



Contents

Preface v
Correlation Guide xix
Introduction xxi

UNIT 1 MICROECONOMIC ISSUES 1

Issue 1. Are Profits the Only Business of Business? 2

YES: **Milton Friedman**, from “The Social Responsibility of Business Is to Increase Its Profits,” *The New York Times Magazine* (September 13, 1970) 4

NO: **Robert Almeder**, from “Morality in the Marketplace: Reflections on the Friedman Doctrine,” in Milton Snoeyenbos, Robert Almeder, and James Humber, eds., *Business Ethics*, rev. ed. (Prometheus Press, 1998) 10

Free-market economist and Nobel Laureate Milton Friedman contends that the sole responsibility of business is to increase its profits. Philosopher Robert Almeder maintains that if capitalism is to survive, it must act in socially responsible ways that go beyond profit making.

Issue 2. Should the Compensation of Executives Be Subject to Government Regulation? 20

YES: **Joseph E. Stiglitz**, from “Testimony Before the U.S. House of Representatives Committee on Financial Services” (January 22, 2010) 22

NO: **Kevin J. Murphy**, from “Testimony Before the U.S. House of Representatives Committee on Financial Services” (June 11, 2009) 29

Joseph Stiglitz, the winner of the Nobel Prize in economics, argues that flawed incentive compensation systems played an important role in the financial crisis. He believes that better regulation including regulations that affect incentive structures are likely to produce a better alignment of private rewards and social returns and better innovation. University of Southern California professor Kevin J. Murphy argues that “there is nothing inherent in the current structure of compensation in financial service firms that leads to obvious incentives to take excessive risk.” He believes that government-imposed regulations are “highly unlikely” to improve compensation policies of these firms.

Issue 3. Has the Supreme Court Made It Possible for Corporations to Buy Elections? 38

YES: **Mary G. Wilson**, from “Testimony Before the U.S. House of Representatives Committee on House Administration” (February 3, 2010) 40

NO: Steven M. Simpson, from “Testimony Before the U.S. House of Representatives Committee on House Administration” (February 3, 2009) 45

Mary G. Wilson, the president of the League of Women Voters, believes that the Supreme Court’s decision in *Citizens United v. FEC* that allows corporations to spend unlimited amounts of money in elections was “fundamentally wrong and a tragic mistake.” She calls upon Congress to enact legislation that will reverse this decision. Steven M. Simpson, the senior attorney at the Institute for Justice, supports the Supreme Court’s decision. In making his case, he argues that the decision does not reverse 100 years of precedent; the decision does not mean corporations will buy elections; and the decision recognizes that corporations must be protected under the free speech First Amendment.

Issue 4. Should the United States Stop All New Offshore Drilling for Oil? 54

YES: Michael F. Hirshfield, from “Testimony Before the U.S. House of Representatives Committee on Natural Resources” (May 27, 2010) 56

NO: Michelle Michot Foss, from “Testimony Before the U.S. House of Representatives Committee on Natural Resources” (May 27, 2010) 64

Michael F. Hirshfield, the Oceana vice president and chief scientist, believes that offshore drilling is a “dirty and dangerous business.” He argues that the *Deepwater Horizon* drilling disaster is not a one-time occurrence: in 2007 alone there were 39 blowouts worldwide. Among other things, he calls on Congress to “suspend all approvals, activities, and processes—other than current production—related to offshore drilling.” Michelle Michot Foss, the University of Texas energy economist, provides estimates of the consequences of stopping oil and gas exploration and production. Among other things, such a ban would increase energy costs to consumers by an annual average rate of 5 percent and lead to a decrease in jobs in energy-intensive industries by 13 million by the year 2030. She believes there are “outstanding and almost immeasurable benefits associated with the discovery and utilization of oil and natural gas resources in our deep water provinces in the U.S. and around the world.”

Issue 5. Are Health Savings Accounts Working Effectively? 72

YES: American Benefits Council, from “Statement Before the Subcommittee on Health of the House Committee on Ways and Means” (May 14, 2008) 74

NO: Linda J. Blumberg, from “Testimony Before the Subcommittee on Health of the House Committee on Ways and Means” (May 14, 2008) 82

The American Benefits Council, a national trade association, believes that “HSAs are working as intended” for the vast majority of the 6.1 million Americans covered by “HSA-eligible plans.” Linda J. Blumberg, Urban Institute research associate, identifies a number of problems associated with medical care and argues that “HSAs are not the solutions to these pressing national concerns.”

Issue 6. Should NBC and Comcast Be Allowed to Merge? 93

YES: **Brian L. Roberts and Jeff Zucker**, from “Testimony Before the U.S. Senate Judiciary Committee, Subcommittee on Antitrust, Competition Policy, and Consumer Rights” (February 4, 2010) 95

NO: **Mark Cooper**, from “Testimony Before the U.S. Senate Judiciary Committee, Subcommittee on Antitrust, Competition Policy, and Consumer Rights” (February 4, 2010) 101

Company presidents Brian L. Roberts (Comcast) and Jeff Zucker (NBC) support the merger of their companies; they believe the merged firm “will benefit consumers and will encourage much needed investment and innovation in the important media sector.” Consumer Federation of America Research Director Mark Cooper opposes the merger because it will give the merging firms “the incentive and ability to not only preserve and exploit the worse aspects of the current market, but to extend them to the future market.”

UNIT 2 MACROECONOMIC ISSUES 111

Issue 7. Is Obamacare a Disaster for the Economy? 112

YES: **Kathryn Nix**, from “Top 10 Disasters of Obamacare,” Heritage Foundation WebMemo #2848 (March 30, 2010) 114

NO: **John Holahan**, from “Will Health Care Reform Hurt the Economy and Increase Unemployment?” *Timely Analysis of Immediate Health Policy Issues* (August 2010) 120

Heritage Foundation Researcher Kathryn Nix identifies 10 major problems with Obamacare (the Patient Protection and Affordable Care Act). Among other things, she argues that the legislation will hinder growth, increase the federal deficit, place new burdens on state governments, and, at the same time, discriminates against low-income workers. John Holahan, the director of the Health Policy Center at the Urban Institute, argues that Obamacare is “not likely to have a significant direct effect on the U.S. economy or on employment.” More specifically, he states that state and local governments as well as small businesses should benefit from the legislation.

Issue 8. Will Health Reform’s Pilot Programs Lead to the Control of Health Care Costs? 128

YES: **Atul Gawande**, from “The Health-Care Bill Has No Master Plan for Curbing Costs. Is That a Bad Thing?” *The New Yorker* (December 14, 2009) 130

NO: **Alain C. Enthoven**, from “Would Reform Bills Control Costs? A Response to Atul Gawande,” Health Affairs Blog at <http://healthaffairs.org/blog> (December 22, 2009) 139

Atul Gawande, a surgeon, an associate professor in the Department of Health Policy and Management at the Harvard School of Public Health, who served as a senior health policy advisor in the White House from 1992 to 1993, argues that the transformation of American agriculture began with a pilot program, and the numerous pilot programs to test ways

to curb costs and improve quality contained in the health care legislation could similarly transform health care. Alain C. Enthoven, an economist and a professor emeritus at Stanford University's Graduate School of Business, who served as a consultant to the Carter administration and researched unsustainable growth in national health expenditures and costs of health insurance and market-based universal health insurance in the United States, responds that Gawande's analysis is flawed and the agriculture analogy is "inapt"—while farmers wanted better crops and "generally welcomed or tolerated pilots to show the better ways," the "Medical Industrial Complex does not want such pilots and often strangles them in the crib."

Issue 9. Did the American Recovery and Reinvestment Act of 2009 Create Jobs? 146

YES: **Josh Bivens**, from "Testimony Before the U.S. House of Representatives Budget Committee" (July 14, 2010) 148

NO: **Veronique de Rugy**, from "Testimony Before the U.S. House of Representatives Budget Committee" (July 14, 2010) 157

Josh Bivens of the Economic Policy Institute argues that the American Recovery and Reinvestment Act (ARRA) was badly needed, it worked, it was cheap, and that another similar effort is needed. Veronique de Rugy of George Mason University believes that ARRA, in spite of claims made on its behalf, "appears to have lost money by destroying growth."

Issue 10. Do American Consumers Need a Financial Protection Agency? 169

YES: **Janis Bowdler**, from "Testimony Before the U.S. House of Representatives Committee on Financial Services" (September 30, 2009) 171

NO: **Bill Himpler**, from "Testimony Before the U.S. House of Representatives Committee on Financial Services" (September 30, 2009) 178

Janis Bowdler, the deputy director, Wealth-Building Policy Project, National Council of La Raza, supports the creation of a Consumer Financial Protection Agency (CFPA). She identifies three specific ways in which existing regulatory agencies have failed consumers, including the failure to create and promote tools that will allow consumers to make "true apples-to-apples comparisons" of credit products. She and her organization believe a new agency is needed to redress these failures, and it would be a strong vehicle for improving the way financial markets serve their Latino clients. Bill Himpler, the executive vice president of the American Financial Services Association, opposes the creation of a CFPA. His argument takes several forms, including the fact that finance companies are already heavily regulated at the state level. He also believes that the creation of a CFPA is likely to mean "higher prices and reduced product choice for financial services customers."

Issue 11. Should Minimum Wage and Living Wage Laws Be Eliminated? 185

YES: **D. W. MacKenzie**, from "Mythology of the Minimum Wage," Ludwig von Mises Institute, <http://www.mises.org/story/2130> (May 3, 2006) 187

NO: **Jeannette Wicks-Lim**, from “Measuring the Full Impact of Minimum and Living Wage Laws,” *Dollars & Sense* (May/June 2006) 191

Economics instructor D. W. MacKenzie believes that eliminating minimum wage laws would “reduce unemployment and improve the efficiency of markets for low productivity labor.” He also believes that the “economic case for a living wage is unfounded.” Economist Jeannette Wicks-Lim stresses the ripple effects of minimum and living wage laws; these effects increase the “effectiveness” of minimum and living wage laws as “antipoverty strategies.”

Issue 12. Does Immigration Benefit the Economy? 199

YES: **George W. Bush White House**, from “Immigration’s Economic Impact,” *White Paper* (June 20, 2007) 201

NO: **Steven A. Camarota**, from “Testimony Before the U.S. House of Representatives Committee on the Judiciary, Subcommittee on Immigration, Citizenship, Refugees, Border Security and International Law” (September 30, 2010) 209

In its White Paper, the George W. Bush White House argues that immigration has a positive effect on the American economy because it increases overall economic activity, increases incomes of native-born Americans, and produces positive long-run fiscal effects. Steven A. Camarota, the director of research at the Center for Immigration Studies, argues that immigration is harmful to the economy in several different ways including wage losses for the existing population and an increase in net government costs.

UNIT 3 THE WORLD AROUND US 219

Issue 13. Is a Fair Trade Policy Superior to a Free Trade Policy? 220

YES: **Joseph E. Stiglitz**, from “Fair Trade,” *The National Interest* (May/June 2008) 222

NO: **Gary Hufbauer**, from “Free Trade,” *The National Interest* (May/June 2008) 228

Former chief economist of the World Bank Joseph E. Stiglitz argues that trade liberalization can make everyone worse off when markets are not perfect. Furthermore, “free trade” agreements protect special interests in the advanced industrial countries. Stiglitz maintains that the United States should move toward fairer trade and should manage trade liberalization better so that the rich and the poor in all countries share the benefits of trade. Gary Hufbauer, senior fellow at the Peterson Institute for International Economics, claims that free trade, when properly implemented with market reforms, “can lift the lives of hundreds of millions of people.” Free trade “pays off” for the United States and “is not some sort of ‘gift’ to foreign countries.” He is critical of political rhetoric in the United States on halting or opting out of trade agreements, including NAFTA.

Issue 14. Is Loan Mitigation the Answer to the Housing Foreclosure Problem? 234

YES: **David G. Kittle**, from “A Review of Mortgage Servicing Practices and Foreclosure Mitigation,” Statement Before the

House of Representatives Committee on Financial Services
(July 25, 2008) 236

NO: Julia Gordon, from “A Review of Mortgage Servicing Practices and Foreclosure Mitigation,” Testimony Before the House of Representatives Committee on Financial Services (July 25, 2008) 247

Mortgage Bankers Association official David Kittle, after reviewing the cost of foreclosure and loan mitigation options, presents data to back his assertion that loan mitigation is working. Center for Responsible Lending policy Counsel Julia Gordon stresses both the direct costs and the spillover costs of foreclosures and believes that voluntary loan modifications “have done little to stem the overwhelming tide of foreclosures.”

Issue 15. Are Biofuels Like Ethanol the Answer to U.S. Energy Problems? 262

YES: Bob Dinneen, from “Should Congress Reassess the Renewable Fuel Standard in the Energy and Independence Security Act? (Pro),” *Congressional Digest* (June 2008) 264

NO: Charles T. Drevna, from “Should Congress Reassess the Renewable Fuel Standard in the Energy and Independence Security Act? (Con),” *Congressional Digest* (June 2008) 268

Bob Dinneen, president and chief executive officer of the Renewable Fuels Association, states that America’s ethanol producers are providing significant economic, environmental, and energy security benefits today. Expansion of the domestic biofuels industry will reduce America’s dependence on imported oil. Charles T. Drevna, president of the National Petrochemical and Refiners Association (NPRA), argues that the biofuels mandate has increased food prices and contributed to food shortages around the world and stressed the ethanol transportation infrastructure.

Issue 16. Can U.S. Deficit and Debt Problems Be Solved Without Increases in Taxes? 275

YES: Chris Edwards, from “Statement Before the National Commission on Fiscal Responsibility and Reform” (June 30, 2010) 277

NO: Robert Greenstein and Jim Horney, from “Testimony Before the Commission on Fiscal Responsibility and Reform” (June 30, 2010) 282

Chris Edwards, the director of tax policy at the Cato Institute, believes that “unless massive deficit spending is reduced, the nation is headed for fiscal calamity.” He proposes four types of reform that will make significant cuts in government spending. These include the restructuring of entitlements and the elimination of unneeded programs. Robert Greenstein, the executive director of the Center on Budget and Policy Priorities, and Jim Horney, the director of federal fiscal policy at the Center on Budget and Policy Priorities, believe that deficits need to be reduced and this requires tax increases as well as spending cuts. They support increases in corporate taxes and taxes on high-income taxpayers. They suggest that tax increases on taxpayers with incomes less than \$250,000 per year will also be necessary.

Issue 17. Is China's Currency Undervalued and Should the United States Take Action to Correct This Undervaluation? 289

YES: **Jack W. Shilling**, from "Testimony Before the U.S. Senate Banking, Housing, and Urban Affairs Committee, Subcommittee on Economic Policy" (April 22, 2010) 291

NO: **Daniel J. Ikenson**, from "Testimony Before the U.S. Senate Banking, Housing, and Urban Affairs Committee, Subcommittee on Economic Policy" (April 22, 2010) 299

Jack W. Shilling, the executive vice president and chief technical officer, Alleghany Technologies, and the chairman, Specialty Steel Industry of North America, argues that China has intervened in foreign exchange markets to keep its currency undervalued. Since this is "undermining U.S. competitiveness," he believes the United States should impose countervailing or antidumping duties on imports from China. Daniel J. Ikenson, the associate director of Cato Institute's Center for Trade Policy Studies, claims that there is only a weak relationship between China's undervalued currency and the U.S. trade deficit with China, on the one hand, and between the trade deficit and U.S. job losses, on the other. Rather than threatening China with sanctions, the United States should "allow China to appreciate its currency at its own pace."

Issue 18. Do the Testing and Accountability Elements of the No Child Left Behind Act Prevent a Proper Cost-Benefit Evaluation? 311

YES: **George Miller**, from "Should Congress Make Fundamental Changes in the No Child Left Behind Act? (Pro)," *Congressional Digest* (May 2008) 313

NO: **Raymond Simon**, from "Should Congress Make Fundamental Changes in the No Child Left Behind Act? (Con)," *Congressional Digest* (May 2008) 319

Chairman of the Education and Labor Committee of the United States House of Representatives, California Democrat George Miller states that schools and students are not making enough progress and significant changes must be made to the law so that its goals may be achieved. "America needs and must have an educational law that insists on accountability with high expectations and high-quality assessments; that closes the achievement gap; and helps all children to learn." Deputy Secretary, U.S. Department of Education, Raymond Simon states that NCLB is working for students. Simon believes that there is consensus for a limited number of changes. He claims that NCLB's insistence on scientifically based research and the gathering and usage of reliable data has been one of its major successes.

Issue 19. Is the Inequality in U.S. Income Distribution Surging? 327

YES: **James M. Cypher**, from "Slicing Up at the Long Barbeque," *Dollars & Sense* (January/February 2007) 329

NO: Diana Furchtgott-Roth, from “Testimony Before the Subcommittee on Workforce Protections of the House Committee on Education and Labor” (July 31, 2008) 337

Economist James M. Cypher believes that the U.S. economy is currently experiencing the largest shift in the distribution of income and wealth since the late nineteenth century with the share of income of the poorest 90 percent of the population falling from 67 percent in 1970 to 52 percent in 2000. Hudson Institute Scholar Diana Furchtgott-Roth does not deny that income inequality is rising but argues that by considering alternative measures of income and recognizing demographic changes, the shifts in income distribution are not a cause for alarm.

Contributors 346