

Government in America

CHAPTER 14 OVERVIEW AND OUTLINE

CHAPTER OVERVIEW

INTRODUCTION

The central political issue for many years has been how to pay for policies that most people support. The president and Congress have been caught in a *budgetary squeeze*: Americans want them to balance the budget, maintain or increase the level of government spending on most policies, and still keep taxes low. Thus, two questions become central to public policy: who bears the burdens of paying for government? Who receives the benefits?

THE GOVERNMENT'S SOURCES OF REVENUE

Probably no government policy affects as many Americans as tax policy. In addition to raising revenues to finance its services, the government can use taxes to make citizens' incomes more or less equal, to encourage or discourage growth in the economy, and to promote specific interests.

This section looks at the substance of the budget to see how the American government raises money and where that money is spent. The three major sources of federal revenues are the *personal and corporate income tax*, *social insurance taxes*, and *borrowing*. In 1913, the Sixteenth Amendment was added to the Constitution, explicitly permitting Congress to levy an income tax. Although corporate taxes once yielded more revenues than individual income taxes, today corporate taxes yield only about ten cents of every federal revenue dollar, compared with 49 cents coming from individual income taxes.

Today the federal debt—all of the money borrowed over the years and still outstanding—exceeds \$6.5 trillion. Nine percent of all federal expenditures go to paying off the debt. When the federal government wants to borrow money, the Treasury Department sells bonds, guaranteeing to pay interest to the bondholder. Citizens, corporations, mutual funds, and other financial institutions purchase the bonds. Many economists and policymakers are concerned about the national debt. Many have called for a *balanced budget amendment*.

A tax loophole is a tax break or tax benefit. The IRS Code is riddled with exemptions, deductions, and special cases. For example, H. Ross Perot (1992 presidential candidate) hired a former Internal Revenue Service commissioner in 1975 to aid him in having the tax code changed to benefit him to the tune of approximately \$15 million. The bill was killed on the House floor when the press reported that *only Perot* would benefit from the provision. Tax loopholes may offend Americans' sense of fair play, but they cost the treasury relatively little because they apply to only a few people.

Loopholes are really a type of tax expenditure, which represents *the difference between what the government actually collects in taxes and what it would have collected without special exemptions*. Tax expenditures are essentially monies that government could collect but does not because they are *exempted* from taxation. Early in his administration, President Reagan proposed a massive tax-cut bill, which was passed by Congress in July 1981. Families with high incomes received significant tax reductions with the 1981 bill, but those at the lower end of the income ladder did not notice much change in their tax burden because social insurance and excise taxes (which fall disproportionately on the poor) *rose* during the same period. Many blamed the massive deficits of the 1980s and 1990s at least partially on the *1981 tax cuts*, as government continued to spend more but reduced its revenues.

In 1993, President Clinton proposed, and Congress approved, a plan to raise the income tax rate for families in the highest income bracket. Corporate income taxes and energy taxes also rose. The *Tax Reform Act of 1986* was one of the most sweeping alterations in federal tax policy in history. It eliminated or reduced the value of many tax deductions, removed several million low-income individuals from the tax rolls, and changed the system of 15 separate brackets to just two generally lower rates (28 percent and 15 percent). In 1990, a third bracket of 31 percent was added for those with higher incomes.

When budget surpluses materialized (briefly) in the late 1990s, cutting taxes was once again a popular rallying cry for some politicians, including George W. Bush. In 2002, Congress enacted a tax cut that gradually lowered tax rates over the next ten years. When deficits immediately reappeared, critics charged that the president was fiscally irresponsible.

FEDERAL EXPENDITURES

Among the most important changes of the twentieth century is *the rise of large governments*. American governments—national, state, and local—spend an amount equal to one-third of the Gross Domestic Product (GDP). Expenditures of the national government alone equal over 20 percent of the GDP. Nevertheless, the United States actually has one of the *smallest* public sectors among Western nations relative to the size of the Gross Domestic Product (GDP).

Two conditions associated with government growth in America are the *rise of the national security state* and the *rise of the social service state*. After World War II, the "cold war" with the Soviet Union resulted in a permanent military establishment and expensive military technology. President Eisenhower coined the phrase military-industrial complex to characterize the close relationship between the military hierarchy and the defense industry that supplies its hardware needs. The Pentagon wants weapons systems and arms makers want contracts, so they tend to be mutually *supportive*. In the 1990s, *defense expenditures have decreased* in response to the lessening of tensions in Europe. The budget of the Department of Defense now constitutes only about one-sixth of all federal expenditures.

The Social Security Act (passed in 1935) was originally intended to provide a minimal level of sustenance to older Americans. In the mid-1960s America's social services network greatly expanded by adding to the Social Security system and creating many new programs designed to aid the poor. Today, more than 45 million Americans receive payments from the Social Security system. Social Security is not the only social policy of the federal government that is costly. The rise of the social service state has contributed to America's growing budget in health, education, job training, and scores of other areas.

The picture of the federal budget is one of constant, slow growth. Expenditures mandated by an existing law or obligation (such as Social Security) are particularly likely to follow a pattern of incrementalism, which means that the best predictor of this year's budget is *last year's budget plus a little bit more*—that is, an increment. More and more of federal spending has become "uncontrollable." An uncontrollable expenditure is one that is *mandated* under current law or by a previous obligation. About *two-thirds of the federal budget is uncontrollable*—based on expenditures that are determined not by how much Congress appropriates to an agency but by *how many eligible beneficiaries* there are for a particular program. Many expenditures are uncontrollable because Congress has in effect obligated itself to pay *X* level of benefits to *Y* number of recipients. Such policies are called entitlements.

THE BUDGETARY PROCESS

Public budgets are the supreme example of Harold Lasswell's definition of politics as "who gets what, when, and how." Budget battles are fought over contending interests, ideologies, programs, and agencies.

The distribution of the government's budget is the outcome of a very complex budgetary process involving thousands of policy choices and prompting a great deal of politics. Every political actor has a stake in the budget. The main actors in the budgetary process include interest groups, agencies, the Office of Management and Budget, congressional tax committees and budget committees, congressional subject-matter committees and appropriations committees, the General Accounting Office, and of course the president.

According to the Constitution, *all federal appropriations must be authorized by Congress*—a control sometimes called the "power of the purse." In 1921, Congress passed the *Budget and Accounting Act*, requiring presidents to propose an executive budget to Congress and creating the *Bureau of the Budget* to help them. In the 1970s, President Nixon reorganized the Bureau of the Budget and renamed it the Office of Management and Budget (OMB). The OMB now supervises preparation of the federal budget and advises the president on budgetary matters.

The Congressional Budget and Impoundment Act of 1974 was designed to reform the congressional budgetary process. The act established *a fixed budget calendar* in which a timetable mandated by law was set for each step in the budgetary process. In April of each year, both houses of Congress are expected to agree upon a budget resolution which

binds Congress to a total expenditure level that should form the bottom line of all federal spending for all programs.

The congressional budget resolution often requests that certain changes be made in law, primarily to achieve savings incorporated into the spending totals and thus meet the budget resolution. First is budget reconciliation, a process by which program authorizations are revised to achieve required savings; it frequently also includes tax or other revenue adjustments. The second way that laws are changed to meet the budget resolution (or to create or change programs for other reasons) involves more narrowly drawn legislation. 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 additional measure, termed an appropriations bill, must be passed to fund programs established by authorization bills.

The new system was supposed to force Congress *to consider the budget (both projected expenditures and projected revenues) as a whole*. However, Congress has often failed to meet its own budgetary timetable, and presidents have made matters worse by submitting budget proposals containing large deficits. Moreover, in many instances Congress has not been able to reach agreement and pass appropriations bills at all and has instead resorted to continuing resolutions—laws that allow agencies to spend at the previous year's level.

In response to growing frustration at its inability to substantially reduce annual budget deficits, Congress enacted the Balanced Budget and Emergency Deficit Control Act (1985), better known as the *Gramm-Rudman-Hollings Act*. As amended in 1987, the act mandated maximum allowable deficit levels for each year until 1993—at which point the budget was supposed to be in balance. If Congress failed to meet the deficit goals, automatic across-the-board spending cuts (called *sequestrations*) were to be ordered by the president, although a number of programs were exempt from the process.

In 1990, Congress decided to shift the focus from controlling the size of the deficit (which was the trigger for sequestration) to controlling increases in spending (under which the sheer size of the deficit would not matter). While Congress shifted to keeping a lid on expenditures, it allowed events beyond its control—such as war or a recession—to increase the size of the deficit without penalty. The *bottom line was a bigger deficit*; yearly deficits continued to climb and have continued into the Clinton administration.

The results of the 1994 congressional elections once again altered the budgetary game. In 1995, the new Republican majorities in each house, determined to balance the budget within seven years, argued for substantial cuts in the rate of growth of popular entitlement programs. The president agreed with the goal of balancing the budget—but on his terms—and took his case to the voters in 1996. The outcome, as we have seen, was divided government. In 1997, the president and Congress agreed to a budget that was to be in balance—by 2002. However, decreased tax revenues resulting from the economic downturn in 2000-2001 and the income tax cut of 2001 sent the budget into deficit again.

UNDERSTANDING BUDGETING

Almost all democracies have seen a substantial growth in government in the twentieth century. Economists Allen Meltzer and Scott Richard argue that *government grows in a democracy* because of the *equality of suffrage*. Poorer voters will always use their votes to support public policies that redistribute benefits from the rich to the poor. Indeed, the most rapidly growing expenditures are items like Social Security, Medicaid, Medicare, and social welfare programs (all of which benefit the poor more than the rich).

One often thinks of elites—particularly corporate elites—as being opposed to big government. However, Lockheed and Chrysler corporations have appealed to the government for large bailouts when times got rough. Corporations support a big government that offers them contracts, subsidies, and other benefits. Poor and rich voters alike have voted for parties and politicians who promised them benefits. Government often grows by responding to groups and their demands.

Conversely, some politicians compete for votes by promising *not* to spend money (such as Ronald Reagan). In contrast with other nations, Americans have chosen to tax less and spend less on public services than almost all other democracies with developed economies. Paradoxically, Americans want to spend but they do not want to pay taxes. Being a democracy, that is exactly what the government does—and the inevitable result is red ink. America's large budget deficits have been as much a constraint on government as they have been evidence of a burgeoning public sector.

CHAPTER 14 OUTLINE

I. INTRODUCTION

- A. The president and Congress have been caught in a *budgetary squeeze*: Americans want them to balance the budget, maintain or increase the level of government spending on most policies, and still keep taxes low.
 - 1. Because budgets are so important to almost all other policies, *the budgetary process is the center of political battles* in Washington and involves nearly everyone in government.
 - 2. The central political issue for many years has been how to *pay* for policies that most people support.
 - a. Resources have been scarce because the national government has run up a large budget deficit *each year during the 1980s and the early 1990s*. (A budget deficit occurs when expenditures exceed revenues.)
 - b. The total national debt rose sharply during the 1980s, increasing from less than one trillion dollars to \$6.5 trillion dollars by 2003.

II. THE GOVERNMENT'S SOURCES OF REVENUE

- A. Where it comes from.
 - 1. The three major sources of federal revenues are the *personal and corporate income tax*, *social insurance taxes*, and *borrowing*. Only a small

portion comes from *excise taxes* (such as tax on gasoline) and other sources.

2. Income tax

a. The first peacetime income tax was enacted in 1894.

(1) The tax was declared unconstitutional in *Pollock v. Farmer's Loan and Trust Co.* (1895).

(2) The Sixteenth Amendment was added to the Constitution in 1913, explicitly permitting Congress to levy an income tax. Congress had already started one before the amendment was ratified, and the Internal Revenue Service (IRS) was established to collect it.

b. Corporations also pay income taxes. Although *corporate taxes once yielded more revenues than individual income taxes*, today corporate taxes yield only about *ten cents of every federal revenue dollar, compared with 49 cents coming from individual income taxes*.

3. Social insurance taxes.

a. *Social Security taxes* come from both employers and employees.

b. Unlike other taxes, these payments do not go into the government's general money fund; they are specifically earmarked for the Social Security Trust Fund to pay benefits.

c. Social Security taxes have *grown faster than any other source* of federal revenue.

4. Borrowing.

a. When the federal government wants to borrow money, the Treasury Department sells bonds, guaranteeing to pay interest to the bondholder.

b. Today the federal debt—all of the money borrowed over the years and still outstanding—exceeds \$6.5 trillion.

c. Nine percent of all federal expenditures go to paying off the debt.

d. Government borrowing crowds out private borrowers.

e. Concerns about the national debt have led to some calls for a balanced budget amendment.

f. Unlike state and local governments and private businesses, the federal government does not have a *capital budget*, a budget for items that will serve for the long-term. These purchases are counted as current expenditures and run up the deficit.

B. Taxes and public policy.

1. Tax loopholes.

a. A tax loophole is presumably some tax break or tax benefit.

(1) The IRS Code is riddled with exemptions, deductions, and special cases.

(2) In 1975, H. Ross Perot (1992 and 1996 presidential candidate) hired a former Internal Revenue Service commissioner to aid him in having the tax code changed to

benefit him to the tune of approximately \$15 million. (The bill was killed on the House floor when the press reported that *only Perot* would benefit from the provision.)

2. Tax expenditures.

a. What *does* cost the federal budget a substantial sum is the system of tax expenditures, which represent *the difference between what the government actually collects in taxes and what it would have collected without special exemptions*.

(1) Tax expenditures are essentially monies that government could collect but does not because they are *exempted* from taxation.

(2) The Office of Management and Budget estimated that the total tax expenditures in the mid-1990s would be about a third of the total federal receipts.

(3) Individuals receive most of the tax expenditures, and corporations get the rest.

b. Tax expenditures amount to subsidies for some activity, such as deductions for contributions to charities, deductions by homeowners for mortgage interest, and business deductions of investment in new plants and equipment at a more rapid rate than they can deduct other expenses

c. On the whole, tax expenditures benefit middle- and upper-income taxpayers and corporations. Poor people (who tend not to own homes) cannot take advantage of most such provisions.

3. Tax reduction.

a. Early in his administration, President Reagan proposed a massive tax-cut bill, which was passed by Congress in July 1981.

(1) Over a three-year period, Americans would have their federal tax bills reduced 25 percent, corporate income taxes were also reduced, new tax incentives were provided for personal savings and corporate investment, and taxes were *indexed* to the cost of living.

(2) Families with high incomes received significant tax reductions with the 1981 bill, but those at the lower end of the income ladder did not notice much change in their tax burden because social insurance and excise taxes (which fall disproportionately on the poor) *rose* during the same period.

b. Many blamed the massive deficits of the 1980s and 1990s at least partially on the *1981 tax cuts*, as government continued to spend but reduced its revenues.

4. Tax reform.

a. When President Reagan first revealed his massive tax simplification plan in 1986, the president actually had more problems obtaining the support of his own party than from the Democrats.

- b. The Tax Reform Act of 1986 was one of the most sweeping alterations in federal tax policy in history.
 - (1) It eliminated or reduced the value of many tax deductions, removed several million low-income individuals from the tax rolls, and changed the system of 15 separate brackets to just two generally lower rates (28 percent and 15 percent).
- c. In 1990, a third bracket of 31 percent was added for those with higher incomes.
- d. In 1993, Congress agreed to President Clinton's proposal to raise the income tax rate to those in the top two percent of income. Congress also increased the top corporate income tax and an energy tax.
- e. When budget surpluses materialized (briefly) in the late 1990s, cutting taxes was once again a popular rallying cry for some politicians, including George W. Bush. In 2001, Congress enacted a tax cut that gradually lowered tax rates over the next ten years. When deficits immediately reappeared, critics charged that the president was fiscally irresponsible.

III. FEDERAL EXPENDITURES: WHERE REVENUES GO

- A. Federal expenditures.
 - 1. Comparisons over time are somewhat misleading because they do not take into account changes in the value of the dollar.
- B. Among the most important changes of the twentieth century is *the rise of large governments*.
 - 1. The United States actually has one of the *smallest* public sectors among Western nations relative to the size of the Gross Domestic Product (GDP). Gross Domestic Product is Gross National Product minus the value of goods and services produced outside the country.
 - 2. American governments—national, state, and local—spend an amount equal to one-third of the Gross Domestic Product (GDP).
 - 3. Expenditures of the national government alone equal over 20 percent of the GNP.
 - 4. Two conditions associated with government growth in America are the *rise of the national security state* and the *rise of the social service state*.
- C. The rise of the national security state.
 - 1. President Eisenhower coined the phrase military industrial complex to characterize the close relationship between the military hierarchy and the defense industry that supplies its hardware needs. The Pentagon wants weapons systems and arms makers want contracts, so they tend to be mutually *supportive*.
 - 2. After World War II, the "cold war" with the Soviet Union resulted in a permanent military establishment and expensive military technology.
 - a. In the 1990s, *defense expenditures have decreased* in response to the lessening of tensions in Europe. (see Chapter 20.)

- b. The budget of the Department of Defense now constitutes only about one-sixth of all federal expenditures.
 - c. Payrolls and pensions constitute a large component of the defense budget, as does research, development, and procurement (purchasing) of military hardware.
 - 3. The *cost of advanced technology* makes any weapon, fighter plane, or component more expensive than its predecessors, and cost overruns are common.
- D. The rise of the social service state.
 - 1. The Social Security Act (passed in 1935) was originally intended to provide a minimal level of sustenance to older Americans.
 - 2. In 1965, Medicare was added to the Social Security system, providing hospital and physician coverage to the elderly.
 - 3. Today, more than 45 million Americans receive payments from the Social Security system.
 - a. The typical retired worker received nearly \$895 a month in 2002.
 - b. Disability insurance was included in the 1950s, which included workers who had not retired but were disabled.
 - 4. Essentially, money is taken from working members of the population and spent on retired members; but *demographic and economic realities* now threaten to dilute this intergenerational agreement.
 - a. Economist Eli Ginzberg calculated that in 1945, fifty workers paid taxes to support each Social Security beneficiary.
 - b. In 1990, about three workers supported each beneficiary.
 - c. By the year 2040, fewer than two workers will be supporting each beneficiary.
 - 5. Social Security is not the only social policy of the federal government that is costly. The rise of the social service state has contributed to America's growing budget in health, education, job training, and scores of other areas.
 - a. *Liberals* often favor these programs to assist individuals and groups in society.
 - b. *Conservatives* see them as a drain on the federal treasury.
- E. The rise of the social service state and the national security state together are linked with much of American governmental growth since the end of World War II.
- F. Why the increasing federal budget is so difficult to control.
 - 1. Incrementalism.
 - a. Incrementalism means that the best predictor of this year's budget is *last year's budget plus a little bit more* (an increment).
 - b. Causes of incrementalism.
 - (1) The support of relevant interests for spending programs makes it difficult to pare the budget.
 - (2) The budget is too big to review from scratch each year.
 - (3) More and more of federal spending has become "uncontrollable."

2. "Uncontrollable" expenditures.
 - a. An uncontrollable expenditure is one that is *mandated* under current law or by a previous obligation.
 - (1) Uncontrollable expenditures result from policies that make some group automatically eligible for some benefit.
 - (2) Congress has in effect obligated itself to pay a certain level of benefits to a particular number of recipients. Such policies are called entitlements.
 - b. About *two-thirds of the federal budget is uncontrollable*—based on expenditures that are determined not by how much Congress appropriates to an agency but by *how many eligible beneficiaries* there are for a particular program.
 - c. Although Congress *legally can* control such expenditures, it could do so only by changing a law or existing benefit levels.
 - (1) Cutting benefits or tightening eligibility restrictions would provoke a monumental outcry from millions of older voters.
 - d. The biggest uncontrollable expenditure is the *Social Security system, including Medicare*, which costs more than \$700 billion; other uncontrollable expenditures include veterans aid, agricultural subsidies, military pensions, civil service workers' retirement benefits, and interest on the national debt.
 - e. In 1999, President Clinton made financing Social Security his highest priority. He proposed allocating much of the new budget surplus to Social Security and investing some of it in the stock market. Everyone agreed that saving Social Security was a high priority, but not everyone agreed with the president's solutions. As a result, no major changes occurred.

IV. THE BUDGETARY PROCESS

A. Budgetary politics.

1. The main actors in the budgetary process are:
 - a. *Interest groups* - lobbying for a group's needs takes place in the agencies, with presidents, and before congressional committees;
 - b. *Agencies* - the heads of agencies almost always push for higher budget requests, sending their requests to the Office of Management and Budget and presenting themselves before congressional committees;
 - c. *Office of Management and Budget (OMB)* - the OMB is responsible to the president, but the director and staff of the OMB have considerable independence, making them major actors in the annual budget process;
 - d. *The president* - the president makes the final decisions on what to propose to Congress; the president unveils the proposed budget in early February and then tries to ensure that Congress will stick close to the recommendations;

- e. *The Tax Committees in Congress* - the House Ways and Means Committee and the Senate Finance Committee write the tax codes, subject to the approval of Congress as a whole;
- f. *The Budget Committees* and the *Congressional Budget Office (CBO)* - the CBO is the congressional equivalent of the OMB; the CBO and its parent committees—the Senate and House Budget committees—examine revenues and expenditures and propose resolutions to bind Congress within certain limits;
- g. *The subject-matter committees* - congressional committees write new laws, which require new expenditures; committee members may use hearings to support larger budgets for them, or to question agency heads about waste or overspending;
- h. *The Appropriations Committees* and their *subcommittees* - these committees take policies coming from the subject-matter committees and decide how much to spend; their subcommittees hold hearings on specific agency requests;
- i. *The Congress as a whole* - Congress as a whole approves taxes and appropriations; members have a strong interest in delivering federal dollars to their constituents; and
- j. *The General Accounting Office (GAO)* - the GAO audits, monitors, and evaluates what agencies are doing with their budgets.

B. The president's budget.

- 1. Office of Management and Budget.
 - a. In 1921, Congress passed the Budget and Accounting Act, requiring presidents to propose an executive budget to Congress and creating the *Bureau of the Budget* to help them.
 - b. In the 1970s, President Nixon reorganized the Bureau of the Budget and renamed it the Office of Management and Budget (OMB).
 - c. The OMB now supervises preparation of the federal budget and advises the president on budgetary matters.
 - d. The director of the OMB is a presidential appointee requiring Senate approval.
- 2. Preparation of the budget: by law, the president *must submit a budget by the first Monday in February*.
 - a. The process begins almost a year before, when the OMB communicates with each agency, sounding out its requests and tentatively issuing guidelines.
 - (1) The OMB presents an analysis of the economic situation to the president, and they discuss the budgetary outlook and policies.
 - (2) The OMB gives guidelines to the agencies, which in turn review current programs and submit to the OMB their projections of budgetary needs for the coming year.

(3) The OMB reviews these projections and prepares recommendations to the president.

(4) The president establishes guidelines and targets.

b. By summer, the president has decided on overall policies and priorities and has established general targets for the budget.

(1) The OMB conveys the president's decisions to the agencies. (2) The OMB advises and assists agencies in preparing their budgets.

c. During the fall, the agencies submit formal, detailed estimates for their budgets.

(1) Budget analysts at the OMB pare, investigate, weigh, and meet to consider agency requests.

(2) The OMB holds hearings, reviews its assessment of the economy, and prepares budget recommendations for the president.

(3) The president revises and approves the budget message and transmits the budget document to Congress.

d. In the winter, the budget document is readied for final presidential approval.

(1) Agencies revise their estimates to conform with the president's decisions.

(2) The OMB again reviews the economy and then drafts the president's budget message and prepares the budget document.

(3) The president revises and approves the budget message and transmits the budget document to Congress.

C. Congress and the budget.

1. According to the Constitution, *all federal appropriations must be authorized by Congress*—a control sometimes called the "power of the purse."

2. Reforming the process: the Congressional Budget and Impoundment Act of 1974 was designed to reform the congressional budgetary process.

a. The act established *a fixed budget calendar*: a timetable mandated by law was set for each step in the budgetary process.

b. The *Budget Committees in each house* are supposed to *recommend target figures to Congress for the total budget size* by April 1 of each year. By April 15, *Congress is to agree on the total size of the budget*, which guides the *Appropriations Committees* in juggling figures for individual agencies.

c. The Congressional Budget Office (CBO) *advises Congress* on the likely consequences of its budget decisions, *forecasts* revenues, and is a counterweight to the president's OMB.

3. Provisions of the 1974 act:

a. In April of each year, both houses are expected to agree upon a budget resolution which would bind Congress to a total

expenditure level that should form the bottom line of all federal spending for all programs.

b. The congressional budget resolution often requests *that certain changes be made in law*. These changes are legislated in two separate ways:

(1) Budget reconciliation *revises program authorizations* to achieve required savings.

(a) It usually also includes tax or other revenue adjustments.

(b) Reconciliation usually comes near the end of the budgetary process.

(2) An authorization bill is an act of Congress that *establishes a discretionary government program or an entitlement*, or that *continues or changes* such programs.

(a) Authorizations specify program goals, and set the maximum amount that discretionary programs may spend.

(b) For entitlement programs, an authorization sets or changes eligibility standards and benefits.

(c) An additional measure, termed an appropriations bill, must be passed to *actually fund* programs established by authorizations bills. The appropriations bills cannot exceed the amount of money authorized for a program, but they may appropriate less than was authorized.

4. Results of the 1974 reforms.

a. The new system was supposed to force Congress *to consider the budget (both projected expenditures and projected revenues) as a whole*.

b. Congressional budgets have been in the red every year since the 1974 amendments, and the red ink has grown worse (not better). Presidents have made matters worse by submitting budget proposals containing large deficits.

c. Congress has often failed to meet its own budgetary timetable.

d. In many instances, Congress has not been able to reach agreement and pass appropriations bills at all. Instead of an appropriations bill, Congress has sometimes passed continuing resolutions—laws that allow agencies to spend at the previous year's level.

e. On some occasions, appropriations bills have been lumped together in one enormous and complex bill (known as omnibus bills), which precludes adequate review by individual members of Congress and forces the president to either accept unwanted provisions or veto the funding for the entire government.

f. The 1974 reforms have helped Congress view the entire budget early in the process.

- g. The problem is *not so much the procedure* as agreement over *how scarce resources should be spent*.
5. More reforms.
- a. Yearly deficits mushroomed during the Reagan administration (1981-1988).
 - b. By 1985, Congress was desperate—President Reagan refused to consider tax increases to pay for federal spending and continued to submit budgets that contained huge deficits.
 - c. In response to growing frustration at its inability to substantially reduce annual budget deficits, Congress enacted the *Balanced Budget and Emergency Deficit Control Act* (1985), better known as the Gramm-Rudman-Hollings Act.
 - d. As amended in 1987, the act mandated maximum allowable deficit levels for each year until 1993—at which point the budget was supposed to be in balance. If Congress failed to meet the deficit goals, automatic across-the-board spending cuts (called sequestrations) were to be ordered by the president, although a number of programs were exempt from the process.
 - e. In 1990, Congress decided to shift the focus from controlling the size of the deficit (which was the trigger for sequestration) to controlling increases in spending (under which the sheer size of the deficit would not matter).
 - f. Yearly deficits continued to climb and have continued into the Clinton administration.
 - g. In 1995, the new Republican majorities in each house were determined to balance the budget within seven years, arguing for substantial cuts in the rate of growth of such popular entitlements programs as Medicaid and the outright elimination of many other programs. The president agreed with the goal—but on his terms.
 - h. However, decreased tax revenues resulting from the economic downturn in 2000-2001 and the income tax cut of 2001 sent the budget into deficit again.

V. UNDERSTANDING BUDGETING

A. Democracy and budgeting.

1. Almost all democracies have seen a substantial growth in government in the twentieth century.
2. Economists Allen Meltzer and Scott Richard argue that *government grows in a democracy* because of the *equality of suffrage*.
 - a. Poorer voters will always use their votes to support public policies that redistribute benefits from the rich to the poor.
 - b. The most rapidly growing expenditures are items like Social Security, Medicaid, Medicare, and social welfare programs (all of which benefit the poor more than the rich).
3. One often thinks of elites—particularly corporate elites—as being opposed to big government.

- a. However, Lockheed and Chrysler corporations have appealed to the government for large bailouts when times got rough.
 - b. Corporations support a big government that offers them contracts, subsidies, and other benefits.
 4. Poor and rich voters alike have voted for parties and politicians who promised them benefits.
 - a. Policymakers spend money for things voters like (and will remember on election day).
 - b. Citizens are not the unwilling victims of big government and its big taxes; they are at least co-conspirators.
 5. Government also grows by responding to groups and their demands.
 6. Some politicians compete for votes by promising *not* to spend money (such as Ronald Reagan).
 7. Americans have chosen to tax less and spend less on public services than almost all other democracies with developed economics. (see Chapter 1.)
 - a. Americans want to spend but not pay taxes.
 - b. Being a democracy, that is exactly what the government does—and the inevitable result is red ink.
- B. The budget and the scope of government.
1. In many ways, the budget *is* the scope of government—the bigger the budget, the bigger the government.
 2. The budget can be a force for reining in the government as well as for expanding its role.
 3. One could accurately characterize policymaking in the American government since 1980 as the "*politics of scarcity*" — scarcity of funds for programs like healthcare reform and education.
 4. America's large budget deficit is *as much a constraint on government as it is evidence of a burgeoning public sector*.