

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.

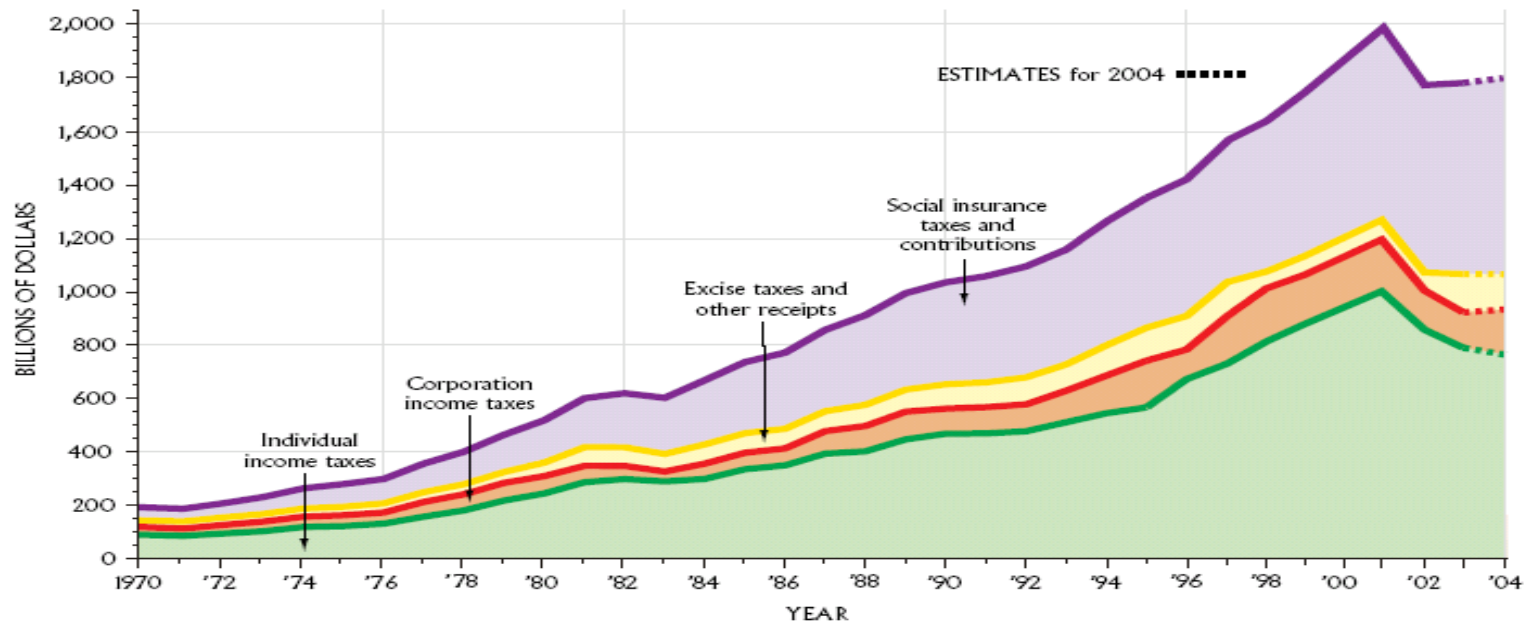
Sources of Federal Revenue

- 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

Forty-three percent of federal revenues come from individual income taxes. Another 40 percent comes from social insurance taxes.



Source: *Budget of the United States Government, Fiscal Year 2005: Historical Tables* (Washington, D.C.: U.S. Government Printing Office, 2004), Table 2.1.

Figure 14.1

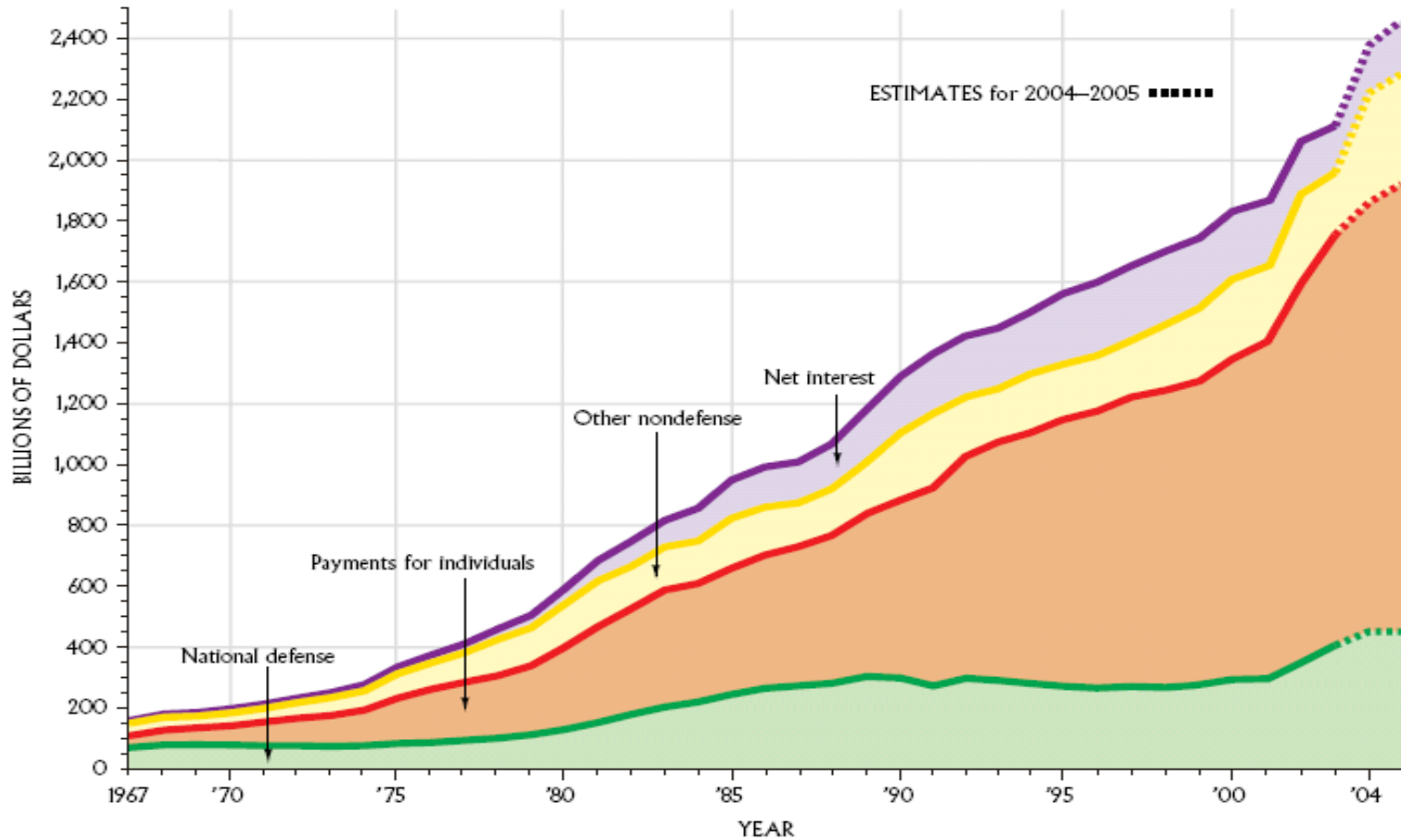
Sources of Federal Revenue

- 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



Source: *Budget of the United States Government, Fiscal Year 2005: Historical Tables* (Washington, D.C.: U.S. Government Printing Office, 2004), Table 6.1.

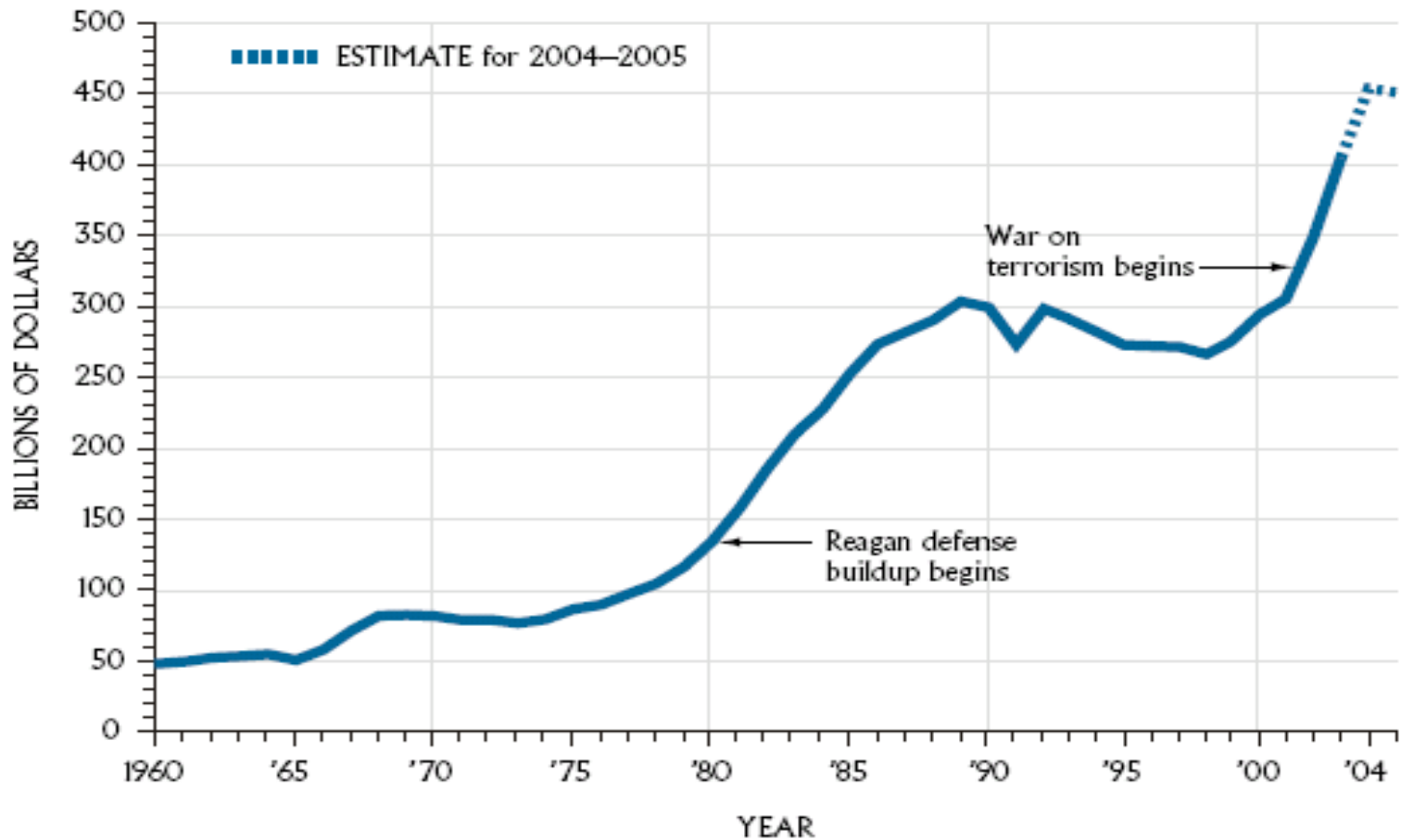
Figure 14.3

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)

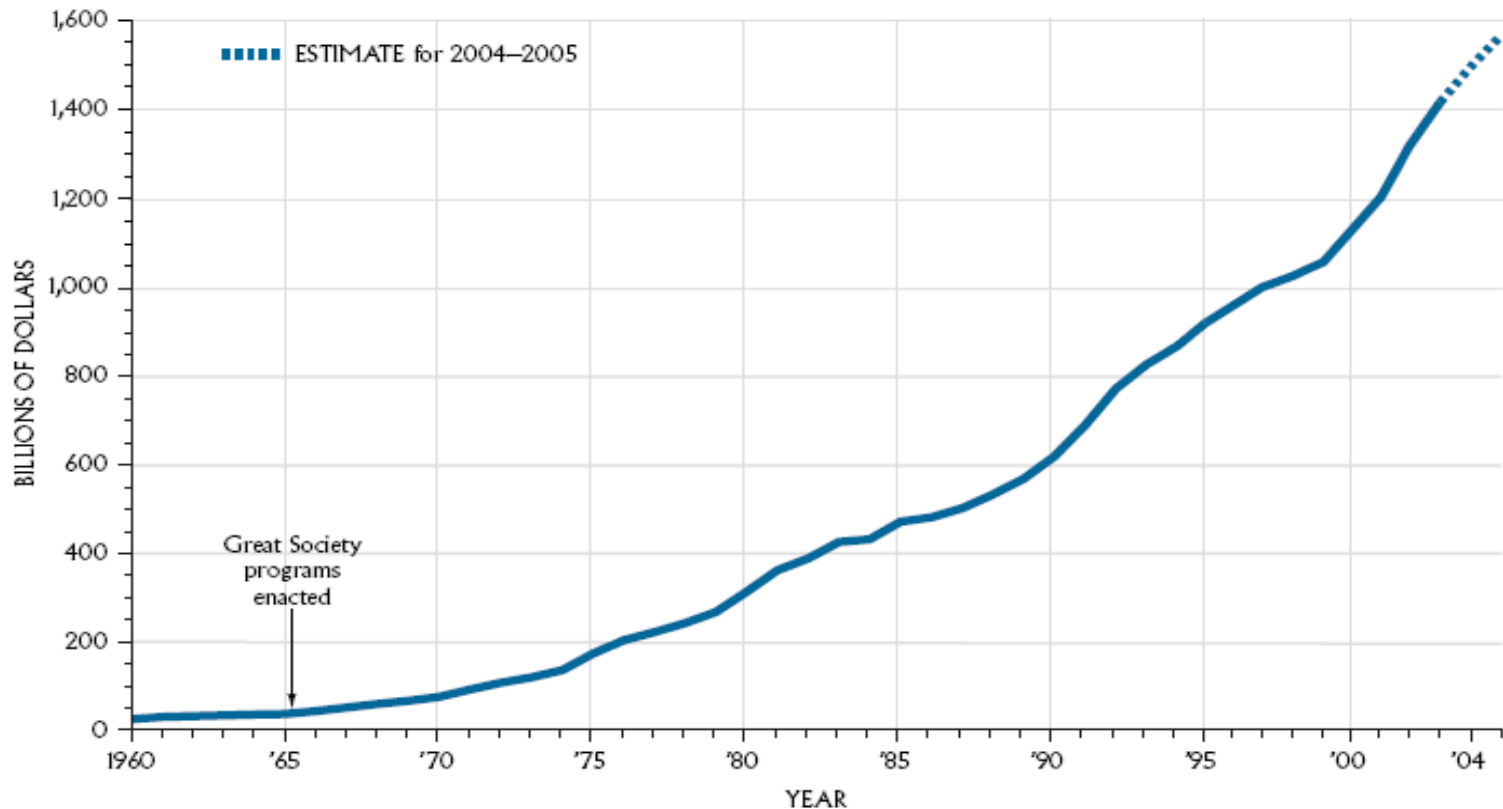


Federal Expenditures

- 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

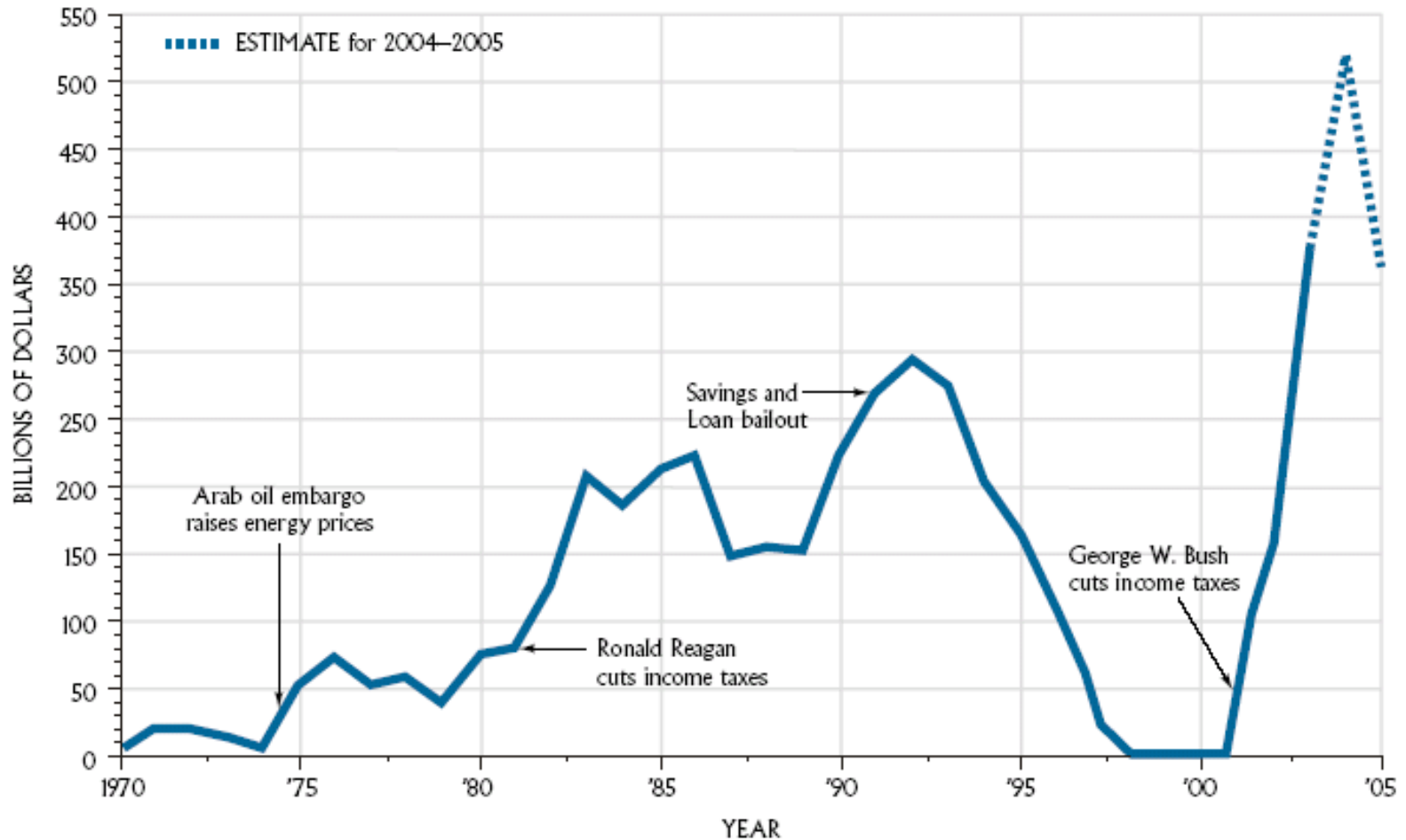
- Congress and the Budget
 - Reforming the Process.
 - Congressional Budget and Impoundment Control Act of 1974 did much to reform the process.
 - A fixed budget calendar, congressional budget committees, and the CBO were created.
 - Budget was to be considered as a whole.
 - A budget resolution sets 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.