Politics in Action: The Politics of Budgeting

In 2011, the United States came perilously close to defaulting on its debts and throwing the world economy into a tailspin. The United States had reached the debt limit—the limit of legally allowable debt set by Congress—and thus could not borrow more to cover interest payments it had to make on its debt. President Obama asked Congress to increase the debt limit, as many presidents have done before him. Republicans in Congress were reluctant to oblige. They insisted that before they agreed to increase the debt, the president and the Democrats would have to agree to reduce the debt over time through decreases in spending but not any increases in taxes. In the end, the parties could not agree and Congress passed a temporary solution that raised the debt limit but put off fashioning a long-term solution for two years. In the meantime, the large annual federal deficit was a serious constraint on the president, limiting his ability to pursue his “win the future” agenda by investing in education, job creation, and health care.

The budget, which determines taxing and spending, is almost invariably a key issue in presidential elections. In the election of 2012, Mitt Romney argued that we should make permanent large temporary tax cuts passed during the presidency of George W. Bush and that we should decrease the size of the federal government. Barack Obama, on the other hand, proposed increasing taxes on the wealthiest one percent of Americans and maintaining the services government provides. Both candidates knew that politicians who attempt to make tough decisions about the budget risk incurring voters’ wrath. In 1985, Republican senators took the lead with a reform that...
Dealing with the budget is one of the most intractable issues of American government, but also one of the most important. Here Wall Street traders watch as the stock market plunged after Standard and Poor's downgraded the U.S. credit rating in response to the inability of Congress and the president to agree on a plan to meet the government's financial obligations.
The Big Picture  Is the federal budget as out of control as it seems? Author George C. Edwards III weighs the merits of two opposing sides: the Tea Party’s insistence that the budget must be lowered no matter what, versus the opposing view that the government should increase the deficit to stimulate the economy.

The Basics  How does the government decide what to spend your tax dollars on? This video reveals who is involved in the budgetary process, where the U.S. government gets its money, where the money goes, and why federal debt is growing.

In Context  Explore the ways that economics drives American politics. In this video, Wagner College political scientist Abraham Unger talks about how economic policy has evolved in the last century and how the United States operates on a continuum of free enterprise.

Thinking Like a Political Scientist  Uncover some of the major points of discovery in the study of economic policy in the United States. Wagner College political scientist Abraham Unger identifies some of the trends that have been discussed by political scientists in the last decade.

In the Real World  Why did Congress vote to raise the debt ceiling and was it the right thing to do? This video looks at the causes and consequences of that decision, and real people voice their opinions on the long-term impact of the debt crisis.

So What?  How does the government have enough money to enact policies while still taxing all of its citizens fairly? Author George C. Edwards III delves into this fundamental question of taxing and spending, and illustrates why the government is only as powerful and as effective as the amount of money it has in its budget.
was designed to balance the budget. In the 1986 congressional elections, Republicans lost control of the Senate. In 1990, President George H. W. Bush bit the bullet and reversed his pledge not to raise taxes. He agreed to a budget deal with the congressional Democrats that succeeded in limiting spending and reducing the deficit. In 1992, he lost his bid for reelection. In 1993, President Clinton followed Bush’s precedent and reversed his promise to lower taxes, with a program of higher taxes and spending constraints. In the 1994 elections, Republicans won majorities in both houses of Congress for the first time since 1952. And so it goes.

It is not surprising that the battle of the budget remains at the center of American politics. Two questions are central to public policy: Who bears the burdens of paying for government? and Who receives the benefits?

Some observers who have considered these two questions are concerned that democracy could distort budgeting. Do politicians seek to “buy” votes by spending public funds on things voters will like and will remember on Election Day? Or is spending, instead, simply the rational response to demands made on government services by the many segments of American society? Do politicians pander to a perceived public desire to “soak the rich” with taxes that redistribute income?

Budgets are central to our theme of the scope of government. Indeed, for many programs, budgeting is policy: The amount of money spent on a program determines how many people are served, how well they are served, how much of something (weapons, vaccines, and so on) the government can purchase. The bigger the budget, the bigger the government. But is the growth of the government’s budget inevitable? Or are the battles over the allocation of scarce public resources actually a constraint on government?

The Constitution allocates various tasks to both the president and Congress, but it generally leaves to each branch the decision of whether to exercise its power to perform a certain task. There is an exception, however. Every year the president and Congress must appropriate funds. If they fail to do so, the government will come to a standstill. The army will be idled, Social Security offices will close, and food stamps will not be distributed to low-income households.

Everyone has a basic understanding of budgeting. Public budgets are superficially like personal budgets. There is more to public budgets than bookkeeping, however, because such a budget is a policy document allocating burdens (taxes) and benefits (expenditures). Thus, “budgeting is concerned with translating financial resources into human purposes” and a budget “may also be characterized as a series of goals with price tags attached.”

Over the past 30 years, with the exception of 1998–2001, the national government has run up large annual budget deficits. A budget deficit occurs when expenditures exceed revenues in a fiscal year, in other words, when the national government spends more money than it receives in taxes. The additional funds must come through borrowing. Thus, as a result of this succession of annual deficits, the total national debt rose sharply during the 1980s and then again since 2001, increasing from less than $1 trillion in 1980 to about $17.5 trillion by 2013. Figure 13.1 provides an overview of the federal budget for fiscal year 2012. About six percent of all current budget expenditures go to paying just the interest on this debt.

The president and Congress have often 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 keep taxes low. As a result, the president and Congress are preoccupied with budgeting, trying to cope with these contradictory demands.

In this chapter, you will learn how the president and Congress produce a budget, making decisions on both taxes and expenditures. In short, you will look at how government manages its money—which is, of course, really your money.

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**budget**
A policy document allocating burdens (taxes) and benefits (expenditures).

**deficit**
An excess of federal expenditures over federal revenues.

**expenditures**
Government spending. Major areas of federal spending are social services and national defense.

**revenues**
The financial resources of the government. The individual income tax and Social Security tax are two major sources of the federal government’s revenue.
Describe the sources of funding for the federal government and assess the consequences of tax expenditures and borrowing.

axes,” said Supreme Court Justice Oliver Wendell Holmes, Jr., “are what we pay for civilization.” Although he asserted, “I like to pay taxes,” most taxpayers throughout history have not shared his sentiment. The art of taxation, said Jean-Baptiste Colbert, Louis XIV’s finance minister, is in “so plucking the goose as to procure the largest quantity of feathers with the least possible amount of hissing.” In Figure 13.2, you can see where the federal government has been getting its feathers. The three major sources of federal revenue are personal income taxes, corporate income taxes, and social insurance taxes. A small share comes from receipts from such sources as excise taxes (a tax levied on the manufacture, transportation, sale, or consumption of a good—for example, taxes on gasoline).

**Personal and Corporate Income Tax**

Every April 15th, millions of bleary-eyed American taxpayers struggle to mail or submit online their income tax forms before midnight. Most individuals are required to pay the government a portion of the money they earn; this portion is an income tax. In the early years of the nation, long before the days of a large national defense, Social Security, and the like, fees collected on imported goods financed most of the federal government. Congress briefly adopted an income tax to pay for the Civil War, but the first peacetime income tax was enacted in 1894. Even though the tax was only 2 percent of income earned beyond the then-magnificent sum of $4,000, a lawyer opposing it called the tax the first step of a “communist march.” The Supreme Court wasted little time in declaring the tax unconstitutional in *Pollock v. Farmer’s Loan and Trust Co.* (1895). In 1913, the Sixteenth Amendment was added to the Constitution, explicitly permitting Congress to levy an income tax. Today, the Internal Revenue Service (IRS), established to collect income tax, receives more than 140 million individual tax returns each year.

The income tax is generally progressive, meaning that those with more taxable income not only pay more taxes but also pay higher rates of tax. The rates currently
The federal government collects revenue from income taxes, capital gains taxes, and payroll taxes. Tax rates depend on income types. Income taxes are progressive – that is, initial dollar amounts are taxed at a lower rate and additional dollars are taxed at higher rates. Income from investments (capital gain) is taxed at a flat 15%. Payroll taxes are charged at a flat rate only on the first $113,700 an individual earns. Let’s look at the tax rates for 2012 and see how they influenced five different earners.

**Tax Rates Depend on Type of Income**

The corporate executive earns over three times the assistant district attorney’s salary, but both pay the same percent of income to taxes. Why? The assistant district attorney’s entire salary is subject to the flat-rate payroll tax as well as a progressive income tax. The corporate executive only pays payroll taxes up to $113,700, so he pays a lower tax rate on the last $65,000 of his earnings. The investor, who made her money on sales of investments, pays a flat capital gains tax of 15% on all income. She doesn’t pay payroll taxes because none of her earnings come from wages or salary.

**Investigate Further**

**Concept** How are you taxed? Wage and salary income are progressively taxed. As your income grows, your income tax rate grows too. However, income earned from selling investments is not taxed like ordinary income. It is taxed at a flat rate of 15%.

**Connection** How does where you earn your money affect the taxes you pay? Ordinary income is taxed higher than capital gains, so a person who makes more than $35,350 from wages will pay a higher tax rate than someone who makes money from selling an investment. The argument against taxing investment income more heavily is that the money that bought the asset was previously taxed as income.

**Cause** Do those who earn more really pay more in taxes? While people do pay higher taxes on additional dollars earned, payroll taxes only apply to wages up to $113,700. Therefore, those who earn over $113,700 may pay a lower combined payroll plus income tax rate. Those who earn income from capital gains pay a low flat rate of 15%, regardless of how much more they make.
range from 10 percent to 35 percent. In 2009, 42 percent of those filing income tax returns paid no income tax at all. As a result, the 1 percent of taxpayers with the highest taxable incomes pay about 37 percent of all the federal income taxes, more than the bottom 95 percent of tax filers. The top 10 percent pay more than 70 percent of all federal income taxes, while those in the bottom 50 percent of taxable income pay about 2 percent. Some people feel that a progressive tax is the fairest type of taxation because those who have the most pay higher rates. Others, however, have proposed a “flat” tax, with everyone taxed at the same rate; still others have suggested that we abandon the income tax and rely on a national sales tax, much like the sales taxes in most states. It is easy to criticize the income tax but difficult to obtain agreement on a replacement.

**Why It Matters to You**

**The Progressive Income Tax**

The income tax is progressive in that those with higher incomes typically pay a higher rate of taxes. Most people would probably find it unfair to pay taxes at the same rate as a millionaire. If a uniform tax rate were set at a level that everyone could afford to pay, it would have to be set very low. In this case there may not be sufficient revenues to fund critical government programs.

Corporations, like individuals, pay income taxes. Although corporate taxes once yielded more revenues than individual income taxes, this has not been true since 1943.
In 2012, corporate taxes yielded about 10 cents of every federal revenue dollar, compared with 47 cents from individual income taxes.6

Social Insurance Taxes

Both employers and employees pay Social Security and Medicare taxes. Money for these social insurance taxes is deducted from employees’ paychecks and matched by their employers. Unlike other taxes, these payments are earmarked for a specific purpose: the Social Security trust funds, which pay benefits to the elderly, the disabled, and the widowed and help support state unemployment programs; and the Medicare trust funds, which pay for medical care for seniors. In 2012, employers and employees each paid a Social Security tax equal to 6.2 percent of the first $110,100 of earnings, and for Medicare they paid another 1.45 percent on all earnings.

As presidents and Congress have cut income taxes and as the large baby boomer generation has hit its peak work years, social insurance taxes have grown faster than any other source of federal revenue. In 1957, these taxes made up a mere 12 percent of federal revenues; today they account for more than a third.

Borrowing

As we have noted, tax revenues normally do not cover the federal government's expenditures. Like families and firms, the federal government may borrow money to make ends meet. When families and firms need money, they go to their neighborhood bank, savings and loan association, or moneylender. When the federal government wants to borrow money, the Treasury Department sells bonds, guaranteeing to pay interest to bondholders. Citizens, corporations, mutual funds, other financial institutions, and even foreign governments may purchase these bonds. In addition, the federal government has intragovernmental debt on its books. This debt is what the Treasury owes various Social Security and other trust funds because the government uses for its general purposes revenue collected from social insurance taxes designated to fund Social Security and other specific programs. Most government borrowing is not for capital needs (such as buildings and machinery) but for day-to-day expenses—farm subsidies, military pensions, aid to states and cities, and so on.

Today the national debt—all the money borrowed by the federal government over the years that is still outstanding—is about $17.5 trillion (see Figure 13.3). Six percent of all federal expenditures go to paying interest on this debt. Borrowing money shifts the burden to future taxpayers, who will have to service the debt, with every dollar the government borrows costing taxpayers many more dollars in interest. Dollars spent servicing the debt cannot be spent on health care, education, or infrastructure. Paying the interest on the debt is not optional.

Many economists and policymakers are concerned about the national debt. Some believe that government borrowing may crowd out private borrowers, both individuals and businesses, from the loan marketplace. Over the past 70 years, a substantial percentage of all the net private savings in the country have gone to the federal government. Most economists believe that when the economy is strong the government's competing to borrow money may lead to increased interest rates, making it more difficult, for example, for businesses to invest in capital expenditures (such as new plants and equipment) that produce economic growth, and raising the costs to individuals of financing homes or credit card purchases. Large deficits also make the American government dependent on foreign investors, including other governments, to fund its debt—not a favorable position for a superpower. Foreign investors currently hold a majority of the federal government’s public debt. If they stop lending us money, perhaps to gain leverage in foreign policy, interest rates would rise and the economy would be depressed.

In bad economic times, when tax revenues decrease because fewer people are working, deficits are likely to increase. While revenues diminish, the demands for unemployment insurance, food stamps, and other components of the social safety net increase. The president and Congress may also decide to cut taxes to stimulate the
They may choose to spend money to create jobs, both of which occurred in 2009. All such decisions add to the deficit and increase the need to borrow.

The need to borrow, in turn, creates an issue in Congress, which legislates a limit on how much the federal government may borrow, often referred to as the debt ceiling. As we saw in the opener to this chapter, when Congress is faced with increasing the debt ceiling, the opposition party has an opportunity to criticize the president and use the need to borrow as leverage to extract concessions on other policies.

Sometimes politicians complain that, since families and businesses and even state and local governments balance their budgets, the federal government ought to be able to do the same. Such statements reflect a fundamental misunderstanding of budgeting, however. Most families do not balance their budgets. They use credit cards to give themselves instant loans, and they go to the bank to borrow money for major purchases such as automobiles and, most important, homes, with mortgages on homes being debts they carry for years. And state and local governments and private businesses differ from the federal government in having a capital budget, a budget for expenditures on items that will serve for the long term, such as equipment, roads, and buildings. Thus, for example, when airlines purchase new airplanes or when school districts build new schools, they do not pay for them out of current income. Instead, they borrow money, often through issuing bonds, and these debts do not count against the operating budget. In contrast, when the federal government purchases new jets for the air force or new buildings for medical research, these purchases are counted as current expenditures and run up the deficit.

![Figure 13.3 Total National Debt](source: Budget of the United States Government, Fiscal Year 2013: Historical Tables (Washington, DC: U.S. Government Printing Office, 2012), Table 7.1.)
Despite its borrowing, most of the government’s expenditures are still paid by taxes. Few government policies provoke more heated discussion than policy related to taxation.

**Taxes and Public Policy**

It’s not surprising that tax policy provokes heated discussion—no other area of government policy affects as many Americans. In addition to raising revenues to finance its services, the government can use taxes to make citizens’ incomes more-nearly or less-nearly equal, to encourage or discourage growth in the economy, and to promote specific interests.

**TAX EXPENDITURES** The 1974 Budget Act defines *tax expenditures* as “revenue losses attributable to provisions of the federal tax laws which allow a special exemption, exclusion, or deduction.” These expenditures represent the difference between what the government actually collects in taxes and what it would have collected without special exemptions. Thus, tax expenditures amount to subsidies for different activities. Here are some examples:

- The government permits taxpayers to deduct their contributions to charities from their income, thus encouraging charitable contributions and in effect giving charities a subsidy.
- The government permits homeowners to deduct from their income the billions of dollars they collectively pay each year in mortgage interest, encouraging home ownership and in effect giving homeowners a subsidy.
- The government allows businesses that invest in new plants and equipment to deduct these expenses from their taxes at a more rapid rate than they deduct other expenses, encouraging investment in new plants and equipment. In effect, the owners of these businesses, including stockholders, get a subsidy that is unavailable to owners of other businesses.

Tax expenditures are among the most obscure aspects of a generally obscure budgetary process, partly because they receive no regular review by Congress—a great advantage for those who benefit from a tax expenditure. Although few ordinary citizens seem to realize it, the magnitude of tax expenditures is enormous, as you can see in Table 13.1.

On the whole, tax expenditures benefit middle- and upper-income taxpayers and corporations. Poorer people, who tend not to own homes, can take little advantage of provisions that permit homeowners to deduct mortgage interest payments. Likewise, poorer people in general can take less advantage of the exclusion of taxes on contributions to individual retirement accounts or interest on state and local bonds. Students, however, are an exception to this generalization (see “Young People and Politics: Education and the Federal Tax Code”).

To some, tax expenditures such as business-related deductions, tuition tax credits, and lower tax rates on profits on stock and real estate (“capital gains”) are “loopholes.” To others, they are public policy choices that support a social activity worth encouraging through tax subsidies. Sometimes, deductions can be abused. One billionaire made a charitable donation in her will of as much as $8 billion for the care and welfare of dogs. The estate tax on the $8 billion would have been $3.6 billion, but because she took a charitable deduction, her estate paid no tax. Thus, her deduction constituted a subsidy from the federal government,
Tax expenditures are essentially money that government could collect but does not because they are exempted from taxation. The Office of Management and Budget estimated that the total tax expenditures in 2013 would be about $1 trillion—an amount equal to more than one-third of the total federal receipts. Individuals receive most of the tax expenditures, and corporations get the rest. Here are some of the largest tax expenditures and their cost to the treasury:

<table>
<thead>
<tr>
<th>Tax Expenditure</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exclusion of employer contributions to health care and insurance</td>
<td>$181 billion</td>
</tr>
<tr>
<td>Deduction of mortgage interest on owner-occupied houses</td>
<td>$101 billion</td>
</tr>
<tr>
<td>Exclusion of IRA and 401(k) retirement account contributions and earnings</td>
<td>$90 billion</td>
</tr>
<tr>
<td>Deductions for state and local taxes</td>
<td>$67 billion</td>
</tr>
<tr>
<td>Capital gains (nonhome, agriculture, or mining)</td>
<td>$62 billion</td>
</tr>
<tr>
<td>Exclusion of company contributions to pension funds</td>
<td>$52 billion</td>
</tr>
<tr>
<td>Exclusion of net imputed rental income</td>
<td>$51 billion</td>
</tr>
<tr>
<td>Deductions for charitable contributions</td>
<td>$49 billion</td>
</tr>
<tr>
<td>Deferral of income from controlled foreign corporations</td>
<td>$42 billion</td>
</tr>
<tr>
<td>Exclusion of Social Security and disability benefits</td>
<td>$38 billion</td>
</tr>
<tr>
<td>Exclusion for interest earned on state and local government bonds</td>
<td>$36 billion</td>
</tr>
<tr>
<td>Exclusion of capital gains on home sales</td>
<td>$23 billion</td>
</tr>
<tr>
<td>Exclusion of interest on life insurance savings</td>
<td>$25 billion</td>
</tr>
<tr>
<td>Capital gains at death</td>
<td>$24 billion</td>
</tr>
<tr>
<td>Treatment of qualified dividends</td>
<td>$22 billion</td>
</tr>
<tr>
<td>Child credit</td>
<td>$18 billion</td>
</tr>
</tbody>
</table>


Government could lower overall tax rates by taxing things it does not currently tax, such as Social Security benefits, pension fund contributions, charitable contributions, and the like. You can easily figure out, though, that these are not popular items to tax, and doing so would evoke strong opposition from powerful interest groups.

which means from all taxpayers. The money the treasury lost was approximately half what the government spends in a year on Head Start, a program that benefits 900,000 children.7

Regardless of how they are viewed, tax expenditures amount to the same thing: revenues that the government loses because certain items are exempted from normal taxation or are taxed at lower rates. If there were no tax expenditures, the federal government’s total tax receipts in 2013 would be increased by about one-third.

**TAX REDUCTION** Perennially popular with the public, tax reduction tends to have different consequences for different groups. Early in his administration, President Reagan proposed a massive tax-cut bill, which Congress obligingly passed in July 1981. As a result of this legislation, the federal tax bills of Americans were 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. With the indexing of taxes, beginning in 1985, inflation could no longer push income into higher brackets, and, since people in higher brackets pay a higher percentage of their incomes in taxes, tax revenues were less than they would have been without indexing.

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 because of separate increases in social insurance and excise taxes (which fall disproportionately on those with lower incomes). Moreover, the massive deficits that began in the 1980s were at least in part a consequence of the 1981 tax cuts, as government continued to spend while reducing its revenues.
Young People & Politics

Education and the Federal Tax Code

If you think that the federal income tax is something that does not affect you much as a student, you are wrong. For example, if you are footing the costs of higher education, education tax credits can help offset these costs. But the rules for obtaining a tax credit are far from simple.

First, there is the American Opportunity Credit, which applies only for the first four years of postsecondary education, whether in a college or a vocational school. The American Opportunity Credit can be worth up to $2,500 per eligible student, per year to a family. It does not apply for education beyond these four years, however, and you must be enrolled at least half time to receive the credit. Up to $1,000 of the credit is refundable, meaning you can get it even if you owe no tax.

The Lifetime Learning Credit applies to undergraduate, graduate, and professional degree courses, including instruction to acquire or improve your job skills. If you qualify, your credit equals 20 percent of the first $10,000 of postsecondary tuition and fees you pay during the year for all eligible students in a family, for a maximum credit of $2,000 per tax return.

The American Opportunity Credit and the Lifetime Learning Credit are education credits you can subtract in full from your federal income tax, not just deduct from your taxable income.

Naturally, there are restrictions on claiming these credits. To qualify for either credit, you must pay postsecondary tuition and fees for yourself, your spouse, or your dependent. The credit may be claimed by the parent or the student but not by both. However, if the student was claimed as a dependent, the student cannot claim the credit. Moreover, you cannot claim both the American Opportunity Credit and the Lifetime Learning Credit for the same student (such as yourself) in the same year. Parents with children or attending school themselves can claim more than one American Opportunity Credit but only one Lifetime Learning Credit.

These credits are not for everyone. The American Opportunity Credit is gradually reduced for those with modified adjusted gross income (MAGI) between $80,000 and $90,000 ($160,000 and $180,000 for married filing jointly) and eliminated completely for those with MAGI exceeding those amounts. The comparable figures for the Lifetime Learning Credit are $50,000 and $60,000 for individuals and $100,000 and $120,000 for married filing jointly. If a taxpayer is married, the credit may be claimed only on a joint return. In addition, the American Opportunity Credit is not allowed for a student convicted of a felony drug offense while in school.

A taxpayer may also take a deduction for up to $4,000 of higher-education expenses, but only when opting not to use the education credits. A different deduction lets taxpayers recoup some of the cost of student loan interests. It and other deductions and credits also begin to diminish as taxpayers earn more.

Welcome to the federal tax code. As you can see, Congress has chosen to give students benefits in the tax code, but it has also been concerned that people do not abuse these benefits. Thus, even students have to face the intricacies of the federal tax code and work out the myriad tax credits and deductions that help defray the costs of a college education. In the end, however, most people agree that it is worth the effort.

CRITICAL THINKING QUESTIONS

1. Why doesn’t Congress simply appropriate money for students and send them a check instead of relying on the tax code?
2. What are the obstacles to simplifying the tax code?
How Big Is the Tax Burden?

Americans commonly complain that taxes are too high. Yet the figures in the graph show that the governments in the United States (national, state, and local) tax a smaller percentage of the resources of the country than do those in almost all other democracies with developed economies. Looked at in this perspective, the tax burden in the United States is rather modest. Sweden and Denmark, at the other extreme, take nearly half the wealth of the country in taxes each year.

**CRITICAL THINKING QUESTIONS**
1. What is the appropriate level of taxation?
2. Is it possible to answer such a question in the abstract, without reference to the services we want from government?

![Tax Burden Graph]

**SOURCE:** Organization for Economic Cooperation and Development 2012. Data are for 2010.

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**Federal Expenditures**

Analyze federal expenditures and the growth of the budget.

In 1932, when President Franklin D. Roosevelt took office in the midst of the Great Depression, the federal government was spending just over $3 billion a year. Today, the federal government spends that much in a single morning. Program costs once measured in the millions are now measured in billions. You can see in Figure 13.4 how the federal budget has grown in actual dollars in recent decades and how the various categories of expenditures have grown.

Figure 13.4 makes two interesting points. First, expenditures keep rising (although the rise would not look so steep if we controlled for the changes in the value of the dollar). Second, the policies and programs on which the government spends money change over time. This section explores three important questions: Why are government budgets so big? Where does the money go? Why is it difficult to control federal expenditures?
Big Governments, Big Budgets

One answer to the question of why budgets are so large is simple: Big budgets are necessary to pay for big governments. Among the most important changes of the twentieth century was the rise of large governments. As in other Western nations, the growth of government in the United States has been dramatic. American governments—national, state, and local—spend an amount equal to one-third of the gross domestic product (GDP). The national government’s expenditures alone currently represent about one-fourth of the GDP.

No one knows for sure exactly why government has grown so rapidly in all the Western democracies. William Berry and David Lowery found that the public sector expands principally in response to the public’s preferences and changes in economic and social conditions, such as economic downturns, urbanization, or pollution, that affect the public’s level of demand for government activity. This is why the rise of big government has been strongly resistant to reversal: citizens like government services. Even Ronald Reagan, a strong leader with an antigovernment orientation, succeeded only in slowing the growth of government, not in actually trimming its size. When he left office, the federal government employed more people and spent more money than when he was inaugurated.

Two developments associated with government growth in America are the rise of the national security state and the rise of the social service state.

The Rise of the National Security State

Before World War II, the United States had customarily disbanded a large part of its military forces at the end of a war. After World War II, however, the Cold War with the Soviet Union resulted in the growth of a permanent military establishment and
increased acquisition of expensive military technology. Fueling this military machine greatly increased the cost of government. It was President Eisenhower, a five-star general, who coined the phrase military-industrial complex to characterize—and warn against—the close relationship between the military hierarchy and the defense industry that supplies its hardware needs.

In the 1950s and early 1960s, spending for past and present wars amounted to more than half the federal budget. The Department of Defense, in other words, received the majority of federal dollars. A common liberal complaint was that government was shortchanging the poor while lining the pockets of defense contractors. The situation soon changed, however. From the late 1960s through the 1970s, defense expenditures measured in constant dollars (dollars adjusted for inflation) crept downward (see Figure 13.5); meanwhile, as we shall see later, social welfare expenditures were rapidly increasing.

At President Reagan’s urging, Congress increased the defense budget substantially, mostly during his first term. Although in the 1990s defense expenditures decreased in response to the end of the Cold War and reduced tensions in Europe, they increased again following the terrorist attacks of September 11th, 2001, and especially with the war in Iraq, substantially exceeding Cold War expenditures. Nevertheless, the budget of the Department of Defense, once the driving force in the expansion of the federal budget, now constitutes only about one-fifth of all federal expenditure.

Payrolls and pensions for the more than 7 million persons who work for the Pentagon, serve in the reserves, or receive military retirement pay, veterans’ pensions, or disability compensation constitute a large component of the defense budget. So do the research, development, and procurement (purchasing) of military hardware. The costs of procurement are high, and advanced technology makes any weapon, fighter plane, or component more

**FIGURE 13.5 TRENDS IN NATIONAL DEFENSE SPENDING**

Defense expenditures increased rapidly during the Reagan administration and declined with the end of the Cold War. They increased again after the September 11th, 2001, terrorist attacks and the invasion of Iraq in 2003.

![Graph showing trends in national defense spending](image-url)
The high tech F-117 stealth fighter can fly undetected by radar. It is very expensive, however, costing more than $110 million per plane. The cost of such weapons systems led to substantial defense budget increases in the 1980s and contributes to our annual deficits today.

expensive than its predecessors. Moreover, cost overruns are common. The American fleet of stealth bombers cost several times the original estimate—over $2 billion each.

The Rise of the Social Service State

The biggest slice of the budget pie, once reserved for defense, now belongs to income security expenditures, a bundle of policies extending direct and indirect aid to the elderly, the poor, and the needy. In 1935, during the Great Depression and the administration of President Franklin D. Roosevelt, Congress passed the Social Security Act. The act was intended to provide a minimal level of sustenance to older Americans, saving them from poverty. In January 1940, the treasurer of the United States sent the nation's first Social Security check to Ida Fuller of Brattleboro, Vermont—a payment of $22.54 for the month. In 2012, the average check for retired workers was $1,217 a month.

Over the years, Social Security has undergone various expansions. In the 1950s, disability insurance became a part of the Social Security program; thus, workers who were disabled could also collect benefits. In 1965, as part of President Lyndon Johnson's Great Society programs, Congress expanded the system to include Medicare, which provides both hospital and physician coverage to the elderly. Congress added a prescription drug benefit to Medicare in 2003. Today, about 56 million Americans receive payments from the Social Security system each month.

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. Today, however, this intergenerational relationship is threatened by demographic and economic realities. Because of increased life expectancy and lower birthrates, the percentage of older people in the population has been increasing and there are proportionately fewer working members to support proportionately more retirees. In 1940, the entire Social Security system was financed with a 3 percent tax on payrolls, as there were approximately 50 workers to support each Social Security beneficiary. In 1990, with only about 3 workers supporting each beneficiary, the tax, including the Medicare tax, exceeded 15 percent. By the year 2055, when today's college students will be getting their Social Security checks, only about 2 workers will be supporting each beneficiary.

Not surprisingly, by the early 1980s the Social Security program faced a problem. In scholar Paul Light's candid phrasing, “It was going broke fast.” Congress responded by increasing social insurance taxes—hence the 15 percent rate—so that more would

Social Security Act
A 1935 law intended to provide a minimal level of sustenance to older Americans and thus save them from poverty.

Medicare
A program added to the Social Security system in 1965 that provides health insurance for the elderly, covering hospitalization, doctor fees, and other health expenses.
continue to come into the Social Security Trust Fund than would be being spent. The goal was to create a surplus to help finance payments when the baby boomers retired.

In 1999, with a budget surplus having materialized, President Clinton proposed allocating much of the surplus to Social Security and investing some of the Social Security funds 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. George W. Bush faced similar resistance to his proposals for investing part of individuals’ social insurance tax payments in the stock market. Nevertheless, the fiscal clock keeps ticking, and it will not be long before Social Security’s costs will begin to exceed its income from tax collections. Medicare is in even greater fiscal jeopardy; its costs will exceed its income even sooner, and the trust fund for the hospital insurance part of Medicare will be depleted by the end of the next decade. In short, financing Social Security and Medicare remains a great challenge.

Social Security is the largest social policy of the federal government (Social Security and Medicare account for about one-third of the federal budget). However, in the decades since the enactment of the Great Society programs, increasing expenditures in health, education, job training, and many other areas have also contributed significantly to the rise of the social service state and to America’s growing budget. No brief list can do justice to the range of government social programs, which provide funds for the elderly, businesses run by minority entrepreneurs, consumer education, drug rehabilitation, environmental education, food subsidies for the poor, guaranteed loans to college students, housing allowances for the poor, inspections of hospitals, and so on. Liberals tend to favor these programs to assist individuals and groups in society, conservatives to see them as a drain. In any event, they cost money—a lot of it (see Figure 13.6).

The rise of the social service state and the rise of the national security state are linked with much of American governmental growth since the end of World War II. Although American social services expanded less than similar services in Western European nations, for most of the postwar period American military expenditures
expanded more rapidly than in other countries. Together, these factors help explain why the budget is the center of attention in American government today. Why is it so difficult to bring this increasing federal budget under control?

**Incrementalism**

Sometimes political scientists use the term *incrementalism* to describe the spending and appropriations process. *Incrementalism* means simply that the best predictor of this year's budget is last year's budget, plus a little bit more (an increment). According to Aaron Wildavsky, "Most of the budget is a product of previous decisions." Incremental budgeting has several features:

- Policymakers focus little attention on the budgetary base—the amounts agencies have had over the previous years.
- Usually, agencies can safely assume they will get at least the budget they had the previous year.
- Most of the debate and most of the attention of the budgetary process focus on the proposed increment.
- The budget for any given agency tends to grow by a little bit every year.

This picture of the federal budget is one of constant growth. Expenditures mandated by an existing law or obligation (such as Social Security) are particularly likely to follow a neat pattern of increase. There are exceptions, however. Paul Schulman
observed that budgets for the National Aeronautics and Space Administration (NASA) were hardly incremental; they initially rose as fast as a NASA rocket but later plummeted to a fraction of their former size. Incrementalism may be a general tendency of the budget, but it does not fully describe all budgetary politics.

Because so much of the budgetary process looks incremental, there is a never-ending call for budgetary reform. The idea is always to make it easier to compare programs so that the “most deserving” ones can be supported and the “wasteful” ones cut. Nevertheless, the budgetary process, like all aspects of government, is affected by groups with interests in taxes and expenditures. These interests make it difficult to pare the budget. In addition, the budget is too big to review from scratch each year, even for the most systematic and conscientious members of Congress. The federal budget is a massive document, detailing annual outlays larger than the entire economies of all but the largest countries. Although efforts to check incrementalism have failed, so have attempts to reduce programs whose costs are rising rapidly. Much of the federal budget has become “uncontrollable.”

Uncontrollable Expenditures

At first glance, it is hard to see how one could call the federal budget uncontrollable. After all, Congress has the constitutional authority to budget—to add or subtract money from an agency. Indeed, all recent presidents have proposed, and Congress has adopted, some proposals to cut the growth of government spending. How, then, can one speak of an uncontrollable budget?

The problem is that much of the government’s budget does not fit what we might call the “allowance model” of the budget, in which Congress allocates a lump sum—say, $5.2 billion—to an agency and instructs it to meet its expenses throughout the fiscal year. Indeed, about two-thirds of the government’s budget does not work this way. Uncontrollable expenditures result from policies that make some group automatically eligible for some benefits, such as Social Security or veterans’ benefits, or from previous obligations of the government, such as interest on the national debt. The government does not decide each year, for example, whether it will pay the interest on the debt or send checks to Social Security recipients.

Many expenditures are uncontrollable because Congress has, in effect, obligated itself to pay X level of benefits to Y number of recipients. Congress writes the eligibility rules; the number of people eligible and their level of guaranteed benefits determine how much Congress must spend. Such policies are called entitlements, and they range from agricultural subsidies to veterans’ aid. Each year, Congress’s bill for these policies is a straightforward function of the X level of benefits times the Y beneficiaries. The biggest uncontrollable expenditure of all is the Social Security system, including Medicare, which in 2013 cost about $1.4 trillion dollars for the year. Individuals who are eligible automatically receive Social Security payments. Of course, Congress can, if it desires, cut Social Security benefits or tighten eligibility restrictions. Doing so, however, would provoke a monumental outcry from millions of elderly voters.

Why It Matters to You

“Uncontrollable” Spending

Much of the federal budget is “uncontrollable” in the sense that it does not come up for reauthorization on a regular basis. If entitlement programs were subject to the same annual authorizations that most other programs receive, they would probably have less secure funding. We might spend less money on them and more on other services. This flexibility might please some people, especially those not receiving entitlement benefits, but those receiving Social Security and Medicare payments, for example, prefer more reliable funding.
The Budgetary Process

13.3 Outline the budgetary process and explain the role that politics plays.

The distribution of the government’s budget is the outcome of a very long, complex process that starts and ends with the president and has Congress squarely in the middle. 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. Nested inside the tax and expenditures figures are thousands of policy choices, each prompting plenty of politics.

Budgetary Politics

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.

STAKES AND STRATEGIES Every political actor has a stake in the budget. Mayors want to keep federal grants-in-aid flowing in, defense contractors like a big defense budget, and scientists push for a large budget for the National Science Foundation. Agencies within the government also work to protect their interests. Individual members of Congress act as policy entrepreneurs for new ideas and support constituent benefits, both of which cost money. Presidents try to use budgets to manage the economy and leave their imprint on Congress’s policy agenda.

Think of budgetary politics as resembling a game in which players adopt various strategies. Agencies pushing their budgetary needs to Congress, for instance, try to link the benefits of their program to a senator’s or representative’s electoral needs. Often, agencies pad their requests a bit, hoping that the almost inevitable cuts will be bearable. President John Adams justified this now common budgetary gambit by saying to his cabinet, “If some superfluity not be given Congress to lop off, they will cut into the very flesh of the public necessities.” Interest groups try to identify their favorite programs with the national interest. Mayors tell Congress not how much they like to receive federal aid but how crucial cities are to national survival. Farmers stress not that they like federal...
aid but that feeding a hungry nation and world is the main task of American agriculture. In the game of budgetary politics, there are plenty of players, all with their own strategies.

**THE PLAYERS** Deciding how to spend trillions of dollars is a process likely to attract plenty of interest—from those formally required to participate in the process as well as those whose stakes are too big to ignore it. Here are the main actors in the budgetary process (see Figure 13.7):

- **Interest groups.** No lobbyist worth his or her pay would ignore the budget. Lobbying for a group’s needs takes place in the agencies, with presidents (if the lobbyist has access to them), and before congressional committees. A smart agency head will be sure to involve interest groups in defending the agency’s budget request.

- **Agencies.** Convinced of the importance of their mission, the heads of agencies almost always push for higher budget requests. They send their requests to the Office of Management and Budget and later get a chance to present themselves before congressional committees as well.\(^\text{18}\)

- **The Office of Management and Budget (OMB).** The OMB is responsible to the president, its boss, but no president has the time to understand and make decisions about the billions of dollars in the budget—parceled out to hundreds of agencies, some of which the chief executive knows little or nothing about. The director and staff of the OMB have considerable independence from the president, which makes them major actors in the budget process.

- **The president.** The president makes final decisions on what to propose to Congress. In early February, the president unveils the proposed budget; the president then spends many a day trying to ensure that Congress will stick close to the recommendations.

- **Tax committees in Congress.** The government cannot spend money it does not have (or cannot borrow). The House Ways and Means Committee and the Senate Finance Committee write the tax codes, subject to the approval of Congress as a whole.

- **Budget Committees and the Congressional Budget Office.** The Congressional Budget Office, which advises Congress on the probable consequences of its
budget decisions, forecasts revenues, and is a counterweight to the president’s OMB, and its parent committees, the Senate and House Budget Committees, set the parameters of the congressional budget process through examining revenues and expenditures in the aggregate and proposing resolutions that Congress may pass to bind itself within certain limits.

- **Authorization committees.** Committees of Congress, ranging from Agriculture to Veterans Affairs, propose new laws, which require new expenditures, for passage by the full Congress. Committee members may use hearings either to publicize the accomplishments of their pet agencies, thus supporting larger budgets for them, or to question agency heads about waste or overspending.

- **Appropriations Committees and their subcommittees.** The Appropriations Committees in each house make recommendations to the full Congress on who gets what. These committees take new or old policies coming from the subject-matter committees and decide how much to spend. Appropriations subcommittees hold hearings on specific agency requests.

- **Congress as a whole.** The Constitution requires that Congress as a whole approve taxes and appropriations, and senators and representatives have a strong interest in delivering federal dollars to their constituents. A dam here, a military base there, and a job-training program somewhere else—these are items that members look for in the budget.

- **The Government Accountability Office (GAO).** Congress’s role does not end when it has passed the budget. The GAO works as Congress’s eyes and ears, auditing, monitoring, and evaluating what agencies are doing with their budgets.
Budgeting involves a cast of thousands. However, their roles are carefully scripted, and their time on stage is limited because budget making is both repetitive (the same things must be done each year) and sequential (actions must occur in the proper order and more or less on time). The budget cycle begins in the executive branch a full 19 months before the fiscal year begins.

**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 Congress. Presidents played a limited role in proposing the budget; sometimes they played no role at all. Agencies basically peddled their own budget requests to Congress. In 1921 Congress, concerned about retiring the debt the country had accumulated during World War I, passed the Budget and Accounting Act, which required presidents to propose an executive budget to Congress, and created the Bureau of the Budget to help them. In the 1970s, President Nixon reorganized the Bureau of the Budget and gave it a new name, the Office of Management and Budget (OMB). The OMB, whose director is a presidential appointee requiring Senate approval, now supervises preparation of the federal budget and advises the president on budgetary matters.

It takes a long time to prepare a presidential budget. By law, the president must submit a budget by the first Monday in February. The process begins almost a year before (see Figure 13.8), when the OMB communicates with each agency, sounding out their requests and issuing tentative guidelines. By the summer, the president has decided on overall policies and priorities and has established guidelines and general targets for the budget. These are then communicated to the agencies.

The budget makers now get down to details. During the fall, the agencies submit formal, detailed estimates for their budgets, zealously pushing their needs to the OMB. Budget analysts at the OMB pare, investigate, weigh, and meet on agency requests. Often, the agency heads ask for hefty increases; sometimes they threaten to go directly to the president if their priorities are not met by the OMB. As the Washington winter sets in, the budget document is readied for final presidential approval. There is usually some last-minute juggling—agencies may be asked to change their estimates to conform with the president’s decisions, or cabinet members may make a last-ditch effort to bypass the OMB and convince the president to increase their funds. With only days—or hours—left before the submission deadline, the budget document is rushed to the printers. Then the president sends it to Capitol Hill. The next steps are up to Congress.

**Congress and the Budget**

According to the Constitution, Congress must authorize all federal appropriations. Thus, Congress always holds one extremely powerful trump card in national policymaking: the power of the purse. This year, Congress will decide how to spend nearly $4 trillion.

An important part of the process of establishing a budget is setting limits on expenditures on the basis of revenue projections. Thus, in April of each year, both houses are expected to agree on a **budget resolution**—thereby binding Congress to a total expenditure level that should form the bottom line of all federal spending for all programs. Only then is Congress supposed to begin acting on the individual appropriations. 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. These changes are legislated in two separate ways.

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. Usually reconciliation comes near the end of the budgetary process,
although occasionally the president and Congress have sought to use it in place of the regular lawmaking process.

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 or changes a government program. Authorizations specify program goals and, for discretionary programs, set the maximum amount that they may spend. For entitlement programs, an authorization sets or changes eligibility standards and benefits that must be provided by the
Authorizations may be for one year, or they may run for a specified or indefinite number of years.

Congress must pass an additional measure, termed an **appropriations bill**, to fund programs established by authorization bills. For example, if Congress authorizes expenditures on building highways, Congress must pass another bill to appropriate the funds to build them. Appropriations bills usually fund programs for one year and cannot exceed the amount of money authorized for a program; in fact, they may appropriate less than was authorized.

Despite the elaborate rules for budgeting, Congress has often failed to meet its own budgetary timetable. There has been too much conflict over the budget for the system to work according to design. 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. Sometimes, as in 1986, 1987, and 2007, appropriations bills have been lumped together in one enormous and complex bill (rather than in the 13 separate appropriations bills covering various components of the government that are supposed to pass), precluding adequate review by individual members of Congress and forcing the president either to accept unwanted provisions or to veto the funding for the entire government. These omnibus bills may also become magnets for unrelated and controversial pieces of legislation that could not pass on their own.

The problem is not so much the procedure as disagreement over how scarce resources should be spent. In the meantime, budget deficits continue (see Figure 13.9) and are a major source of conflict (see “You Are the Policymaker: Balancing the Budget”).

**Figure 13.9** FLUCTUATING DEFICITS

Annual federal deficits mushroomed during the Reagan administration (1981–1988), despite the president’s oft-repeated commitment to a balanced budget. The deficit disappeared during the Clinton administration, and the nation began running a surplus in fiscal year 1998. By 2002, however, the United States was back in the red. Annual deficits grew even larger beginning in 2009 as the government dealt with the financial crisis that hit the United States in 2008.

You Are the Policymaker

Balancing the Budget

You have seen that the national government is running large budget deficits and that the national debt continues to grow. Here is the situation you would face as a budget decision maker: According to the OMB, in fiscal year 2012 the national government will have revenues (including Social Security taxes) of about $2.47 trillion. Mandatory expenditures for domestic policy (entitlements such as Social Security and other prior obligations) total about $2.25 trillion. Nondiscretionary payments on the national debt will cost another $225 billion. National defense will cost an additional $716 billion. That leaves you with a deficit of $726 billion. Moreover, you have yet to spend on discretionary domestic policy programs. The president’s proposals for these discretionary programs will take $610 billion. If you spend this amount, you will run a deficit of $1.95 trillion—and you will not even have had a chance to fund any significant new programs. Moreover, you may have to ask Congress for additional funds to pay for a military action somewhere in the world.

What do you think? Would you drastically reduce defense expenditures? Or would you leave them alone and close down substantial portions of the rest of the government, such as programs for space and science, transportation and public works, economic subsidies and development, education and social services, health research and services, or law enforcement and other core functions of government—programs that have broad public support? Perhaps you would show great political courage and seek a tax increase to pay for these programs.

Understanding Budgeting

13.4 Assess the impact of democratic politics on budgetary growth and of the budget on scope of government.

Citizens and politicians alike fret about whether government is too big. There is agreement on the centrality of budgeting to modern government and politics, however.

Democracy and Budgeting

Almost all democracies have seen a substantial growth in government in the twentieth century. Economists Allan Meltzer and Scott Richard have argued that government grows in a democracy because of the equality of suffrage. Each voter has one vote, so those with less income have considerable clout. Parties must appeal to a majority of the voters. Hence, claim Meltzer and Richard, less-well-off voters will always use their votes to support public policies that redistribute benefits from the rich to the less-well-off. Many politicians willingly cooperate with the desire of voters to expand their benefits because voters return the favor at election time. Not surprisingly, the most rapidly growing areas of expenditures are Social Security, Medicaid, Medicare, and social welfare programs, which benefit the working and middle classes more than the rich.

Many believe that elites, particularly corporate elites, oppose big government. However, large banks and financial institutions and corporations such as Lockheed, United Airlines, and General Motors 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. A $175 billion procurement and
research-and-development budget at the Department of Defense benefits defense contractors, their workers, and their shareholders.

Low-income and wealthy voters alike have voted for parties and politicians who promised them benefits. Citizens are not helpless victims of big government and its big taxes; they are at least coconspirators. When the air is foul, Americans expect government to help clean it up. When Americans get old, they expect a Social Security check. In a democracy, what people want affects what government does.

Government also grows by responding to groups and their demands. The parade of political action committees is one example of groups asking government for assistance. From agricultural lobbies supporting loans to zoologists pressing for aid from the National Science Foundation, groups seek to expand their favorite part of the budget. They are aided by committees and government agencies that work to fund projects favored by supportive groups.

You have also seen, however, that some politicians compete for votes by promising not to spend money—as was the case with Ronald Reagan and George W. Bush, both elected to the presidency twice, and with the Republicans who took control of Congress in 1995 and 2011. Among democratic nations, the proportionate size of government budgets varies widely, and while no country has a more open political system than the United States, Americans have chosen to tax less and spend less on public services than almost all other democracies with developed economies. Interestingly, within the United States, most of the states with lower average incomes vote for candidates promising the least in the way of government benefits. In short, democracy may encourage government spending, but it does not compel it.

Among the most common criticisms of government is that it fails to balance the budget. Public officials are often criticized for lacking the will to deal with the problem, yet it is not lack of resolve that prevents a solution to enormous budget deficits. Instead,
it is a lack of consensus on policy. Americans want to spend money on programs but not pay taxes, and, being a democracy, this is exactly what the government does. Similarly, voters reward members of Congress for bringing pork barrel projects to their states and districts. The inevitable result is red ink.

**The Budget and the Scope of Government**

Issues regarding the scope of government have pervaded this chapter. The reason is obvious—in many ways, the budget is the scope of government. The bigger the budget, the bigger the government. When the country has seen a need, whether to defend itself or to provide for the elderly, it has found a way to pay for it. Even presidents, such as Ronald Reagan and George W. Bush, who led the fight to cut taxes, also wanted to substantially expand at least part of the government. It may seem, then, that there is no limit to budgetary growth.

The budgetary process can also limit government, however. Because of the emphasis on tax cuts, one could accurately characterize policymaking in the American government since 1980 as the “politics of scarcity”—scarcity of funds, that is. Thus, the budget can be a force for reining in the government as well as for expanding its role. For example, President Bill Clinton came into office hoping to make new investments in education, worker training, and the country’s physical infrastructure, such as roads and bridges, and to expand health care coverage. He soon found, however, that there was no money to fund new programs. Instead, he had to emphasize cutting the budget deficit. Much of the opposition to Barack Obama’s proposal for health care reform was inspired by a fear of increasing the national debt. Thus, America’s large budget deficits have been as much a constraint on government as they have been evidence of a burgeoning public sector.
The personal income tax is the largest source of revenue for the federal government, with social insurance taxes a close second. Other revenue comes from the corporate income tax and excise taxes. Borrowing plays a major role in funding the government, and the national debt has grown rapidly in the past decade, as have government expenditures. Interest on this debt will eat up an increasing portion of future budgets. Tax expenditures represent an enormous drain on revenues but subsidize many popular activities.

Federal Expenditures

Budgets have grown with the rise of the national security state and the social service state. National security and, especially, social services such as Social Security and Medicare, plus interest on the debt, make up most of the budget. Much of the budget represents uncontrollable expenditures, primarily entitlements to payments that the government has committed to make at a certain level and that are difficult to limit. Expenditures for most policies grow incrementally, with each year’s budget building on the previous year’s, and many interests ask Congress and the president to spend more on their favorite policies.

The Budgetary Process

The budgetary process is a long and complex one that involves the president, agencies, Congress as a whole, and many important congressional committees. The president submits the budget to Congress, whose reformed budgetary process has nonetheless not brought spending in line with revenues. Because budgets are central for most policies, politics are pervasive in the budgetary process as players battle over contending interests, ideologies, programs, and agencies.

Understanding Budgeting

Budgets in democracies grow because the public and organized interests demand new and larger public services. However, some politicians compete for votes by promising to limit budgets. Increasing budgets increase the scope of government, but decreases in taxes and increases in debt make it more difficult to add or expand programs.

Learn the Terms

- budget, p. 445
- deficit, p. 445
- expenditures, p. 445
- revenues, p. 445
- income tax, p. 446
- Sixteenth Amendment, p. 446
- national debt, p. 449
- tax expenditures, p. 451
- Social Security Act, p. 457
- Medicare, p. 457
- incrementalism, p. 459
- uncontrollable expenditures, p. 460
- entitlements, p. 460
- House Ways and Means Committee, p. 462
- Senate Finance Committee, p. 462
- Congressional Budget Office, p. 462
- budget resolution, p. 464
- reconciliation, p. 464
- authorization bill, p. 465
- appropriations bill, p. 466
- continuing resolutions, p. 466

Test Yourself

1. Approximately what percentage of federal expenditures goes to paying interest on the national debt?
   a. 1 percent  
   b. 6 percent  
   c. 15 percent  
   d. 23 percent  
   e. 40 percent

2. A flat tax is a type of progressive income tax.
   True________ False_______

3. Taxes on corporate income generate more revenue than individual income taxes.
   True_______ False_______

4. How do tax policies promote the interests of particular groups or encourage specific activities? How do tax expenditures amount to government subsidies for different activities? Give specific examples in your answer.
5. Which of the following makes up the largest slice of the budgetary pie?
   a. defense expenditures  
   b. income security expenditures  
   c. foreign aid expenditures  
   d. domestic policy expenditures other than for income security  
   e. interest expenditures

6. Incrementalism requires budget makers to build the budget anew for each fiscal year.
   True______ False______

7. Federal budgetary expenditures are often deemed uncontrollable. What aspects of the budget contribute to this perception? Are there any ways that you can think of that might lead to greater control of the federal budget?

8. Which of the following statements accurately characterizes the politics of budgeting?
   a. Agencies within the government work to protect their interest over the budget.  
   b. Members of Congress act as policy entrepreneurs to support constituent benefits.  
   c. Presidents try to use budgets to manage the economy.  
   d. State politicians request grants-in-aid to assist local economies.  
   e. All of the above are accurate, as every political actor has a stake in the budget.

9. Congress drafts a budget resolution establishing a total expenditure level before it embarks on making the actual budget.
   True______ False______

10. There are many different players in the national budgetary process. Name three of these players, indicating their role in the process.

11. Which statement is true?
   a. The governments in all democracies have grown substantially in the past century.  
   b. The chief cause of government growth is the imposition of new policies on a resistant public.  
   c. Only liberal interests support government growth.  
   d. Successful politicians inevitably promise to expand public policies.  
   e. The budgetary process cannot succeed in limiting the size of government.

12. What are some of the primary incentives for politicians to advocate a larger federal budget? Would you conclude that democracy itself promotes budgetary growth or can more limited government coincide with democratic values in the United States today? Defend your answer with specific examples.

13. How may the budget constrain the scope of government? Provide specific examples in your answer.

Explore Further

WEB SITES

www.whitehouse.gov/administration/eop/cea/economic-report-of-the-President
The Economic Report of the President.

www.irs.ustreas.gov
The Internal Revenue Service home page, containing a wealth of information about taxes.

www.whitehouse.gov/omb
The Office of Management and Budget home page. Clicking on the current year’s budget takes you to all the current budget documents.

www.cbo.gov
Congressional Budget Office home page, containing budgetary analyses and data.

www.taxpolicycenter.org
A joint venture of the Urban Institute and the Brookings Institution, containing many studies of budgets and taxes.

www.taxfoundation.org
The Tax Foundation site, with a wealth of tax information.

www.concordcoalition.org
The nonpartisan Concord Coalition provides studies of budgetary issues.

www.cbpp.org
The Center on Budget and Policy Priorities focuses on how fiscal policy and public programs affect low- and moderate-income families and individuals.

FURTHER READING


