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

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

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

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

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

Income Tax

- Shares of individual wages and corporate revenues.
- The individual part is the largest single revenue source for the government.
- It’s progressive: Those with more income pay higher rates of tax on their income.
- It’s not popular and many want it changed.
Sources of Federal Revenue

Sources of Federal Revenue: Fiscal 1950-2010

- Individual Income Tax
- Corporate Income Tax
- Payroll Taxes
- Excise Taxes
- Other Taxes
Sources of Federal Revenue

Borrowing

The Treasury Department sells bonds - this is how the government “borrows” money.
The federal debt is the sum of all the borrowed money that is still outstanding.
The government competes with other lenders.
The government does not have a capital budget.
Some would like to see a balanced budget.
Sources of Federal Revenue

Taxes and Public Policy

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

**Sources of Federal Tax Revenues**

- Individual Income Tax: 45%
- Social Security & Medicare Tax: 39%
- Corporate Income Tax: 12%
- Other Taxes: 3%
- Estate & Gift Tax: 1%

*Source: Department of the Treasury of the United States*
Federal Expenditures

FIGURE 14.3
Federal Expenditures

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

The Rise and Decline of the National Security State
- In the 50’s & 60’s, the DOD received more than half of the federal budget.
- Now that number is much less, mainly due to less international tension.
Federal Expenditures

The Rise of the Social Service State

The biggest part of federal spending is now for *income security* programs.

The biggest of these is Social Security.

Social Security has been expanded since 1935 to include disability benefits and Medicare.

These benefit programs face financial problems with more recipients living longer.
Social Security Spending Rises Steadily as Baby Boomers Retire

Expenditures in Billions of 2000 Dollars

Federal Expenditures

Incrementalism

The idea that last year’s budget is the best predictor of this year’s budget, plus a little bit more than last year.

Agencies can safely assume they will get at least what they got last year.

Focus & debate on the increase over last year.

The budgets tend to go up anyway.
Federal Expenditures

“Uncontrollable” Expenditures

Spending determined by the number of recipients, not a fixed dollar figure.

Mainly entitlement programs where the government pays known benefits to an unknown number of recipients - Social Security.

The way to control the expenditures is to change the rules of who can receive them.
The Budgetary Process

The Federal Government Dollar

FIGURE 14.6
The Budgetary Process

Budgetary Politics
Stakes and Strategies

All political actors have a stake in the budget.
All actors try to tie their budget needs to national or political needs.

The Players

Lots of players, with the president and Congress playing important roles.
Almost all committees are involved in the budget.
The Budgetary Process

The President’s Budget

Presidents did not originally play a role in the budget.
Now budget requests are directed through the OMB and president before going to Congress.
The budget process is time-consuming, starting nearly a year in advance.
Some negotiation between OMB, the president and the agencies about their requests.
The Budgetary Process

Congress and the Budget
Reforming the Process

*Congressional Budget and Impoundment Control Act of 1974 did much to reform the process.*

*Budget should be considered as a whole.*

*A budget resolution sets the bottom line for the budget.*

*The current budget is then reconciled.*

*The new budget is authorized and appropriated.*
The Budgetary Process

Congress and the Budget
The Success of the 1974 Reforms

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

Annual Budget Deficit/Surplus by President

1993: -0.3  1994: -0.2  1995: -0.1  1996: 0.1  1997: 0.3  1998: 0.1  1999: 0.2  2000: 0.1  2001: 0.1

Clinton

Bush

1993: -0.3  1994: -0.2  1995: -0.1  1996: -0.2  1997: -0.4  1998: -0.4  1999: -0.3  2000: -0.2  2001: -0.2  2002: -0.4  2003: -0.5  2004: -0.5  2005: -0.5  2006: -0.5  2007: -0.5  2008: -0.5

Obama

Data Source: President Obama’s FY13 Budget (Table S-1) & Historical Tables

FIGURE 14.7
So...who gets to actually spend the money?
The Federal Bureaucracy

Chapter 15
The Bureaucrats

Some Bureaucratic Myths and Realities

- Americans dislike bureaucrats.
- Bureaucracies are growing bigger each year.
- Most federal bureaucrats work in Washington, D.C.
- Bureaucracies are ineffective, inefficient and always mired in red tape.
- Most tasks are not controversial.
The Bureaucrats

Who They Are and How They Got There
Most demographically representative part of government. Diversity of jobs mirrors the private sector.

- **Average Age**: 46 years
- **Education**: 40% College graduates, 60% Not college graduates
- **Gender**: 45% Female, 55% Male
- **Race**: 30% Minorities, 70% White

*Does not include postal workers.*
*Includes African Americans, Asian Americans, Native Americans, and Hispanics.*

FIGURE 15.2
The Bureaucrats

Who They Are and How They Got There

Civil Service: From Patronage to Protection

Patronage: Job given for political reasons.

Civil Service: System of hiring and promotion based on merit and nonpartisanship.

Merit Principle: Entrance exams and promotion ratings used to find people with talent and skill.

Office of Personnel Management: The federal office in charge of most of the government’s hiring.
The Bureaucrats

Who They Are and How They Got There
The Other Route to Federal Jobs: Recruiting from the Plum Book

Published by Congress.
Lists the very top jobs available for Presidential appointment.
Presidents work to find capable people to fill the positions.
Some plum jobs (ambassadorships) are patronage.
The Bureaucrats

What They Do: Some Theories of Bureaucracy

The Weberian Model

Hierarchical authority structure.
Uses task specialization.
Operates on the merit principle.
Behaves with impersonality.
A well-organized machine with lots of working parts.
The Bureaucrats

What They Do: Some Theories of Bureaucracy

The Acquisitive, Monopolistic Bureaucracy

Bureaucracies seek to maximize their budgets.
Work to expand their powers and programs, even joining with Congress to expand their functions.
Often operate under monopolistic conditions.
Privatization could cut back on the monopolistic attitudes of the bureaucracies.
The Bureaucrats

What They Do: Some Theories of Bureaucracy

Garbage Cans and Bureaucracies

*Operates by trial and error.*

*Typically loosely run.*

*Bureaucracies aren’t necessarily trying to find solutions to problems, sometimes the solutions are in search of problems.*
How Bureaucracies Are Organized

The Cabinet Departments

13 Cabinet departments headed by a secretary.
Department of Justice headed by Attorney General.
Each has its own budget, staff and policy areas.
Republicans have been trying to eliminate several departments.
How Bureaucracies Are Organized
How Bureaucracies Are Organized

The Regulatory Agencies

    Independent: Responsible for some sector of the economy, making rules, and judging disputes to protect the public interest.

    Headed by a commission of 5-10 people.

    Rule making is an important function watched by interest groups and citizens alike.

    Concern over “capture” of the agencies.
How Bureaucracies Are Organized

The Government Corporations
  Business-like- provides a service like private companies and typically charges for its services.
  Postal Service, Amtrak are examples

Independent Executive Agencies
  The agencies that don’t fit in anywhere else.
  NASA is an example
Bureaucracies as Implementers

What Implementation Means

It involves translating the goals and objectives of a policy into an operating, ongoing program.

It includes:

Creating / assigning an agency the policy.
Turning policy into rules, regulations and forms.
Coordinating resources to achieve the goals.
Bureaucracies as Implementers

Why the Best-Laid Plans Sometimes Flunk the Implementation Test

Program Design
Lack of Clarity

*Congressional laws are ambiguous and imprecise.*
*Sometimes the laws conflict with each other.*

Lack of Resources

*Agencies may be big, but not in the right areas.*
Bureaucracies as Implementers

Why the Best-Laid Plans Sometimes Flunk the Implementation Test

Lack of Resources (continued)

Many different types of resources are needed: personnel, training, supplies & equipment.

May also lack the authority to act.

Administrative Routine

SOPs bring uniformity to complex organizations.

It is often difficult to change the routines.
Bureaucracies as Implementers

Why the Best-Laid Plans Sometimes Flunk the Implementation Test

Administrators’ Dispositions

- Ability to select among various responses.
- Street-level bureaucrats have the most discretion.

Fragmentation

- Some policies are spread among several agencies.
- Some agencies have different rules for the same policy.
Bureaucracies as Implementers

A Case Study: The Voting Rights Act of 1965

Generally considered a success.
Had a clear, concise goal.
The implementation was clear.
Those carrying out the law had obvious authority and vigor to do so.
Bureaucracies as Regulators

Regulation in the Economy and in Everyday Life

Regulation: Use of governmental authority to control or change some practice in the private sector.

A Full Day of Regulation.

*Federal agencies check, verify and inspect many of the products and services we take for granted.*

*Federal and state agencies provide many services.*
Bureaucracies as Regulators

Regulation: How It Grew, How It Works

Command-and-Control Policy: Government tells businesses how to reach certain goals, checks the progress and punishes offenders.

Incentive System: Market-like strategies are used to manage public policy.

Some agencies are proactive, some are reactive.
Bureaucracies as Regulators

Toward Deregulation

  Deregulation: The lifting of restrictions on business, industry and professional activities.

  Regulatory problems:
  
    * Raises prices
    * Hurts U.S.’s competitive position abroad
    * Does not always work well

But some argue regulation is needed.
Understanding Bureaucracies

Bureaucracy and Democracy

Presidents Try to Control the Bureaucracy

- Appoint the right people.
- Issue executive orders.
- Tinker with the agency’s budget.
- Reorganize an agency.
Understanding Bureaucracies

Bureaucracy and Democracy

Congress Tries to Control the Bureaucracy

*Influence presidential appointments.*

*Tinker with the agency’s budget.*

*Hold hearings.*

*Rewrite the legislation or make it more detailed.*
Understanding Bureaucracies

Bureaucracy and Democracy

Iron Triangles and Issue Networks

Iron Triangles: A mutually dependent relationship between bureaucratic agencies, interest groups, and congressional committees or subcommittees.

Exist independently of each other.

They are tough, but not impossible, to get rid of.

Some argue they are being replaced by wider issue networks that focus on more policies.
Understanding Bureaucracies

BUREAUCRACY
Tobacco division of the Department of Agriculture

CONGRESSIONAL SUBCOMMITTEES
Subcommittees of the House and Senate agricultural committees

INTEREST GROUPS
Tobacco lobby, including both farmers and manufacturers

Approval of higher budget requests
Information
Help with constituents' complaints
Information about the industry
Support for agency's budget requests
Information about tobacco production and prices
Campaign contributions and support
Legislation affecting tobacco farmers and other members of the industry
Understanding Bureaucracies

Bureaucracy and the Scope of Government

Many state that this is an example of a government out of control.

But, the size of the bureaucracy has shrunk. Some agencies don’t have enough resources to do what they are expected to do.

Only carry out the policies, Congress and the president decide what the policies are.