The Congress, the President, and the Budget: The Politics of Taxing and Spending
Introduction

• **Budget:**
  – A policy document allocating burdens (taxes) and benefits (expenditures).

• **Deficit:**
  – An excess of federal expenditures over federal revenues.

• **Expenditures:**
  – What the government spends money on.

• **Revenues:**
  – Sources of money for the government.
Sources of Federal Revenue

• Income Tax
  – Shares of individual wages and corporate revenues.
  – The 16th Amendment permitted Congress to levy an Income tax.
  – The individual part is the largest single revenue source for the government.
  – Income tax is progressive: Those with more income pay higher rates of tax on their income.
Sources of Federal Revenue

- **Social Insurance Taxes**
  - Additional taxes for specific fund: Social Security and Medicare

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Figure 14.1
Sources of Federal Revenue

• Borrowing
  – The Treasury Department sells bonds - this is how the government “borrows” money.
  – The federal debt is the sum of all the borrowed money that is still outstanding.
  – The government competes with other lenders.
  – Government does not have a capital budget.
Sources of Federal Revenue

• Taxes and Public Policy
  – Tax Loopholes: Tax break or benefit for a few people - not much money is lost.
  – Tax Expenditures: Special exemptions, exclusions, or deductions - lots of money is lost.
  – Tax Reduction: The general call to lower taxes.
  – Tax Reform: Rewriting the taxes to change the rates and who pays them.
Federal Expenditures


Figure 14.3
Federal Expenditures

• Big Governments, Big Budgets
  – A big government requires lots of money.
  – As the size of government increases, so does its budget.

• The Rise and Decline of the National Security State
  – In the 50’s & 60’s, the DOD received more than half the federal budget.
  – Defense now constitutes about one-sixth of all federal expenditures.
Federal Expenditures

- Trends in National Defense Spending (Figure 14.4)
Federal Expenditures

• The Rise of the Social Service State
  – The biggest part of federal spending is now for *income security* programs.
  – The biggest of these is Social Security.
  – Social Security has been expanded since 1935 to include disability benefits and Medicare.
  – These benefit programs face financial problems with more recipients living longer.
Federal Expenditures

- Trends in Social Service Spending (Figure 14.5)

Federal Expenditures

• Incrementalism
  – The idea that last year’s budget is the best predictor of this year’s budget, plus some.
  – Agencies can safely assume they will get at least what they got last year.
  – Focus & debate on the increase over last year.
  – The budgets tend to go up a little each year.
Federal Expenditures

• “Uncontrollable” Expenditures
  – Spending determined by the number of recipients, not a fixed dollar figure.
  – Mainly entitlement programs where the government pays known benefits to an unknown number of recipients - Social Security.
  – The only way to control the expenditures is to change the rules.
The Budgetary Process

• Budgetary Politics
  – Stakes and Strategies
    • All political actors have a stake in the budget.
    • All actors try and tie their budget needs to national or political needs.
  – The Players
    • Lots of players, with the president and Congress playing important roles.
    • Almost all committees are involved in the budget.
The Budgetary Process

• The President’s Budget
  – Presidents originally played a limited role in the budget.
  – Now budget requests are directed through the OMB and president before going to Congress.
  – The budget process is time consuming - starting nearly a year in advance.
  – The OMB, the president, and the agencies negotiate over the budget requests.
The Budgetary Process

- Congress and the Budget
  - Reforming the Process.
    - Congressional Budget and Impoundment Control Act of 1974 did much to reform the process.
    - A fixed budget calendar, congressional budget committees, and the CBO were created.
    - Budget was to be considered as a whole.
    - A budget resolution sets the bottom line for the budget.
    - The current budget is then reconciled.
    - The new budget is authorized and appropriated.
The Budgetary Process

• Congress and the Budget
  – The Success of the 1974 Reforms.
    • Between 1974 and 1998, every budget was a deficit budget.
    • Congress misses most of its own deadlines.
    • Congress passes continuing resolutions to keep the government going until it passes a budget.
    • Omnibus budget bills often contain policies that can’t pass on their own.
The Budgetary Process

Annual Federal Deficits (Figure 14.6)
The Budgetary Process

- Congress and the Budget
  - More Reforms.
    - Congress passed bills to try and control the deficits.
    - By 1990, Congress focused on the increases in spending.
    - Both parties claimed victory for the budget surpluses that began in 1997.
    - Economic downturn, income tax cuts, and increased military expenditures brought a return to deficits by 2001.
Understanding Budgeting

• Democracy and Budgeting
  – Many politicians “spend” money to buy votes.
  – With many groups and people asking for government assistance, the budgets get bigger.
  – Some politicians compete by trying not to spend money.
  – People like government programs, but they really don’t want to pay for them, thus there are deficits & the public debt.
Understanding Budgeting

• The Budget and the Scope of Government
  – In sum, the budget represents the scope of government.
  – The bigger the government, the bigger the budget.
  – Limits on funding (taxes) can limit what the government can do.