals if they need treatment.

The following policy alternatives need to be distinguished:

- Eliminate the ACA and return to the previous system of voluntary healthcare. The leading Republican candidates are unanimous in calling for repeal of the healthcare reform law—Donald Trump has called it a 'catastrophe' and Jeb Bush labeled it a 'monstrosity'. Yet they have not proposed a better healthcare plan to replace ACA.
- Keep the ACA and encourage its further growth. It has insured many more families and individuals and has led to some lowering of health costs.
- Add modifications to the ACA to protect people from co-payments and deductibles that have been rising faster than their wages. Hillary Clinton proposed creating a new tax credit of up to \$5,000 to help families pay high out-of-pocket medical costs and would require insurers to cover three visits to the doctor each year before people start paying to meet their deductible.
- Replace the ACA with a single government payer system that expands Medicare to cover every American and that will bring down the cost by eliminating the need and costs of private insurance companies. The system would work very much the way the Veterans Health Care administration handles the health of U.S. veterans. This is favored by presidential candidate Senator Bernie Sanders.
- Reduce the exorbitant prices for prescription drugs in the U.S. that manufacturers set with no reasonable justification. Authorize Medicare to negotiate with drug companies to drive down prices and allow Americans to import cheaper drugs from other countries. Cap a patient's out-of-pocket drug spending at \$250 a month. Republican candidates believe private negotiations and competition among drug companies are working just fine to curb drug costs, however.

8. IMMIGRATION

Immigration policy is a continuous and contentious issue in the U.S. because there are so many people who want to come to the U.S. and apply for citizenship. There have been past waves of immigrants from European countries such as Ireland, Italy, Germany, Russia, and Ukraine, seeking to leave behind the hardships they experienced in their countries. Then Asians started to come—laborers from China, persons fleeing from Vietnam, people from the Indian sub-continent, and others. Many educated technicians have wanted to come, if not for citizenship but as temporary skilled workers for U.S. companies who need their services.

Today the major immigration issue is the inflow of illegal immigrants from Mexico and Central America. The question is what to do with the 11 million illegal immigrants. There are four alternative proposals:

- Find them and send them all back to their country of origin. (This is the position of Donald Trump and several other Republicans.)
- Send them back except for those who were born here. (The U.S. Constitution says that anyone born in the U.S. has a right to stay here and become a citizen.)
- Provide an amnesty system for those illegals who have been here for a long time and are able bodied and working. Provide a path of several stages to move toward becoming an American citizen.
- Do nothing but make sure that further immigrants cannot enter the U.S. illegally by building the strongest protective wall and security system.

The Republicans favor proposals 1, 2 and 4 and the Democrats favor proposal 3.

9. INCARCERATION AND PRISONS

The U.S. has more prison inmates than any other nation. In 2013, 2,220,300 adults (almost 1% of America's population) were incarcerated in U.S. federal and state prisons and county jails. In addition, 4,751,400 adults in 2013 were on probation or on parole. This means that 6,899,000 adults—about 1 in every 35 of the U.S. resident population—were under correctional supervision. Of these, 54,148 were juveniles in juvenile detention centers in 2013.

Much of the prisoner increase came about with the policies of President Ronald Reagan, who wanted his Republican Party to be hard on crime. New rules were

set and judges began to give longer sentences. Most of the prisons worked on punishment rather than on rehabilitation. Many prisoners were pushers of hard drugs and small-time consumers of hard drugs, all incarcerated in an effort to fight the war on drugs. In the need for more prisons, the government invited private firms to finance and locate prisons in specific towns that became part of the local economy.

The embarrassingly high number of prisoners has led in recent times to lighter sentences and to a switch in emphasis from punishment to rehabilitation. Prisons are teaching useful subjects that might provide prisoners with skills for employment after they leave prison. More work is going into aiding prisoners during their release to find an apartment and a job and not fall back into the lifestyle that led to his or her arrest. There is even talk of monitoring the ex-offender's movements over time and location to make sure that he or she is not relapsing into the same criminal behavior.

10. INFRASTRUCTURE

A major economic factor in the performance of an economy is the condition of its infrastructure—roads, bridges, ports, railways, airports, schools. The U.S. had been blessed with great infrastructure that steadily brought down the cost of delivering goods. Consider how other countries—such as China or India—are handicapped by insufficient or terrible roads and infrastructure, a problem that China now is tackling and India is now turning to.

But the quality of U.S. infrastructure is no longer satisfactory. It has not been renewed with regular maintenance. Civil engineers have been giving many of America's infrastructure components ratings of C- to D-. Some bridges have collapsed and many roads are full of potholes.

The truth is that maintaining quality infrastructure is very expensive. Money has dried up federally and in many states and cities. There was a good opportunity during the 2008–2011 Great Recession to put the unemployed and able to work on infrastructure and some of this was done, but not enough.

My proposal is to create an Infrastructure Office to constantly assess where infrastructure needs to be fixed. Some money would need to be switched from defense to fix the issues with infrastructure. High-quality domestic infrastructure is needed for internal defense, besides being a means of job creation.

11. MILITARY AND DEFENSE

The U.S. has built the strongest military force in the world. It has military stationed around the world. It has built many allies with NATO (North Atlantic Treaty Organization), Japan, Israel, Saudi Arabia, and other countries. It has the largest stockpile of nuclear weapons. It is a major manufacturer of military equipment and weapons.

By undertaking to build such a strong military force, it bears a great cost but it frees many of its allies from needing to arm themselves. While we spend money on arms, our allies can use their money to build their economies, economies that compete with us. One question is whether the U.S. has been too generous to its allies.

The perennial question is how much of the federal budget needs to go into the military and defense. About 18% of the federal budget, or \$615 billion, pays for defense and security-related international activities. The bulk of this money goes to the Department of Defense. The question always is whether to increase this amount or reduce it. Does the Navy need more ships? Not long ago, Congress was trying to give more money to the military than it wanted. Members of Congress have military manufacturing operations in their states and want to keep the jobs going. Is the military equipment getting old and are there enough new equipment innovations to require a higher budget? Or is it time to reduce this budget and release more money to spend on education, infrastructure, healthcare, and social needs?

The policy alternatives are:

- Substantially increase military and defense spending to let U.S. enemies know that America is not becoming weak but ready to fight ISIS and other enemies.
- Keep the military budget around 18% of the federal budget and move the money into the highest priority equipment and defense needs.
- Reduce the military budget and move more money into improving our education, infrastructure, health system, and social need programs.
- Reduce the military budget and move the money into reducing federal debt so that America doesn't have to pay so much interest to finance the debt.

12. NATIONAL DEBT

In 2007, U.S. national debt (leaving out state and local debt) stood at \$8.971 trillion dollars and gross domestic product (GDP) stood at \$14.570 trillion.

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Therefore national debt amounted to 61% of GDP. This is not a dangerous level of national debt to GDP. By 2014, national debt grew to \$17.794 trillion while GDP grew to \$17.522 trillion, or 102% of GDP. Conservatives are now acutely worried about this level of debt because:

- the U.S. government has to borrow the money from here and abroad (especially from China in the past); and
- the U.S. has to pay annual interest on the national debt. In 2013, net interest payments on the debt totaled \$222.75 billion, or 6.23% of all federal outlays. The government's average interest rate paid on the debt was 2.43%. Fortunately, this is a very low interest rate. But imagine if heavy inflation started to take place. Interest rates would rise and this would greatly increase the tax burden of America's national debt.

There are only two ways to reduce the debt. The first is to cut federal expenditures. The usual targets are social benefit programs and social security payments, even though the defense budget warrants some reduction. The second is to raise taxes, especially on the rich. This is opposed by conservatives on the grounds that the rich would invest less and work less and shrink our GDP further. Here, therefore, is a prime example of the terrible party gridlock in contemporary politics where neither side wants to give in even a little. Unfortunately, each year adds another deficit and national debt grows even more.

13. POVERTY

About 15% of Americans live in poverty, as defined by the government's measures of what it takes to feed, clothe, and shelter different size families. It is embarrassing for such a rich country to have so many poor people. The country handles this by running a large number of social benefit programs, including food stamps, negative earned income credits, and social assistance programs. The nation tries to develop as many income earning opportunities as possible but some people continue to either fail to find a job or decide to stop looking for a job.

We are used to thinking of poverty as a cultural problem with a vicious circle. Poor people have too many children, need social assistance, become dependent on this assistance, and lose the incentive to emerge out of poverty. We talk about the war on poverty but the U.S. really doesn't have a strong plan for reducing the current levels of poverty. Poverty is a drain on lives, leads to depression, homelessness, and crime, and affects politics and social order.

Two efforts are needed. The first is to create more jobs. If the private sector can't produce enough jobs, we must create jobs in the public sector. We have seen that infrastructure is suffering and many more jobs can be created to improve infrastructure.

The other effort is to raise the minimum wage. For years, the minimum wage in America stood at \$7.45 an hour, which comes close to \$15,000 a year if one worked 8 hours a day for all 52 weeks. Even then, an income of \$15,000 is substantially below poverty for an individual and certainly for a family. Fortunately, many U.S. cities are now taking action to raise the minimum wage to \$10 or as much as \$15, depending on the cost of living in that location. But even \$15 an hour barely gets the earner out of the poverty class even though it is a step in the right direction.

14. SOCIAL SECURITY AND RETIREMENT

The Social Security Act was passed in 1935 under President Roosevelt's effort to help people during the Great Depression and afterwards. It guarantees monthly payments to persons who retire at the age of 65. Job holders are required in the meantime to pay a Social Security tax on income earned up to \$118,500. Social Security law has been amended several times.

In 2014, 24% of the federal government budget, or \$851 billion, was paid for Social Security. Social Security provided monthly retirement benefits averaging \$1,329 to 39 million retired workers in December 2014. Social Security also provided benefits to 2.3 million spouses and children of retired workers, 6.1 million surviving children and spouses of deceased workers, and 10.9 million disabled workers and their eligible dependents in December 2014.

Republicans have largely argued that the Social Security fund will run out of money in 20 to 40 years because of the increasing ratio of retirees to the number of workers. Republicans would like to eliminate Social Security and let individual workers determine where they want to put their savings for retirement. The argument is that workers could earn a higher return on their savings than by giving their money to the government. President George W. Bush led a major attempt to replace Social Security, but he didn't succeed.

Democrats want to continue Social Security and even enlarge its benefits. They propose enhancing the amount of revenue going into Social Security by two measures:

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- Require all job holders to pay a Social Security tax on their whole income, not just the income up to \$118,000. This would deliver more funds from wealthier job holders.
- Use a means test in paying out Social Security benefits by paying out less or nothing to those who have high retirement savings, even though they paid a lot of taxes toward Social Security.

This leaves the following policy alternatives:

- Leave Social Security the way it is now.
- Collect more funds for Social Security by setting the same tax on everyone's income with no limit.
- Apply a means test and limit Social Security payments to only those with low retirement funds.
- Replace Social Security where employees choose a private plan for where they want to save a regular share of their earnings for use after they retire.
- Raise the payment age for Social Security to begin at age 67 or 70 instead of 65 to reduce the rate at which Social Security pays out its funds.

15. STUDENT LOANS

Although the nation believes in sending as many students to college as possible, the rising cost of college acts as a major deterrent. A German student can attend college at no cost, but an American student will face an annual cost of anywhere from \$20,000 to \$60,000 depending on the college, not to mention the student's lost income while attending college.

To enable a high level of college attendance, it is essential to make college loans available either through banks, colleges, or both. Today outstanding college student loans amount to \$1.2 trillion. The average college student is carrying a student loan debt of \$30,000. Upon graduation, most students have to start paying down their debt, which reduces the chance that they can buy a car, home, furniture, and other big ticket items. This reduces the demand for these goods and consequently reduces the U.S. economy's growth rate.

A number of proposals have been made to reduce student loan debt:

- Get the government to pay universities for college education by shifting money from defense or other categories.
- Get the government and universities to increase the amount of scholarship aid based on need, rather than merit.

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- Limit the annual student debt repayment amount to 10% or less of the person's annual income.
- Cap the interest rate that students have to pay on borrowed money for college.

16. TAXES

The issue of taxes is always on the minds of the government and citizens. In fact, the U.S. government came into existence because of a tax dispute. The British, through the East India Company, put a heavy duty on tea imports. Three tea carrying ships arrived in the Boston Harbor. On December 16, 1773, as many as 7,000 local citizens came to the docks, demanding that the ships leave the harbor without landing the tea or payment of any duty. The Collector of Customs refused. Early that evening, a group of about 200 men, some dressed as American Indians, descended on the three ships and dumped the tea cargoes into the harbor waters. This tea tax was the last straw for the American colonies, who would no longer allow the British government to impose taxes without Americans having a single representative in the British Parliament. The slogan became: 'No taxation without representation.' This and other grievances sparked the American Revolutionary War.

Taxes have to be raised separately by federal, state, and local governments. State and local governments need the taxes to pay for police and firefighters, schools, road construction, and other local services. They rely mainly on real estate taxes on residential and business property and sales taxes on consumer purchases. Most of the states also set an income tax for their residents.

The federal government has to charge a large number of taxes and fees to support its huge annual budget of \$3.5 trillion (2014). Most of the budget goes toward:

- Defense and International Security Assistance: 18%
- Social Security: 24%
- Medicare, Medicaid, CHIP and Marketplace Subsidies: 24%
- Safety Net Programs: 11%
- Interest on Debt: 7%
- Benefits for Federal Retirees and Veterans: 8%
- Transportation Infrastructure: 3%
- Education: 2%
- Science and Medical Research: 2%
- Non-security International: 1%

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The main issue is how to set income tax policy to be fair to the various income earning groups. What tax rate should be paid by the poor, working class, middle class, affluent, rich, and ultra-rich citizens? The poor generally pay no tax, and the working class pay a low tax rate. Today the highest marginal tax rate for the rich and ultra-rich is 39.4% (and a temporary 4% addition). Under President Eisenhower the highest tax rate was 90%, and under President Kennedy it went down to 70%. The question is whether the marginal tax rate for the rich and ultra-rich should be raised higher, say to 50 or 60%.

The Republicans always favor lowering the income tax rate and all taxes, not raising them. They think that the rich pay too high a marginal tax rate. Democrats, on the contrary, believe that taxes have to be raised higher on the rich and lower on the middle class and the working class. The Democrats also favor increasing the estate tax on the rich to reduce the growing wealth gap and the tendency toward plutocracy.

Here are the possible income tax policy alternatives:

- Leave the present tax system the way it is.
- Reduce taxes for everyone by introducing a flat tax at a low rate, such as 20%. This is highly favored by Republicans but it will necessitate cutting social programs.
- Increase the marginal tax rate for the very rich from 39.4% to somewhere between 50 and 60%. This is highly favored by Democrats.
- Reduce the middle class income tax rate and increase the rich income tax rate.
- Raise the estate tax rates more progressively after exempting the first \$10 million for a married couple.

CONCLUSION

Many people around the world greatly admire the American model of democracy. The story of the American Revolution and the brilliant individuals who launched U.S. democracy—George Washington, Benjamin Franklin, Thomas Jefferson, John Adams, Alexander Hamilton, and many others—have inspired worldwide admiration and respect. People see in the history of American democracy a dynamism, a creativity, a respect for individual and human rights, a capacity to solve problems and invent new ones.

Yet there are forces and developments that are now testing the resilience of American democracy. America has produced great wealth but this wealth has not been shared by enough Americans. Citizens are questioning whether they

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are running the country or whether the '1%' are running the country. Our politicians need so much money to run their campaigns that they become beholden to the interests of wealthy corporations and individuals. The country's dynamism is becoming paralyzed by gridlock, gerrymandering, and excessive lobbying. Extreme elements have entered one or both political parties that have no interest in collaborating and compromising.

In this chapter I described a large number of major economic, political and social problems that remain unsolved and unresolved. The solutions are many and normal discourse between the adversaries would lead to their resolution. The solutions would benefit millions of citizens and keep democracy young and vital.

The solutions would not only benefit American citizens but provide an inspiration to other democracies around the world. Democracy contains self-corrective processes wherever its citizens are involved and their voices and rights are heard and respected. Democracy remains the only political system that promises to deliver in a pluralistic world a dynamic balance of liberty, egalitarianism, and compassion.

NOTE

- 1 https://en.wikipedia.org/wiki/Roe_v._Wade (accessed 03.03.16).



About the Author

Philip Kotler is the S. C. Johnson & Son Distinguished Professor of International Marketing at the Kellogg School of Management, Northwestern University. His most recent book, *Confronting Capitalism: Real Solutions for a Troubled Economic System* (2015), calls for both strong economic growth and a better sharing of the gains of economic growth. Professor Kotler is the author of over 50 books on markets and marketing. Trained as an economist at the University of Chicago (under Nobel Laureate, Milton Friedman) and at M.I.T. (under Nobel Laureates, Paul Samuelson and Robert Solow), he has applied his economic knowledge to how markets and marketing works, and was an early developer of modern marketing and the emerging field of behavioral economics. As an expert on how buyers make their buying decisions, he broadened marketing to explain how buyers make their voting decisions on all kinds of issues.

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