CHAPTER 14

THE CONGRESS, THE PRESIDENT, AND THE BUDGET:
THE POLITICS OF TAXING AND SPENDING

CHAPTER OUTLINE

I. Politics in Action: The Politics of Budgeting (pp. 441–443)
   A. Central to public policy are the questions of who bears the burdens of paying for government and who receives the benefits.
   B. A budget is a policy document allocating burdens (taxes) and benefits (expenditures).
   C. A budget deficit occurs when expenditures exceed revenues in a fiscal year.

II. Sources of Federal Revenue (pp. 443–450)
   A. Income Tax
      1. Individuals are required to pay the government a portion of the money they earn, called an income tax.
      2. The Sixteenth Amendment permitted Congress to levy an income tax.
   B. Social Insurance Taxes
   C. Borrowing
      1. The federal debt is all of the money borrowed over the years that is still outstanding.
      2. Government borrowing may crowd out private borrowers from the loan marketplace.
      3. The federal government does not have a capital budget.
   D. Taxes and Public Policy
      1. Tax expenditures are revenue losses attributable to provisions of the federal tax laws.
      2. Tax expenditures may be seen as loopholes or choices that support a worthy social activity.
      3. Tax reduction has frequently been called for.
      4. Tax reform has simplified taxes and made them more equitable.

III. Federal Expenditures (pp. 450–457)
   A. Big Governments, Big Budgets
   B. The Rise and Decline of the National Security State
   C. The Rise of the Social Service State
      1. The Social Security Act intended to provide a minimal level of sustenance to older Americans.
      2. Medicare provides both hospital and physician coverage to the elderly.
   D. Incrementalism
      1. Incrementalism means that the best predictor of this year's budget is last year's budget plus a little bit more.
The budgetary process is affected by groups with interests in taxes and expenditures.

E. "Uncontrollable" Expenditures

1. **Uncontrollable expenditures** result from policies that make some group automatically eligible for some benefit.
2. **Entitlements** are policies in which Congress has obligated itself to pay $X$ level of benefits to $Y$ number of recipients each year.

IV. The Budgetary Process (pp. 457–464)

A. Budgetary Politics

1. Stakes and Strategies

2. The Players
   a. The interest groups.
   b. The agencies.
   c. The Office of Management and Budget (OMB).
   d. The president.
   e. The Tax Committees in Congress.
      (1) **House Ways and Means Committee.**
      (2) **Senate Finance Committee.**
   f. The Budget Committees and the Congressional Budget Office.
   g. The subject-matter committees.
   h. The Appropriations Committees and their subcommittees.
   i. The Congress as a whole.

B. The President's Budget

C. Congress and the Budget

1. Reforming the Process
   a. The **Congressional Budget and Impoundment Act of 1974**
      (1) A fixed budget calendar.
      (2) A budget committee in each house.
      (3) The **Congressional Budget Office (CBO).**
   b. A **budget resolution** is supposed to set limits on expenditures based on revenue projections.
   c. Budget **reconciliation** revises program authorizations to achieve required savings.
   d. An **authorization bill** is an act of Congress that establishes a discretionary government program or an entitlement.
   e. An **appropriations bill** must be passed to actually fund programs established by authorization bills.

2. Evaluating the 1974 Reforms
   a. **Continuing resolutions** are laws that allow agencies to spend at the previous year's level.
   b. The 1974 reforms have helped Congress view the entire budget early in the process.
3. **More Reforms**
   a. The Gramm-Rudman-Hollings Act (1985) mandated maximum allowable deficit levels for each year until the budget was to be balanced in 1993.
   b. In 1990 Congress switched from a focus on controlling the size of the deficit to controlling increases in spending.
   c. Republican and Democratic efforts to balance the budget.

V. **Understanding Budgeting (pp. 464–466)**
   A. Democracy and Budgeting
   B. The Budget and the Scope of Government

VI. **Summary (pp. 466–467)**

**LEARNING OBJECTIVES**

*After studying Chapter 14, you should be able to:*

1. Describe the major sources of federal revenues.
2. Understand the nature of the tax system in America.
3. Explain the nature of federal expenditures and why so much of the budget is uncontrollable.
4. Discuss how the budgetary process works, who is involved, and the politics of budgetary reform.
5. Understand how budgeting affects democracy and the scope of government in America.

*The following exercises will help you meet these objectives:*

Objective 1: Describe the major sources of federal revenues.

1. List four sources of federal revenues.

   1. 
   2. 
   3. 
   4.
2. How does the federal government borrow money?

3. What is a capital budget?

Objective 2: Understand the nature of the tax system in America.

1. Define tax expenditures and give three examples.

Definition:

Examples:

1.

2.

3.

2. What were the three major reforms of the Tax Reform Act of 1986?

1.

2.

3.
Objective 3: Explain the nature of federal expenditures and why so much of the budget is uncontrollable.

1. Name the two conditions associated with government growth in America.
   1.
   2.

2. What is meant by the phrase "military industrial complex"?

3. Explain how Social Security is a kind of intergenerational contract.

4. List four features of incremental budgeting.
   1.
   2.
   3.
   4.

5. Explain how entitlements are "uncontrollable expenditures."
Objective 4: Discuss how the budgetary process works, who is involved, and the politics of budgetary reform.

1. How might each of the following political actors have a stake in the federal budget?

   Mayors:
   Defense contractors:
   Scientists:
   Bureaucratic agencies:
   Members of Congress:
   Presidents:
   Farmers:

2. List the ten main actors in the budgetary process.

   1.
   2.
   3.
   4.
   5.
   6.
   7.
   8.
   9.
   10.
3. Explain the three main provisions of the Congressional Budget and Impoundment Control Act of 1974.

1.

2.

3.

4. What is a budget resolution?

5. Explain the two ways in which laws are changed to meet the budget resolution.

1.

2.

6. What was the Gramm-Rudman-Hollings Act and why did it fail?

Objective 5: Understand how budgeting affects democracy and the scope of government in America.

1. List three possible explanations for the substantial growth of government in twentieth-century democracies.

1.

2.

3.
2. How could the budgetary process limit government?

KEY TERMS

Identify and describe:

budget

deficit

expenditures

revenues

income tax

Sixteenth Amendment

federal debt

tax expenditures

Social Security Act
Medicare

incrementalism

uncontrollable expenditures

entitlements

House Ways and Means Committee

Senate Finance Committee

Congressional Budget and Impoundment Control Act of 1974

Congressional Budget Office (CBO)

budget resolution

reconciliation

authorization bill
appropriations bill

continuing resolutions

**Compare and contrast:**

budget and deficit

expenditures and revenues

income tax and Sixteenth Amendment

income tax and tax expenditures

Social Security Act and Medicare

uncontrollable expenditures and entitlements

House Ways and Means Committee and Senate Finance Committee

reconciliation and authorization bill
Name that term:

1. This policy document allocates burdens and benefits.
   _______________________

2. This is all of the money borrowed over the years and still outstanding.
   _______________________

3. This was intended to provide a minimal level of sustenance to older Americans.
   _______________________

4. These revenue losses are attributable to provisions of the federal tax laws that allow a special exemption, exclusion, or deduction.
   _______________________

5. This policy suggests that the best predictor of this year’s budget is last year’s budget, plus a little bit more.
   _______________________

6. These result from policies that make some group automatically eligible for some benefit.
   _______________________

7. This agency advises Congress on the probable consequences of its budget decisions.
   _______________________

8. This occurs in Congress every April.
   _______________________

9. This is an act of Congress that actually funds programs within limits established by authorization bills.
   _______________________

10. These allow agencies to spend at the previous year's level.
    _______________________
USING YOUR UNDERSTANDING

1. Take a look at a recent edition of the *United States Budget in Brief*. Identify expenditure categories that relate to specific policy arenas, such as equality, the economy, social welfare, technology, and national security. Create your own policy arenas using broad or specific categories. Briefly describe what you found in terms of the policy priorities represented by the budget. Evaluate the budget according to where you believe your tax dollars should be spent.

2. This chapter has emphasized the budget of the United States government. Locate a budget document for your state or community. These should be available in the Government Documents section of your school library, through state and local government offices, or on the Internet. Assess the sources of revenues on which this unit of government depends and the types of expenditures it makes in various policy areas. Take note of whether or not the budget represents a deficit (expenditures exceeding revenues) or a surplus (revenues exceeding expenditures), and the magnitude of the amount. Compare the major features of this budget to those of the budget of the United States. Investigate the politics of the budgetary process at the state or local level and compare what you find to the national level. Alternatively you could examine a budget of another Western democracy and compare it to that of the United States using these same guidelines.

MULTIPLE CHOICE QUESTIONS

Circle the correct answer:

1. No government policy affects as many Americans as
   a. tax policy.
   b. defense policy.
   c. social welfare policy.
   d. foreign policy.
   e. housing policy.

2. All of the following are examples of an excise tax EXCEPT
   a. The gas tax
   b. Sales tax paid on the purchase of a new coat
   c. Social Security taxes
   d. All of these are excise taxes.
   e. None of these are excise taxes.
3. In Pollock v. Farmer’s Loan and Trust Co. (1895), the Supreme Court ruled that
   a. the income tax was constitutional.
   b. the national sales tax was unconstitutional.
   c. banks and corporations must pay higher taxes.
   d. the income tax was unconstitutional.
   e. business income taxes were unconstitutional but individual income taxes were constitutional.

4. A tax can be considered progressive if
   a. it pays for programs people desire.
   b. the rate of tax revenues increases annually.
   c. the distribution of taxes falls equally on individuals in all income brackets.
   d. those with more taxable income pay higher rates of tax than those with less.
   e. those with less taxable income pay more taxes than those with more.

5. The main function of the Internal Revenue Service (IRS) is
   a. to collect social security taxes.
   b. to collect the federal income tax.
   c. to allocate tax funds to government programs.
   d. to provide oversight to the federal budget.
   e. to provide tax refunds.

6. Some economists are concerned about the national debt because they believe
   a. government borrowing encourages individuals to borrow more money.
   b. government competition for loans lowers interest rates.
   c. government borrowing may crowd out private borrowers.
   d. the more government borrows, the less likely banks will be to lend the government money.
   e. governments who gain revenue through borrowing are less accountable than those that gain revenue through taxes.

7. The ability of taxpayers to deduct charitable contributions from their income is an example of
   a. tax reductions.
   b. tax cuts.
   c. tax expenditures.
   d. tax shelters.
   e. tax evasion.

8. The tax cuts proposed by President Reagan and adopted by Congress in 1981 reduced Americans’ taxes by
   a. 75 percent.
   b. 50 percent.
   c. 40 percent.
   d. 25 percent.
   e. 10 percent.
9. What phrase did President Eisenhower coin to capture the relationship between the military and the defense industry?
   a. The defense industrial complex
   b. The military industrial complex
   c. The defense industry monopoly
   d. Manufacturers of war
   e. The arms industry

10. The biggest expenditure in the federal budget today is
    a. foreign aid programs.
    b. welfare for the poor.
    c. interest on the debt.
    d. national defense.
    e. income security programs.

11. The Social Security Act, which established the Social Security system, was passed in
    a. 1935.
    b. 1913.
    c. 1895.
    d. 1962.
    e. 1950.

12. All of the following are examples of social programs supported by federal expenditures, EXCEPT
    a. food subsidies for the poor.
    b. funding for research and design of the Stealth Bomber.
    c. support for businesses run by minority entrepreneurs.
    d. guaranteed loans to college students.
    e. environmental education.

13. How much of the federal budget is estimated to be uncontrollable, unless Congress changes a law or existing benefits?
    a. Two-thirds
    b. One-half
    c. One-quarter
    d. One-fifth
    e. Three-quarters

14. The Office of Management and Budget is charged with
    a. developing appropriations bills for members of the House of Representatives.
    b. assisting the president in developing and carrying out the budget.
    c. collecting revenues and administering the federal income tax.
    d. holding public hearings on the federal budget.
    e. setting levels of spending on military and social programs.
15. Until Congress passed the Budget and Accounting Act of 1921,
   a. agencies of the executive branch sent their budget requests directly to the
      president, who alone had the authority to approve and fund the bureaucracy.
   b. agencies of the executive branch sent their budget requests to the secretary of the
      treasury, who forwarded them on to Congress, with the president playing little or
      no role in the entire process.
   c. there was no federal income tax in the United States.
   d. the United States had no formalized budget process.
   e. the federal budget had to be balanced, by law.

16. Auditing, monitoring, and evaluation of what agencies are doing with their budgets is the
    responsibility of
    a. the Congressional Budget Office.
    b. the Government Accountability Office.
    c. the Internal Revenue Service.
    d. the Treasury Department.
    e. the Federal Bureau of Investigation.

17. The president is required to propose an executive budget to Congress by
    a. Article I of the U.S. Constitution.
    b. tradition established by George Washington.
    c. the Budget and Accounting Act of 1921.
    d. the Sixteenth Amendment to the U.S. Constitution.
    e. the Office of Management and Budget.

18. In what part of the year is the next year’s budget policy developed by the president?
    a. Spring
    b. Summer
    c. Fall
    d. Winter
    e. The president is always developing next year’s budget

19. Budget _______ revises program authorizations to achieve required savings.
    a. impoundment
    b. realignment
    c. closure
    d. appropriations
    e. reconciliation

20. The idea that any new programs, or increased spending on existing programs, must be
    offset by either budget cuts or increased revenues is known as
    a. deficit spending.
    b. pay as you go.
    c. borrowing from Peter to pay Paul.
    d. pork barrel spending.
    e. sequestration.
TRUE/FALSE QUESTIONS

Circle the correct answer:

1. More federal revenue comes from corporate, rather than personal income taxes. T / F
2. Congress first adopted an income tax in order to pay for the Civil War. T / F
3. Corporations, like individuals, pay income taxes. T / F
4. A progressive tax is one that allows for the funding of new social programs. T / F
5. Foreign investors currently hold a majority of the federal government’s public debt. T / F
6. The government encourages charitable donations through tax expenditures. T / F
7. The Reagan tax cuts benefited the wealthiest Americans more than the poorest. T / F
8. The Hope Credit is a tax credit that was created to make college education at least a bit more affordable. T / F
9. Medicare provides both hospital and physician coverage to the elderly. T / F
10. Uncontrollable expenditures result from constitutionally mandated funding requirements, like the military budget. T / F

SHORT ANSWER/SHORT ESSAY QUESTIONS

1. How is the Sixteenth Amendment related to the federal budgetary process?
2. What is the Social Security Act, and what is its importance to budgeting?
3. What changed as a result of the Tax Reform Act of 1986?
4. What is the military industrial complex, and how does it affect federal spending?
5. What did the Gramm-Rudman-Hollings Act try to do, and why did it fail to meet its goals?
ESSAY QUESTIONS

1. Where does the federal government’s revenue come from and where does it go?

2. How does the federal government borrow money? What are the potential economic and political dangers associated with deficit spending and an increasing national debt?

3. Do you agree with President Carter’s assessment that America’s tax system is a “national disgrace”? Why or why not?

4. Compare the role of the president with the role of Congress in the budgetary process. Who do you believe has the greater influence and why?

5. Why is it so difficult to curb or roll back levels of federal spending?