

Chapter 14

Chapter **14**

Congress, The President, and the Budget

The Politics of Taxing and Spending



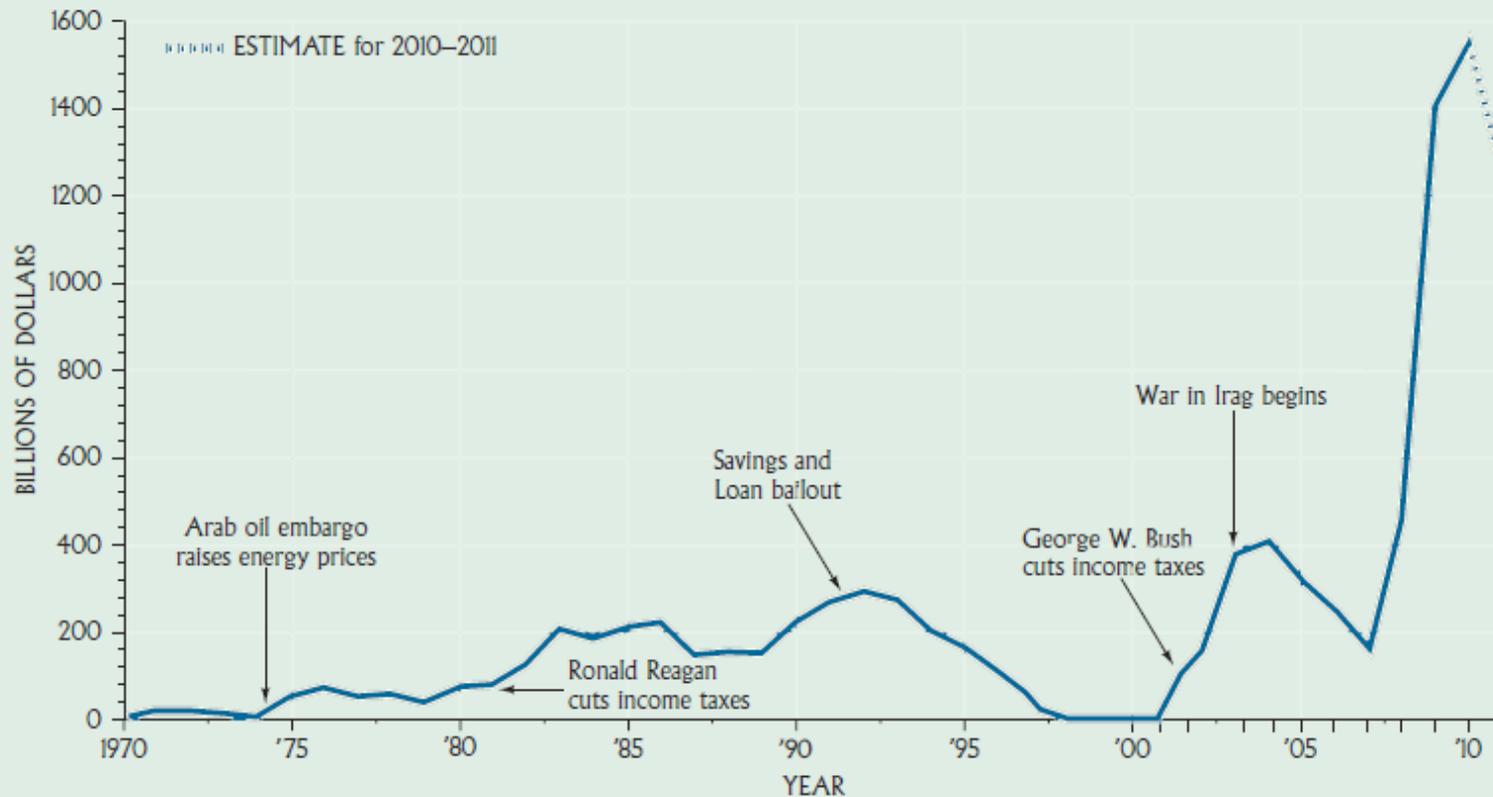
Introduction

- Budget:
 - A policy document allocating burdens (taxes) and benefits (expenditures)
- Deficit:
 - An excess of federal expenditures over federal revenues in a single year
- Expenditures:
 - What the government spends money on
- Revenues:
 - Sources of money for the government



Fluctuating Deficits

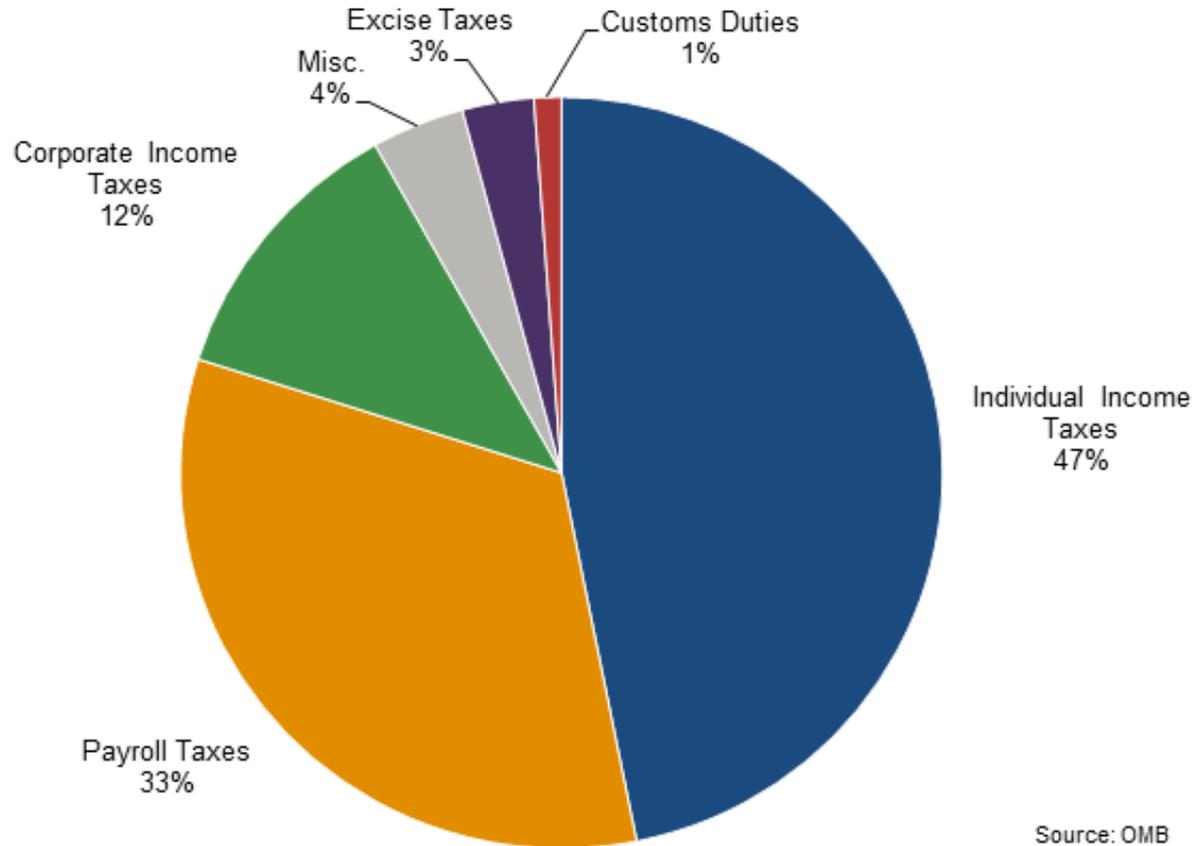
Annual federal deficits mushroomed during the Reagan administration (1981–1988), despite the president's oft-repeated commitment to a balanced budget. The deficit disappeared during the Clinton administration, and the nation began running a surplus in fiscal year 1998. By 2002, however, the United States 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.



Source: *Budget of the United States Government, Fiscal Year 2011: Historical Tables* (Washington, DC: U.S. Government Printing Office, 2010), Table 1.1.

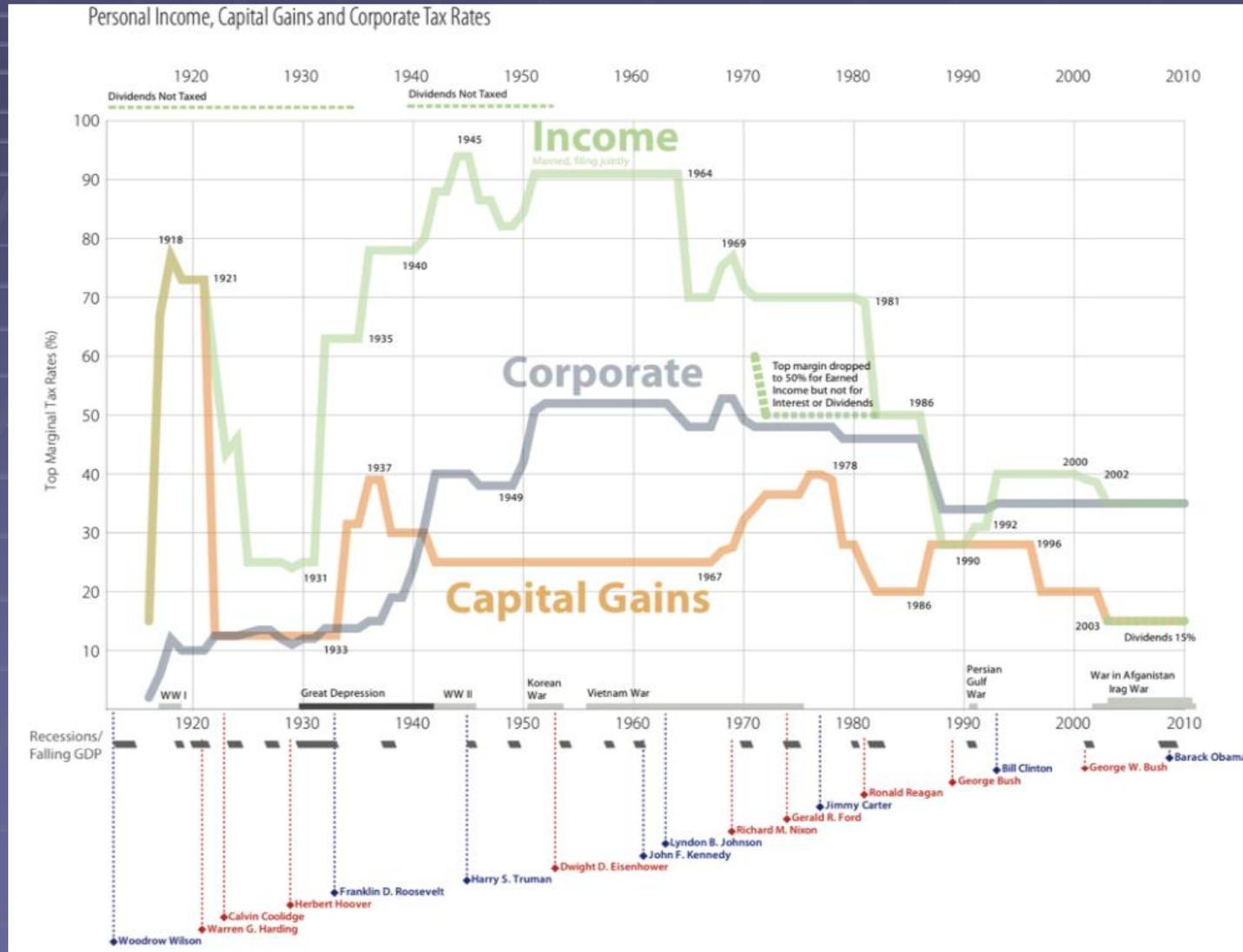
Federal Revenue

Projected Tax Revenues (FY 2013)



Source: OMB

Tax Rates Historically



Sources of Federal Revenue

- Income Tax
 - Shares of individual wages and corporate revenues
 - The 16th Amendment permitted Congress to levy an income tax.
 - Individual taxes are the largest single revenue source for the government.
 - Income tax is progressive: Those with more income pay higher *rates* of tax on their income.

2013 Tax Table

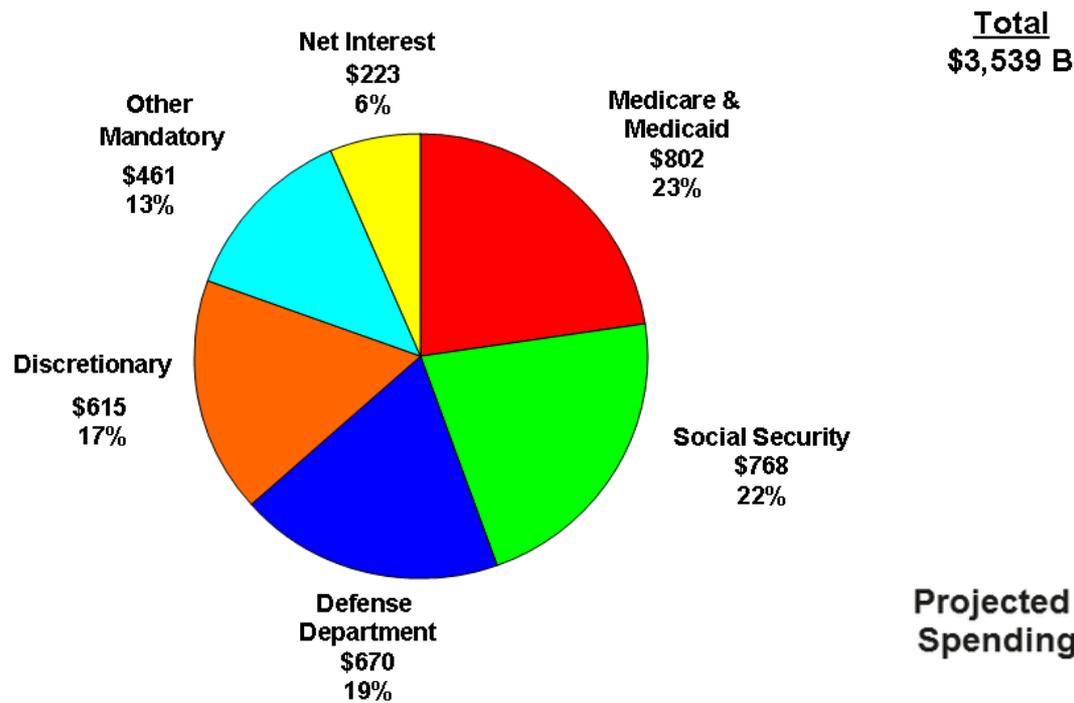
- **10%** on taxable income from \$0 to \$8,925, plus
- **15%** on taxable income over \$8,925 to \$36,250, plus
- **25%** on taxable income over \$36,250 to \$87,850, plus
- **28%** on taxable income over \$87,850 to \$183,250, plus
- **33%** on taxable income over \$183,250 to \$398,350, plus
- **35%** on taxable income over \$398,350 to \$400,000, plus
- **39.6%** on taxable income over \$400,000.

Sources of Federal Revenue

- Social Insurance Taxes
 - Employers/employees pay Social Security taxes; money is deducted from paychecks and matched by the employers; money is earmarked for Social Security Trust Fund
- 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.

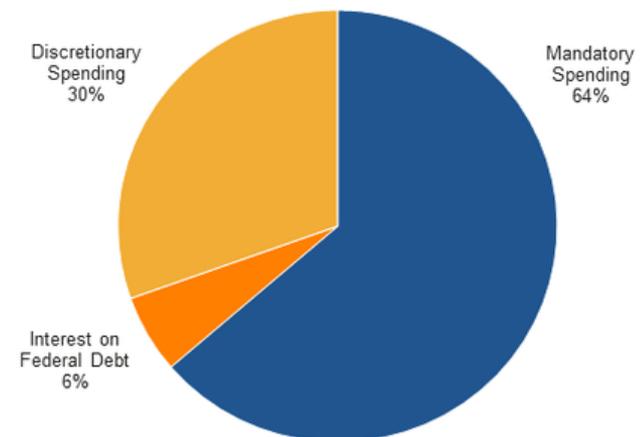
Federal Expenditures

U.S. Federal Spending – Fiscal Year 2012 (\$ Billions)



Source Data: CBO Historical Tables

Projected Mandatory and Discretionary Spending and Interest on Federal Debt (Fiscal Year 2014)



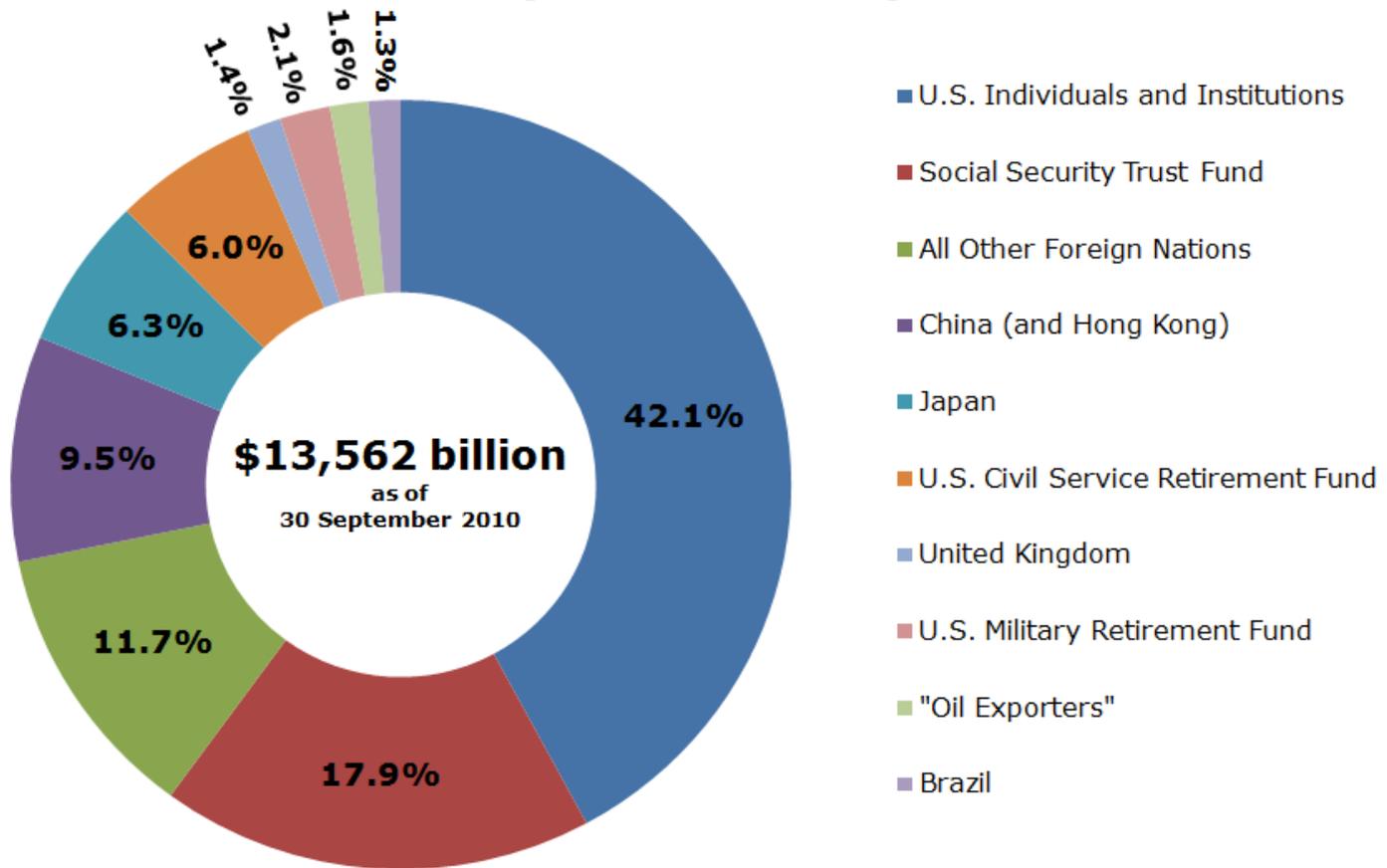
Source: OMB
National Priorities Project

Federal Expenditures: Mandatory Spending

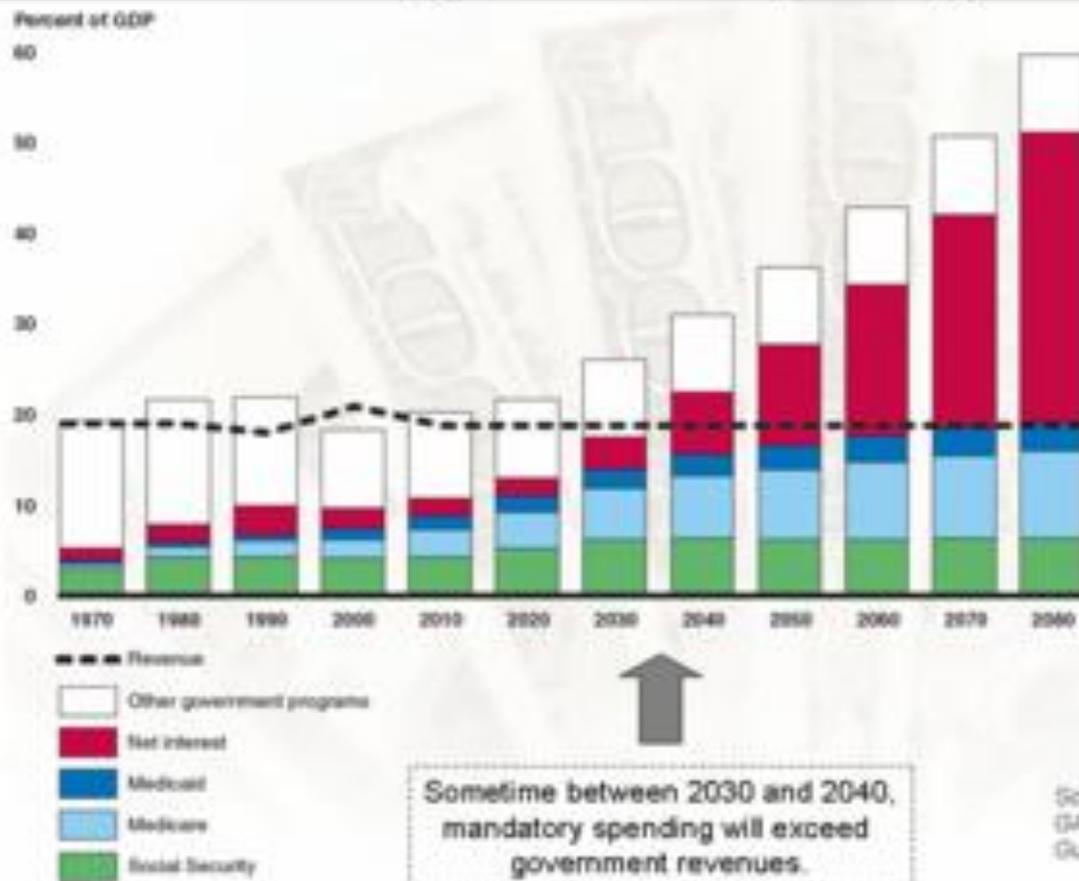
- Expenditures funded by permanent appropriations
examples: congressional salaries, interest on the national debt
- Entitlements-people meeting relevant eligibility requirements are legally entitled to benefits; doesn't change year to year but Congress CAN change the eligibility rules
 - Social Security
 - Medicare & Medicaid
- Makes up 2/3rd's of the Total Federal Budget

U.S Debt Holders

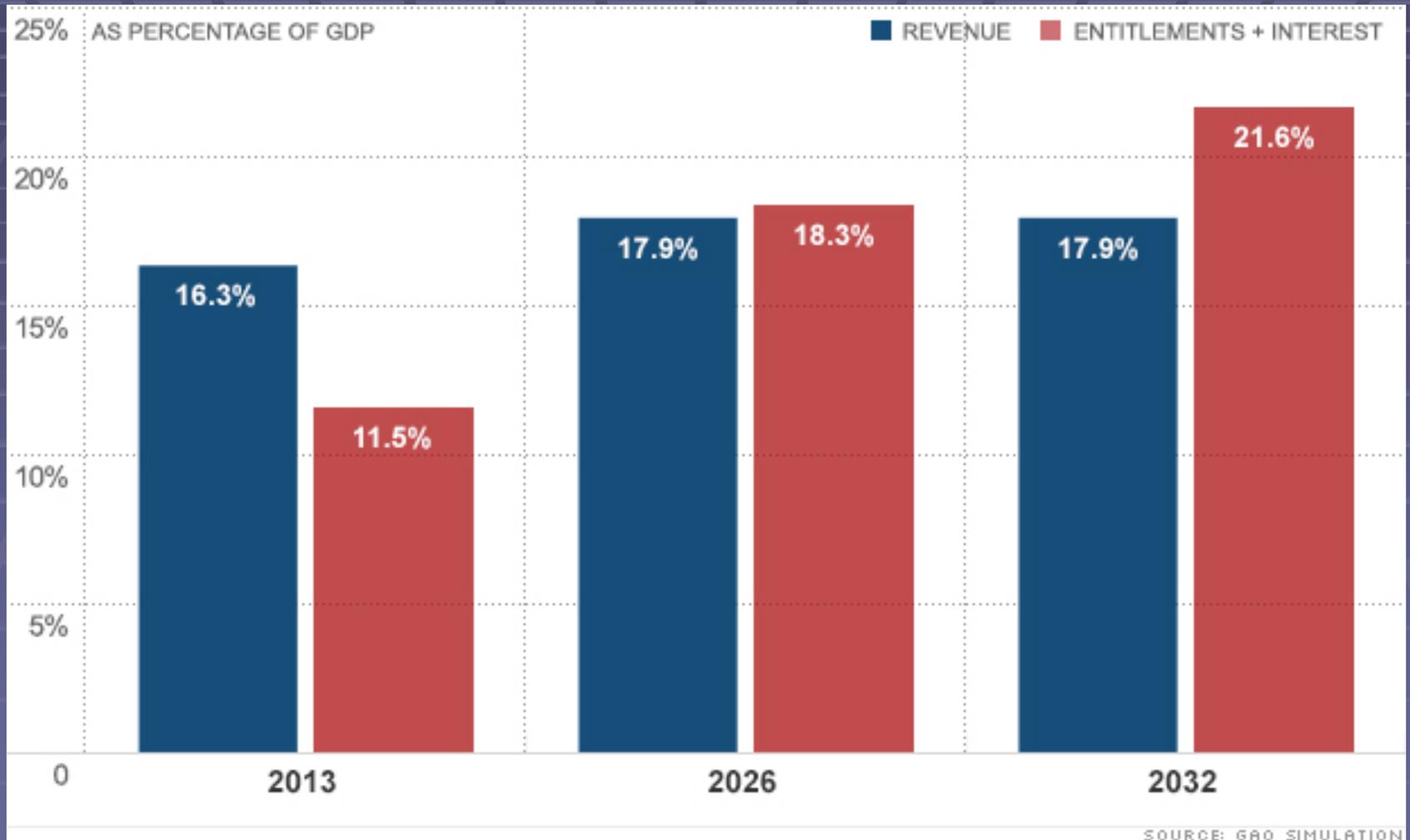
To Whom Does the U.S. Government Really Owe Money?



The Risks of Growing Entitlement Spending



Raising Revenue vs. Entitlement Reform?



Entitlements: Social Security, Medicare, Medicaid + Interest on the debt

Federal Expenditures: Discretionary Spending

- Portion of the budget that goes through the annual appropriations process; can increase/decrease from year to year
 - National Defense
 - other examples: education, housing assistance, health programs

DISCRETIONARY SPENDING FY 2013

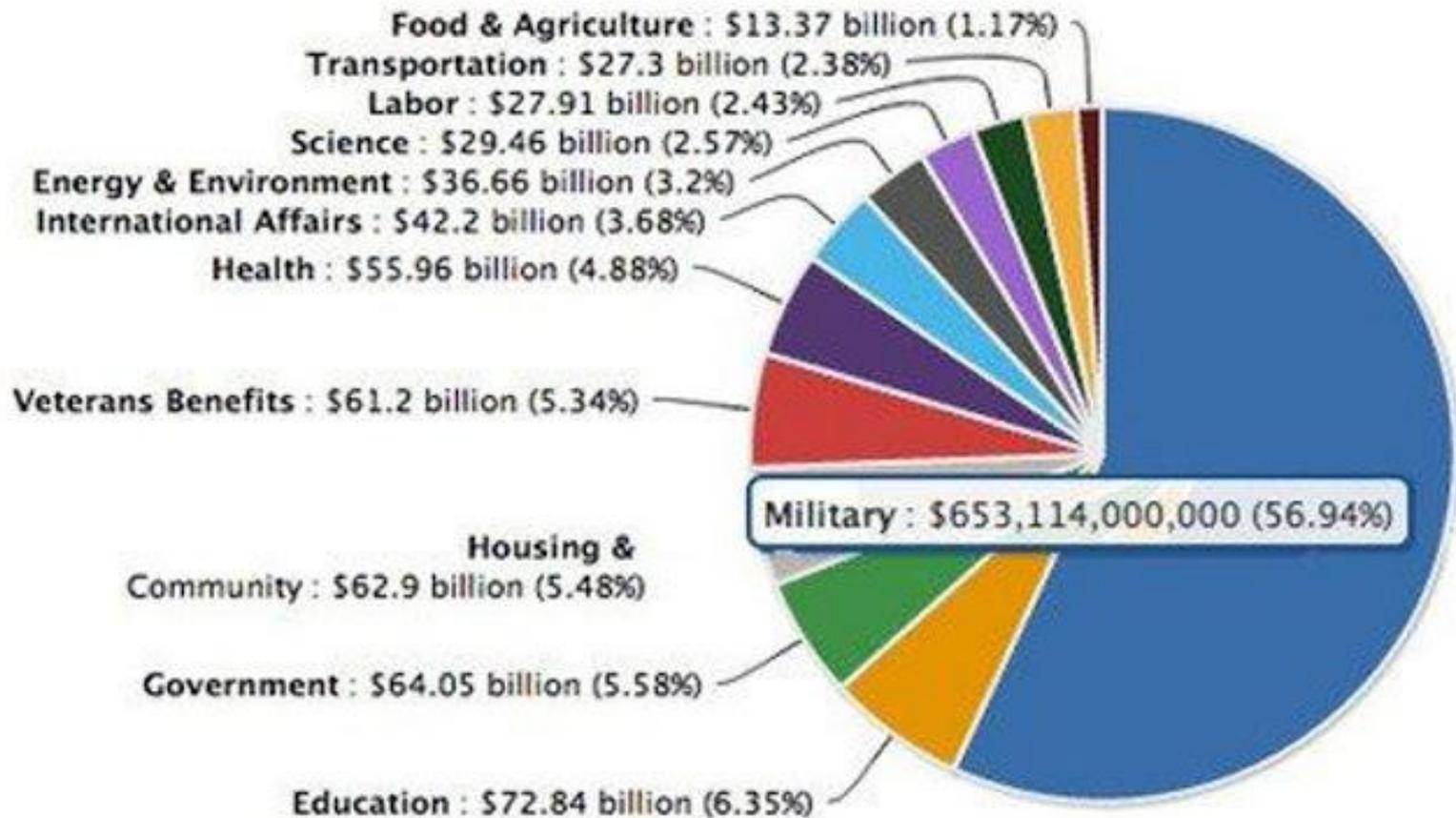
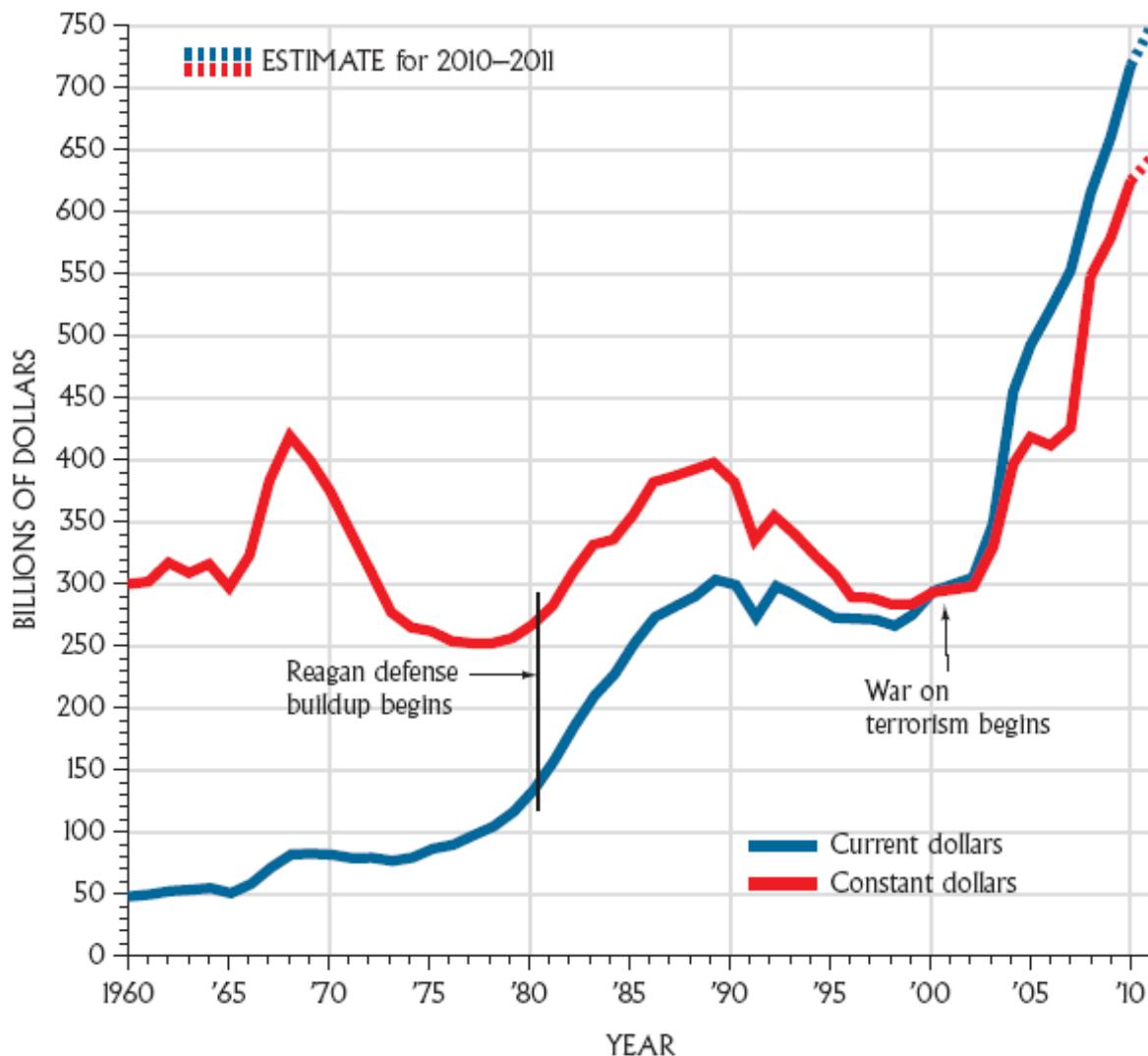


FIGURE 14.4 Trends in National Defense Spending



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

Source: *Budget of the United States Government, Fiscal Year 2011: Historical Tables* (Washington, DC: U.S. Government Printing Office, 2010), Table 6.1.

The Budgetary Process

- The President's Budget
 - Presidents originally played a limited role in the budget.
 - Now budget requests are directed through the OMB and president before going to Congress.
 - The budget process is time consuming—starting nearly a year in advance.
 - The OMB, the president, and the agencies negotiate budget requests.

The Budgetary Process

Step 1: President submits a budget request

the administrations intended spending and revenue plans for the following fiscal year; includes funding requests for Independent agencies and Cabinet departments

- 1st Monday in February

Step 2: Drafting of a Budget resolution

House and Senate blueprint for the actual appropriations process; must be approved by both houses of Congress

- by early April

The GAO, OMB, CBO, & Treasury Department important information in the budget making process

Fiscal Year begins October 1st and ends September 30th

The Budgetary Process

- Congress and the Budget
 - Reforming the Process
 - The Congressional Budget and Impoundment Control Act of 1974: an act designed to reform the congressional budgetary process
 - It established the following:
 - Fixed budget calendar
 - A budget committee in each House
 - The CBO, which advises Congress on the probable consequences of its decisions, forecasts revenues, and is counterweight to OMB

The Budgetary Process

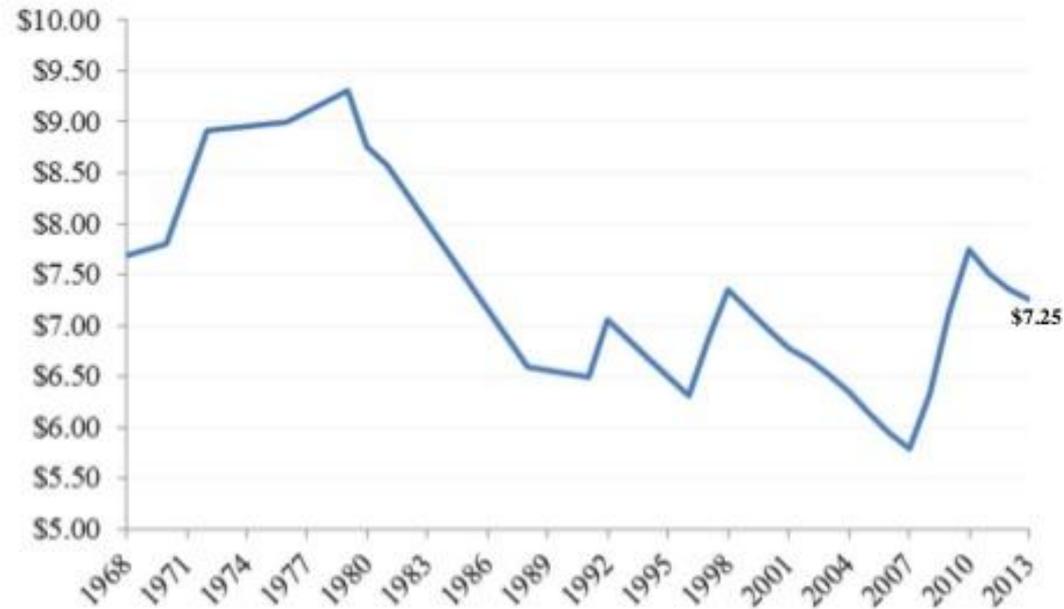
- Budgetary Politics
 - Stakes and Strategies
 - All political actors have a stake in the budget.
 - Try and tie their budget needs to national or political needs
 - The Players
 - Lots of players, with the president and Congress playing important roles
 - Almost all committees are involved in the budget.

Economic Policy Making

- Unemployment rate-% of Americans seeking work who are unable to find it
- Inflation-the rise in prices for consumer goods
- Monetary policy- manipulation of the supply of \$ in private hands
 - "The Fed" -Federal Reserve System-regulates the lending practices of Banks and thus the money supply
 - "The Fed" -Board of Governors are appointed by the President with the consent of the Senate
- Fiscal policy- the impact of the federal budget-taxes, spending, and borrowing- on the economy
 - Congress and the President control fiscal policy

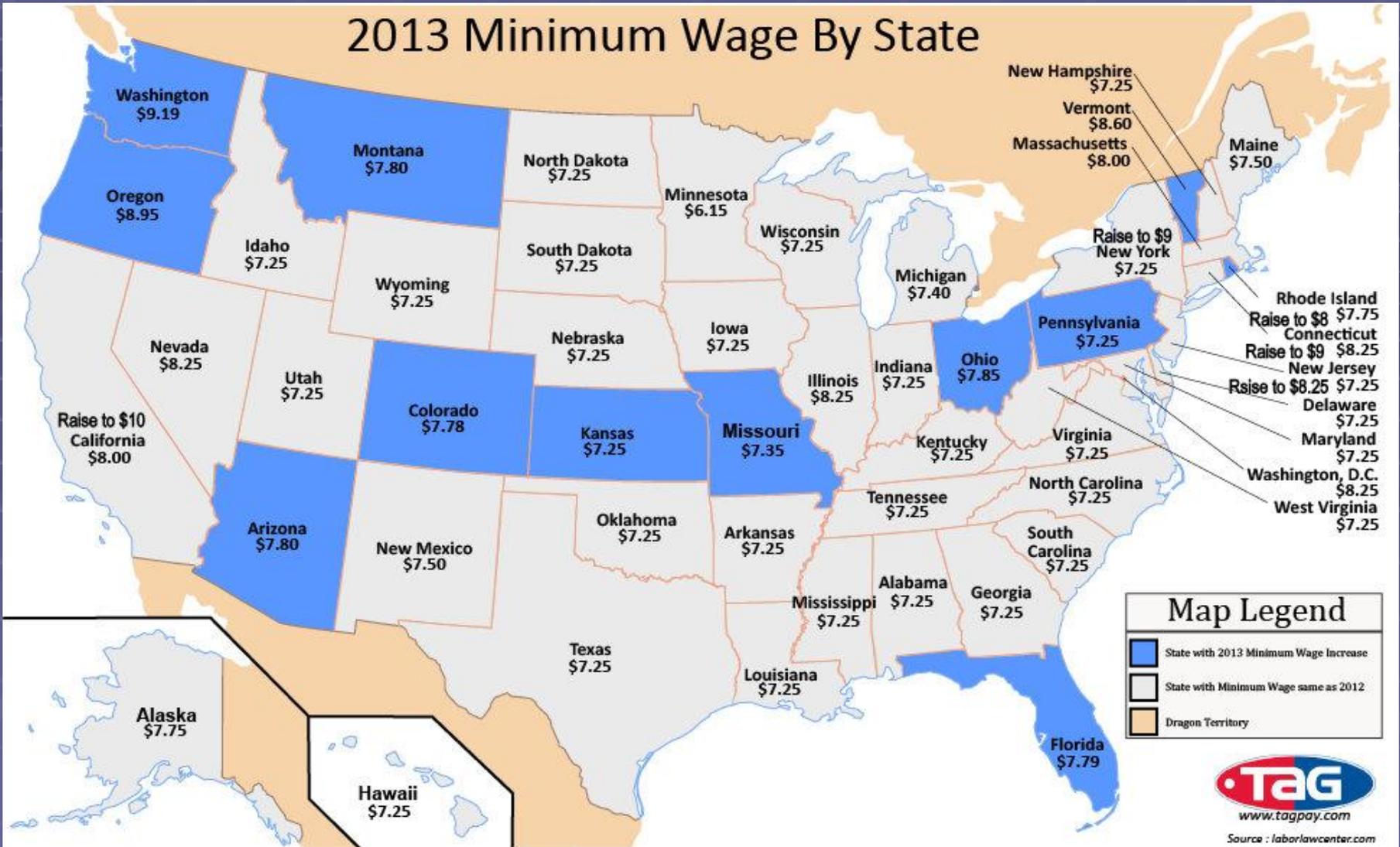
Is the Minimum Wage a Livable Wage?

Declining Real Minimum Wage



Note: In 2013 Dollars
Source: BLS

2013 Minimum Wage By State



Map Legend

- State with 2013 Minimum Wage Increase
- State with Minimum Wage same as 2012
- Dragon Territory



Source : laborlawcenter.com