

Chapter 14 the congress, the president, and the budget

[Economics](#), [Tax](#)



Chapter 14 — The Congress, the President, and the Budget * Introduction

The battle of the budget is at the center of American politics. Two questions are central to public policy: Who bears the burdens of paying for government? Who receives the benefits? The public budget is a policy document allocating burdens (taxes) and benefits (expenditures). A budget deficit occurs when expenditures exceed revenues in a fiscal year.

Americans want the government to balance the budget, maintain or increase the level of government spending on most policies, and keep taxes low. *

Sources of Federal Revenue * Income Tax * Individuals are required to pay the government a portion of the money they earn; this portion is an income tax. The Sixteenth Amendment (1913) permitted Congress to levy an income tax. The Internal Revenue Service was established to collect it. Corporations and individuals pay income taxes. * The income tax is generally progressive, meaning that those with more income pay higher rates of tax on their income. * Social Insurance Taxes * Social Security taxes come from both employers and employees. Money is deducted from employees' paychecks and matched by their employers. The money is earmarked for the Social Security Trust Fund. * Borrowing * When the federal government wants to borrow money, the Treasury Department sells bonds, guaranteeing to pay interest to the bondholder. The federal debt is all the money borrowed over the years that is still outstanding. Eleven percent of all federal expenditures go to paying interest on this debt. * Government borrowing crowds out private borrowers from the loan marketplace. Every dollar that the government borrows today will cost taxpayers many more dollars in interest over the next thirty years. Government is borrowing not so much for its

capital needs as for its day-to-day expenses. * The perceived perils of gigantic deficits have led to calls for a balanced budget amendment. Opponents argue that it is difficult to estimate expenditures and revenues more than a year ahead. * Unlike state and local governments and private businesses, the federal government does not have a capital budget, a budget for expenditures on items that will serve for the long term, such as equipment, roads, and buildings. When the federal government purchases these things, they are counted as current expenditures and run up the deficit. * Taxes and Public Policy * A tax loophole is presumably a tax break or tax benefit that gives exemptions, deductions, and special cases. Tax loopholes cost the treasury relatively little. Tax expenditures are defined as "revenue losses attributable to provisions of the federal tax laws that allow a special exemption, exclusion, or deduction." * A tax expenditure consists of the difference between what the government actually collects in taxes and what it would have collected without special exemptions. Tax expenditures receive no regular review by Congress. On the whole, tax expenditures directly benefit middle- and upper-income taxpayers and corporations. Tax expenditures may be seen as loopholes or public policy choices supporting a social activity worth subsidizing. * Tax reductions are rare. In 1981 Congress passed Reagan's tax-cutting proposal. Families with high incomes saved many thousands of dollars on taxes, but those at the lower end of the income ladder saw little change in their tax burden. * The Tax Reform Act of 1986 was one of the most sweeping alterations in federal tax policy history. It eliminated or reduced the value of many tax deductions, removed several million low-income individuals from the tax rolls, and reduced the number of

tax brackets. * Federal Expenditures * Big Governments, Big Budgets * Big budgets are necessary to pay for big governments. America has one of the smallest public sectors relative to the size of the gross domestic product. The growth of government in the United States has been dramatic. * Many scholars believe that the public sector expands principally in response to changes in the public's preferences and to economic and social conditions that affect the public's level of demand for government activity. Citizens like government services. * The Rise and Decline of the National Security State * A generation ago the most expensive part of the federal budget was its military budget. In the 1950s and early 1960s, spending for past, present, and future wars amounted to more than half the federal budget. From the mid-1960s to the early 1980s, defense expenditures crept downward in real dollars while social welfare expenditures more than doubled. * In the 1990s defense expenditures have decreased in response to the lessening tensions in Europe. The defense budget now only constitutes about one-sixth of all federal expenditures. Payrolls, pensions, research, development, and procurement are the major parts of the defense budget. * The Rise of the Social Service State * The biggest slice of the budget pie belongs to income security expenditures. The Social Security Act (1935) intended to provide a minimal level of sustenance to older Americans, saving them from poverty. In the 1950s, disability insurance became a part of Social Security and Medicare was added in 1965. Social Security is less an insurance program than a kind of intergenerational contract. Essentially, money is taken from the working members of the population and spent on the retired members. * The Social Security program faced a problem as the 1980s began because

the number of older Americans has increased and people tend to stay on the rolls longer as life expectancies increase. Other social service expenditures have paralleled the upward growth of income security. The rise of the social service state and the national security state together linked with much of American governmental growth since the end of World War II. *

Incrementalism * Incrementalism means simply that the best predictor of this year's budget is last year's budget plus a little bit more (an increment). Incremental budgeting has the following features: 1) very little attention is focused on the budgetary base, 2) agencies can usually assume they will get at least what they got the previous year, 3) most of the debate on the budget is focused on the proposed increment, and 4) the budget for any given agency grows by a little bit every year. Incrementalism is a general tendency of the budget, but it does not fully describe all budgetary politics. * There have often been calls for budgetary reform. The budgetary process is affected by groups with interests in taxes and expenditures that make it difficult to pare the budget. * "Uncontrollable" Expenditures * Vast expenditures are determined not by how much Congress appropriates to an agency, but by how many eligible beneficiaries there are for some particular program. Uncontrollable expenditures result from policies that make some group automatically eligible for some benefit. * Many expenditures are uncontrollable because Congress has in effect obligated itself to pay X level of benefits to Y number of recipients. These policies are called entitlements. The biggest uncontrollable expenditure is the Social Security system. * It is estimated that two-thirds of the federal budget is uncontrollable, meaning that Congress can control such expenditures but only by changing a law or

altering existing benefit levels. * The Budgetary Process * Budgetary Politics

* Every political actor has a stake in the budget. Budgetary politics resembles a game in which players choose among strategies. The main actors in the budgetary process include interest groups, agencies, the Office of Management and Budget, the president, the tax committees in Congress, the budget committees and the Congressional Budget Office, the subject-matter committees, the Appropriations Committees, the Congress as a whole, and the General Accounting Office. * The President's Budget * Until 1921, the various agencies of the executive branch sent their budget requests to the secretary of the treasury, who in turn forwarded them to the Congress. The Budget and Accounting Act of 1921 required presidents to propose an executive budget to Congress and created the Bureau of the Budget (later called the Office of Management and Budget) to help them. It takes almost a year to prepare a presidential budget. * Congress and the Budget * According to the Constitution, Congress must authorize all federal appropriations. For years Congress budgeted in a piecemeal fashion. The Congressional Budget and Impoundment Control Act of 1974 reformed the congressional budgetary process. It created a fixed budget calendar, a budget committee in each house, and a Congressional Budget Office. An important part of the process of establishing a budget is to set limits on expenditures on the basis of revenue projections. This is done through a budget resolution. * The congressional budget resolution often requests that certain changes be made in law. These changes are legislated in two ways. A budget reconciliation is a process by which program authorizations are revised to achieve required savings; it frequently also includes tax or other

revenue adjustments. An authorization bill is an act of Congress that establishes a discretionary government program or an entitlement, or that continues or changes such programs. An appropriations bill must be passed to fund programs established by authorization bills. * The 1974 reforms failed to keep spending in line with revenues. Congress has often failed to meet its own budgetary timetable. It has often resorted to continuing resolutions—laws that allow agencies to spend at the previous year's level. The 1974 reforms have helped Congress view the entire budget early in the process. * In 1985 Congress enacted the Balanced Budget and Emergency Deficit Control Act in an attempt to balance the budget. This effort failed mainly due to the arbitrary nature of automatic budget cuts. In 1990 Congress shifted the focus on future savings from controlling the size of the deficit to controlling increases in spending. * President Clinton's first budget placed a single cap on all discretionary spending and imposed a hard freeze on appropriations. In 1995, the Republican Congress was determined to balance the budget within seven years, arguing for substantial cuts in the rate of growth of popular entitlement programs such as Medicaid and the outright elimination of many other programs. In 1997, President Clinton and Congress came to a balanced budget agreement. The economy was so strong that the president was able to propose a balanced budget for fiscal year 1999. * Understanding Budgeting * Democracy and Budgeting * Almost all democracies have seen a substantial growth in government in the twentieth century. One explanation for this growth is that politicians spend money to "buy" votes. Some scholars have argued that government grows in a democracy because of the equality of suffrage. In the political arena

power is more equally distributed. Parties must appeal to a majority of the voters. Many politicians willingly cooperate with the desire of the working-class voters to expand their benefits. * Furthermore, corporations support a big government that offers them contracts, subsidies, and other benefits. Therefore, low-income and wealthy voters alike have voted for parties and politicians who promised them benefits. Government also grows by responding to groups and their demands. * However, some politicians compete for votes by promising not to spend money. One of the most common criticisms of government is the failure to balance the budget. Public officials are often criticized for lacking the will to deal with the problem, yet it was not lack of resolve that prevented a solution to enormous budget deficits, it was a lack of consensus on policy. * The Budget and the Scope of Government * The budget is the scope of government. The budgetary process can limit government. The budget can be a force for reining in the government as well as for expanding its role. America's large budget deficits have been as much a constraint on government as they have been evidence of a burgeoning public sector.