5

Budgeting and Public Policy

Until the 1920s, national budgeting in the United States was a disjointed activity lacking central direction. On their own initiative, departments and agencies prepared their annual budget requests. These requests were then assembled by the Department of the Treasury, without alteration, in a book of estimates and transmitted to Congress for its consideration and enactment. The president typically had little to do with agency budget requests, either prior to or after their enactment. This haphazard and fragmented budgetary process was satisfactory because ample funds were available to finance the national government's limited array of agencies and programs. Indeed, in the later decades of the nineteenth century, the major financial problem confronting the government was how to spend all of the revenues produced by high protective tariffs so as to provide for their continued justification.

This rather idyllic situation evanesced after the turn of the century. The expansion of the national government's activities during the Progressive Era created strong pressures on the national revenue system. The level of government expenditures soared upward during World War I, and following the Armistice, remained above pre-war levels. These changed conditions generated pressure for budget reform. The executive budget, whereby the chief executive in a government has responsibility for budget formulation, was identified as an appropriate corrective measure.

After several years of study, reports, deliberation, and political struggle, Congress enacted legislation creating an executive budget, only to have it vetoed by President Woodrow Wilson. The next year it was again adopted and signed into law by President Warren G. Harding, as the Budget and Accounting Act of 1921. The executive budget came into being. Support for it emanated from two disparate sources. Conservatives and businessmen (obviously there was much overlap) supported it as a means of retrenchment, or reducing governmental spending. Democrats, liberals, and reformers viewed the executive budget as a way of achieving more with a given level of expenditures, as a way of increasing government effectiveness.

The Budget and Accounting Act delegated authority to the president to annually prepare a budget and submit it for Congress's approval. Agencies were prohibited from submitting funding requests directly to Congress unless specifically requested to do so. (In the 1970s, displeased with the Nixon administration, Congress adopted legislation directing several agencies to submit their budget requests concurrently to itself and the executive.)[1] The Bureau of the Budget (BOB) (now the Office of Management and Budget) was created to assist the president in budget preparation, and the General Accounting Office was set up to handle the auditing of expenditures. Finally, each department and agency was directed to appoint a budget officer. Reform also occurred separately in the House of Representatives, where authority over appropriations bills, which previously had been scattered among several committees, was consolidated into a single appropriations committee. That had long been the practice in the Senate. Collectively, these reforms were designed to produce a more centralized budgeting system.

The discussion in this chapter has three purposes. First, how the budget and budget decisions affect public policies is discussed. Budgeting is a means, and a source of opportunities, for shaping the direction, intensity, and impact of public policies. Agency budgets may be expanded, cut back, or even "zeroed out." Many policy issues are examined and worked over in the budgetary process. Second, the structure and operation of the national budgetary process—its participants, procedures, and practices—are examined. This will cast light on how budgetary decisions are made and what influences them. Third, we discuss the political struggle to control the budget deficit and balance the national budget, which had temporary success in the period 1998 to 2001. Also of concern here is the national debt. Some call this *macrobudgeting*. In recent years, this has become intensely political and a major policy issue, partly symbolic, but of much importance for the operation of the economy.

The Budget and Public Policy

Once a policy or program has been legislatively authorized, its supporters cannot relax and rest content. Now they must strive to ensure that it is funded, and continues to be funded, at levels sufficient to guarantee satisfactory attainment of its goals. Conversely, opponents of the policy have annual opportunities to modify, cripple, or perhaps kill it by getting its funding reduced or eliminated. Consequently, once substantive legislation is enacted, the political struggle over a policy may be renewed in another arena during the appropriations process. Policy supporters must be vigilant, lest they be sandbagged in this arena.

Rare is the public policy that can be implemented without the expenditure of money. At a minimum, funding will be required for personnel, office space, equipment, travel, and other operating expenses. The rigor or effectiveness of antitrust, consumer product safety, banking regulations, industrial safety, and

other regulatory programs depends on their levels of funding. Law Professor Thomas McGarity comments, "The business community discovered a long time ago that the best way to achieve regulatory relief is to starve the agencies' budgets while maintaining the appearance of a protective regime."

The control of illegal immigration, the maintenance of national parks, the conducting of medical research, national defense, and the collection of taxes by the Internal Revenue Service (IRS) are some activities that are significantly affected by funding levels. Increases in funding for the IRS, for instance, would enable it to collect hundreds of billions of dollars in taxes that are legally owed but go unpaid. Why not better funding for the IRS as a budget deficit reduction measure?

A stark example involves the Occupational Safety and Health Administration (OSHA), which has a legislative mandate to ensure that workplaces, which number in the hundreds of thousands, are safe and healthful. It has funding, however, only to hire enough inspectors to permit inspection of workplaces on the average of once in every ten years, at best. Twenty-five workers were killed in 1991 by a fire in a North Carolina food-processing plant. The building had no sprinklers, and the fire doors could not be opened from the inside. It had never been inspected by OSHA. In April 2013, the explosion of a chemical plant in the town of West, Texas, killed at least fourteen people and injured many more. It had not been inspected by OSHA since 1985.

Many important programs, such as Social Security, Medicare, Medicaid, and unemployment compensation primarily entail transfer payments—moving large sums of money from taxpayers to government and then to eligible beneficiaries, who spend it on goods and services in the private economy. Money is also central to the farm income-support, highway, AMTRAK, public-housing, medical-research, and Pell Grant programs. The proportion of low-income people who can receive housing assistance, for instance, depends on the amount of money made available for this purpose.

An example of how unfavorable budgetary action can cripple a policy involves noise control. In 1972, Congress passed the Noise Control Act in response to complaints about "noise pollution." The law authorized the Environmental Protection Agency (EPA) to issue and enforce standards reducing the noise coming from industrial and commercial vehicles and products (e.g., air compressors and jackhammers) when these adversely affected human health.[2] An Office of Noise Abatement and Control (ONAC) was set up in the EPA to implement the act. During the next several years, ONAC issued standards, coordinated noise research, and disseminated information. However, late in the 1970s, its efforts to reduce noise emanating from garbage trucks caused a major political stink and focused adverse attention on it.

The Reagan administration in 1981 decided to terminate funding specifically for ONAC, a decision acquiesced to by the EPA leadership and, in turn, by Congress. The ONAC, which lacked strong political allies, expired. Since then, next to nothing has been done by the EPA to carry out the Noise Control Act because the agency is strapped for resources to enforce its many other

programs.[3] America continues to be a noisy society, though local governments sometimes act on the problem.

At the extreme, policies without funding become nullities. Thus, Congress killed the Cold War Subversive Activities Control Program, which was an expression of the anti-communism phobia of the time, not by repealing the legislation upon which it was based but rather by ceasing to appropriate funds for its operation. Although the Subversive Activities Control Board, which administered the program, had never succeeded in registering any subversive persons or organizations (e.g., the Communist Party), the program was a source of symbolic comfort for some conservatives and a source of employment for a few others for more than two decades.

Farm groups in 2002 finally secured the enactment of country of origin labeling (COOL) for meat products; fruits, vegetables, and nuts; and seafood. Intended to promote the sale of American products rather than protect consumers, it rested on the policy notion that, if informed, consumers would often choose domestic products over foreign products. Opponents were able to block its implementation until 2009 through riders in appropriations legislation.[4]

Here is another example. There has long been controversy over the slaughter of horses, whether for human food, pet food, or other purposes. Some Europeans have a taste for horse meat, but to Americans, horses are pets, not food. In 2007, a rider in an Agricultural Appropriations Act provided that funds could not be spent on the United States Department of Agriculture (USDA) inspection of plants slaughtering horses. Without inspection the plants could not operate. Seemingly, the protectors of horses had prevailed. In 2011, however, the rider mysteriously disappeared. The controversy over horse slaughter has resumed, albeit beyond the visibility of most people.

Money is not always trump, however. Some public policies entail little or no expenditure of money, or may even prohibit its expenditure. What can be called prohibitory policies—those which impose bans on such actions as fetal-tissue research, human cloning, prayer in the public schools, and the taking of some migratory birds—have sometimes produced major political controversies. Money is not really the issue here, nor is money involved in the Defense of Marriage Act (1996), in which Congress declared that a state does not legally have to recognize a same-sex marriage performed in another state.

Some of the policies discussed in this book—the War Powers Resolution, family and medical leaves, and personal bankruptcy—are little affected by budgetary action. These policies, and others similar to them, are unlikely to receive much attention in the budgetary process. They will usually be dealt with in other policy arenas.

The national budget has grown greatly in size and complexity in recent decades. In 1960, federal expenditures totaled $92.2 billion. When Lyndon Johnson became president in late 1964, he strove to keep the budget below

the $100 billion milestone. By 2012 it had soared to over $3 trillion. Even when inflation is taken into account, the budget has more than quadrupled. New policies and programs have been added and existing programs expanded during these decades. In 1960, for example, Medicare and Medicaid did not exist; and Social Security outlays were quite modest, since many people died before reaching retirement age, especially those in the working class.

Much of the growth in expenditures is accounted for by a few policy areas—national defense, social and income security, medical care, and interest on the national debt. Table 5.1 portrays expenditure patterns for several functional (or policy) areas from 1950 to 2010. It deserves a close look. In addition to providing details on major areas of spending and growth, the table indicates how spending patterns vary with changing policy preferences. The jump in natural-resource spending in the 1970s reflects the politics of environmental concern and the proliferation of environmental-protection policies. Also in the 1970s, the energy crises triggered greater spending on energy-development programs. Then, as worries about energy supplies, especially oil, faded in the 1980s, and the Reagan administration put more reliance on the private market, energy spending diminished markedly. Spending for Medicare, which went into effect in 1966, has soared because of strong support for the program, an increasing number of eligible persons, and rapidly rising medical costs.

Table 5.1 also indicates that a small set of government activities—national defense, income security, Social Security, Medicare, and the payment of interest on the national debt—account for three-fourths of total national spending. Most of these activities involve direct spending (see the following discussion) and have a lot of political support or, in the case of interest payments on the national debt, cannot be avoided. This structural feature of the national budget looms as a major obstacle to those wanting to reduce government spending.

Until the 1960s, most governmental expenditures paid the direct costs of operating government agencies and programs. Taxpayer dollars were used mostly to pay the salaries of government employees, buy vehicles and equipment, cover rent and building-maintenance costs, and the like. Consequently, most people were at best indirectly affected by budget decisions. Whether appropriations were increased for the Department of Commerce or sharply cut for the foreign-aid program had little bearing on the lives of people in Des Moines, Detroit, Dayton, or Dixon. No longer does government spending have this distant or abstract quality. Now, much of the budget goes directly to provide income support for retired persons, veterans, farmers, the needy, bondholders, and other claimants. Also, many corporations and communities have come to rely upon defense spending (or contracting) for their continued prosperity. Projected and actual cutbacks in defense spending for a few years after the end of the Cold War caused consternation in many corporate boardrooms and communities around the nation. They continue to do so.

TABLE 5.1

National Government Expenditures for Selected Functions and Selected Years, 1950–2010, in Billions of Current Dollars

	1950	1960	1970	1975	1980	1985	1990	1995	2000	2005	2010*
National Defense	13.7	48.1	81.7	86.5	134.0	252.8	299.3	272.1	294.4	495.3	693.5
Income Security†	4.1	7.4	15.7	51.2	32.1	129.0	147.3	223.8	253.7	345.9	622.2
Social Security	0.8	11.6	30.3	64.7	118.6	188.6	248.6	335.9	409.4	523.3	683.4
Medicare	—	—	5.9	12.9	23.1	65.8	98.1	159.9	197.1	298.6	369.1
Agriculture	2.1	2.6	5.2	3.1	8.9	25.6	12.0	9.7	36.5	26.6	17.8
Natural Resources	1.3	1.6	3.1	7.4	13.9	13.6	17.1	21.9	25.0	28.0	41.6
Energy	0.3	0.5	1.0	2.9	10.2	5.6	2.4	4.9	–0.8	0.4	14.9
Veterans' Benefits	8.8	5.4	8.7	16.6	21.2	26.3	29.1	37.9	47.1	70.2	108.4
Net Interest on Debt	4.8	7.0	14.4	23.3	52.6	129.5	184.2	232.1	222.9	183.9	220.4
All Others‡	9.7	8.0	29.7	64.7	176.3	109.6	213.7	217.8	303.9	500.0	685.8
Total	45.6	92.2	195.7	332.3	590.9	946.4	1,251.8	1,515.9	1,789.2	2,472.2	3,457.1

*Estimated.

†Income security includes public assistance, food stamps, railroad and federal employee retirement benefits, and unemployment compensation.

‡"All Others" includes international affairs, science, space, transportation, education, commerce, community development, justice, health, and general government.

Source: Budget of the United States Government, Fiscal Year 2014, Historical Tables (Washington, DC: Government Printing Office, 2008), Table 3.2.

These changes in the composition of the budget reflect changes in national policy priorities. They also have important consequences for the politics of the budgetary process. Persons directly affected by governmental programs have organized to defend and increase their benefits and have become major participants in the budgetary process. This development has made budget decisionmaking both more political and more difficult. AARP (formerly the American Association of Retired Persons), for instance, with its many millions of members and hundreds of staff people, strongly opposes efforts to cut back Social Security and Medicare benefits. Even in an age of trillion-dollar budgets, there is not enough money to meet all demands. As elsewhere in the political process, those who are of higher socioeconomic status and are organized tend to fare better than the poor or unorganized.

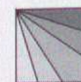
The budget conveys a good overview of the government's total set of policies for the fiscal year it covers. In the budget, one can find or extract answers to such policy issues as the balance between private and governmental (national) spending, the balance between civilian and military spending, whether medical research (including AIDS research) will be accelerated or slowed, whether welfare spending in general as well as spending for specific welfare programs will be expanded or contracted, whether more or less regulation is planned for surface or strip-mining, and whether more or less emphasis will be given to environmental protection. This happens because the budgetary process, within the framework of substantive law, is a means for making choices among competing social values and allocating resources for their attainment. The budget is not simply a financial statement; it is also a statement of policy. Conflicts over money are usually conflicts over policy.

The budgetary process also provides the president and Congress with an opportunity to review periodically the various policies and programs of the government, to assess their effectiveness, and to inquire into the manner of their administration. Not every policy and program will be examined in detail every year, but over a few years most, if not all, will come under scrutiny. Thus, the budgetary process provides a continuing opportunity for exerting presidential and congressional influence and control over implementation of policies. Favored agencies and programs are likely to prosper; those under attack, whether for wasting money, harassing citizens, or misconstruing policies, may suffer cutbacks and restraints.

Consider the plight of the National Endowment for the Arts (NEA). Many conservatives, inside and outside of Congress, had never been enamored with the NEA, believing that support of the arts was not an appropriate or necessary national activity. In 1989, congressional conservatives were galvanized because two art exhibits that they considered pornographic were sponsored by an organization partly funded by the NEA. (Good art, as is known, is not easily specified.) They called for "zeroing out" NEAs appropriation. With the help of the Clinton administration and congressional supporters, the NEA was able to survive, but at the cost of a severe cutback in its appropriation. For several years the NEA's funding remained flat, hovering around $100 million annually.

Only recently did the NEA's funding begin to rebound. The conservative assault had important consequences for the agency.

Although most of the budget decisions made during a given year are incremental, involving marginal increases or decreases in agency funds, this constraint does not diminish their importance. At a minimum, they mean that an agency or program will continue to operate. Beyond that, incremental expansion of an agency's funding, compounded over a number of years, can significantly enlarge its budget.



Fiscal Policy

In addition to being used to finance the government's activities and policies, the budget can also be used as an instrument to stabilize the economy, to help prevent inflation or recession.[5] Fiscal policy involves the deliberate use of the government's taxing and spending powers to stimulate or restrain the economy by incurring budget deficits or surpluses, respectively. Briefly stated, according to Keynesian economic theory, a budget deficit, or a larger budget deficit, by putting more money into the hands of people and businesses, adds to the total demand for goods and services in the economy, thereby stimulating the economy. Conversely, a budget surplus, or a smaller budget deficit, will extract money from the economy and reduce the total demand for goods and services, thereby imposing restraint on the economy.

Major reliance was placed on fiscal policy in the 1960s and 1970s by presidential administrations trying to stabilize the economy. However, the large budget deficits annually incurred by the government in the 1980s and 1990s, along with the existence of strong antitax attitudes, "neutralized" fiscal policy by foreclosing most major changes in taxing and spending rates.[6] Some argued, however, that the deficits provided continuing stimulus to the economy. Regardless of which interpretation is more accurate, the budgetary situation shifted the task of economic stabilization to the Federal Reserve Board (FRB) and monetary policy, which relies on manipulating the interest rate and money supply to influence operation of the economy. The FRB has been especially concerned with combating inflation. Conservatives favor monetary policy because they view it as less intrusive and less likely to contribute to "big government."

Discretionary fiscal policy came back into play to combat the major recession that began in December 2007. Monetary policy under control of the FRB had proven insufficient though interest rates had been greatly lowered. Congressional leaders from both parties and Bush administration officials, in a spasm of bipartisanship, quickly put together and adopted the Economic Stimulus Act in February 2008. Intended to "jump-start" the economy, it provided for $180 billion in one-time lump-sum tax rebates to lower- and middle-income persons and business tax breaks to encourage investment. Most of the money went for tax rebates.[7] Senate Democrats had favored a more expansive bill, including funding for unemployment benefits and incentives for renewable energy

initiatives. These were abandoned in the interest of speedy action and because of Republican opposition.

As it turned out, the stimulus plan did not have the intended effect. Surveys revealed that much of the rebate money either was saved or used to pay down existing debts.[8] By the time the Obama administration took office on January 20, 2009, the recession had worsened. The economy was now mired in the sharpest downturn since the Great Depression. Unemployment was rising, reaching 8.5 percent in March, 9.8 percent in September, and finally reaching 10 percent.

Responding to President Barack Obama's call for quick action on major economic stimulus legislation, in a few weeks, the Democratic-controlled Congress passed the American Recovery and Reinvestment Act (ARRA). (Work had started on the legislation weeks before the inauguration.) Although the president made appeals for bipartisan support, the act received only three Republican votes in the Senate and none in the House, despite the president's appeals.

A massive, complex piece of legislation, the ARRA provided for $575 billion in increased expenditures and $212 billion in tax cuts and rebates.[9] Some Democrats and liberals said that a considerably larger amount was needed to provide adequate stimulus to the sagging economy. Republicans contended it was too large, full of pork, wasteful, even "socialistic." They succeeded in time in making "stimulus" an "eight-letter" word.

Expenditure programs in ARRA included infrastructure, public education, transportation, public housing, unemployment benefits, energy efficiency and research, and financial aid to the states. Emphasis was on activities that could quickly get underway (or "shovel ready," as it was sometimes put), although these were in limited supply. Most of the tax benefits went to individuals, although some tax breaks were awarded to businesses to placate Republicans.[10]

Controversy persists concerning the effects of ARRA. It is difficult to assess or measure. However, Republican claims that it "did not create a single job" are obviously sheer hyperbole. Jobs were created. The Great Recession would have been worse had there been no ARRA.[11]

The National Budgetary Process

The national budgetary process, as well as state and local budgetary processes, can be divided into four fairly distinct stages: preparation, authorization, execution, and audit. Auditing, which involves checking on expenditures for evidence of illegality, waste, or abuse, is handled by the Government Accountability Office and the Offices of Inspector General located in many departments and agencies and will not be discussed here.

The president's budget, which is supposed to be sent to Congress in February (in 2013 it did not arrive until early April), covers a single fiscal year. The budget year that extends from October 1, 2013, through September 30, 2014 is designated fiscal year (FY) 2014, taking its name from the calendar year in which it ends. Table 5.2 outlines the national budgetary process and indicates the time sequences

TABLE 5.2

Major Steps in the National Budget Process

Stage	Activity	Timing
Formulation of the president's budget for FY 2014	Agencies develop requests for funds and submit them to OMB. The president makes the final decisions on what goes into the budget.	February–December 2012
Budget preparation and transmittal	The budget documents are prepared and sent to Congress.	December 2012–February 2013
Congressional action on the budget	Congress reviews the president's budget, develops its budget resolution, and approves spending and revenue bills.	March–September 2013
Fiscal year begins		October 1, 2013
Budget execution	Agency officials execute the budget as enacted into law.	October 1, 2013–September 30, 2014
Audit		Before or after the end of the fiscal year

Source: Office of Management and Budget.

involved (ideally) for FY 2014. It should be noted that from the initiation of budget preparation through the close of the fiscal year some thirty months elapse. This contributes to uncertainty in fiscal planning and decision-making.

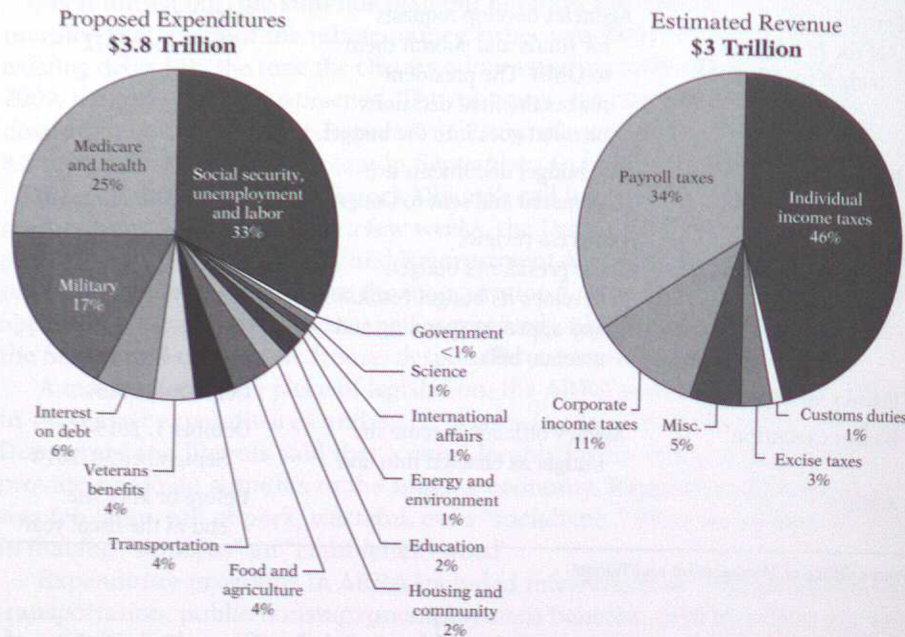
The budget also covers the nine years following the fiscal year (say 2014) for which it is intended. These are called the "out years." This practice is intended to convey information on the longer term effects of budget decisions. The further into the future, the spongier these projections are likely to be. A broad look at the FY 2014 budget is provided in Figure 5.1.

Executive Preparation The executive budget system set in place by the Budget and Accounting Act of 1921 required agencies (Congress and the Supreme Court are exempted) to transmit their budget requests to the president for approval before they were sent to Congress in a single, comprehensive budget document. The BOB was delegated authority to "assemble, correlate, revise, reduce, or increase the estimates." In its early years, BOB acted on the assumption that its major task was to hold down agency spending and ensure efficiency and economy in the operation of the government. This orientation continues to motivate the Office of Management and Budget (OMB).

Preparation of the national budget within the executive branch begins nine months or so before it is sent to Congress in February. Most of the day-to-day work in developing the budget is handled by the OMB and the executive departments and agencies. Acting on the basis of presidential directives, the OMB provides

FIGURE 5.1

Budget for Fiscal Year 2014



Source: nationalpriorities.org/analysis/2013/president-obamas-fiscal-year-2014-budget/

instructions, policy guidance, and tentative budget ceilings to help the departments and agencies assemble their budget requests. The latter, which are directly and specifically affected by budget decisions, and which are normally believers in the value and necessity of their programs, are expected to act as the advocates of increased spending (appropriations). What they request is subject to review and revision, upward or downward, by OMB in accordance with the policies and programs of the president.

Because the "policies and programs" of the president are not subject to precise definition, OMB has latitude in determining what is consistent with them. Agencies sufficiently aggrieved by OMB decisions may try to appeal them to the president, who more often than not will uphold the OMB. Some presidents (Richard M. Nixon, for one) have discouraged the appeal of OMB decisions, however, thereby letting OMB make the final decisions on agency appropriations requests.

Presidents typically do not become much engaged with budgetary details. An exception was President Bill Clinton. As budget expert Allen Schick states:

> Each budget bore Clinton's imprint: he actively participated in making budget policy was well informed on matters in dispute, and was familiar with salient details of federal programs.... He made decisions concerning the size and direction of government, the composition of tax legislation, and the shape of policy initiatives. He invested time in mastering the details of the budget, meeting with department heads to discuss their budgets and to resolve issues that remained after OMB completed its review.[12]

During the early years of the Reagan administration, a "top-down" budgetary process overlaid the traditional ("bottom-up") budgetary pattern, except for the Department of Defense. Basic budget decisions were made at the presidential level by the OMB director and others and, in effect, imposed on the departments and agencies. This sequence meant that departments and agencies had less budgetary influence and discretion than under the former bottom-up procedure. As time went on, however, the centralization of executive authority and ideological unity necessary to make top-down budgeting workable and acceptable waned within the administration. The budgetary process then inched back toward the traditional bottom-up pattern, in which the agencies have more influences on the size and content of their budget requests. Whether a subsequent presidential administration will be able to duplicate the early Reagan administration's budgetary control is problematical.[13]

The budget sent to Congress reflects presidential decisions and priorities on such matters as its overall size, its possible effects on the economy, its major directions in public policy, and its allocation of funds among the major agencies and programs. Lyndon Johnson in 1967 wanted both "guns and butter"—increased spending for both the Vietnam War and the social-welfare programs for his Great Society. Ronald Reagan in the 1980s, on the other hand, wanted less spending for various welfare and domestic programs and more spending for national defense. President George Bush's budget priorities in his first year in office were unclear. Campaigning for the presidency, he had advocated a "flexible freeze" on spending, no new taxes, and a reduction in the budget deficit. Although these goals were perhaps sufficient for campaign purposes, they did not amount to a real set of priorities. Once in office, he did little to clarify them.

Unlike his father, President George W. Bush never wavered on taxes—he was always in favor of tax cuts. However, he was not much concerned with spending and signed into law several bills providing for substantially more expenditures than he had recommended. Toward the end of his second term he took a stronger stance against spending increases; details, however, were beyond his purview.[14]

Presidential and congressional discretion in making budget decisions is constrained by the fact that two-thirds of national expenditures are direct or mandatory in nature and do not depend upon annual appropriations. Most direct spending is accounted for by entitlement programs such as Social Security, Medicare, Medicaid, food stamps, federal retirement benefits, veterans' pensions, Guaranteed Student Loans, agricultural income-support payments, and many grant-in-aid payments to the states. Interest payments on the national debt, while technically not an entitlement, are clearly mandatory. Entitlement programs are so called because everyone meeting the eligibility standards is legally entitled to benefit payments on the basis of a formula spelled out in law. Direct expenditures, whether entitlements or otherwise, represent

continuing obligations and commitments that can be modified or eliminated only if the statutes authorizing them are amended.

Entitlement programs are typically funded by permanent, open-ended appropriations—that is, the payment of benefits is authorized to all who are eligible and apply, whatever the ultimate total may amount to. Surprisingly, for instance, some people eligible for Medicaid benefits do not request them.

Many of the entitlement programs are indexed to the consumer price index in order to maintain the real purchasing power of recipients. Consequently, expenditures for these programs automatically rise during inflationary periods. Much of the indexing was put in place during the early 1970s, when inflation was low, and consequently, automatic increases were low. As inflation became stronger, the increases became larger and contributed to rising entitlement expenditure levels. Sometimes referred to as "automatic government," at the time it was instituted, indexation was a technique that policy-makers also could use to avoid being blamed for potentially unpopular decisions.[15] Entitlement-program beneficiaries have been able to mobilize strong political support for the retention of indexation. Thus, indexation stands as another practice that inhibits the ability of the president and Congress to control expenditures or to alter budget priorities.

Much of the one-third of national spending classified as discretionary falls within the national security area and, as a political matter, even with the demise of the Soviet Union and the end of the Cold War, is not subject to extensive alteration.[16] Department of Defense officials and their congressional and corporate allies successfully argued that reductions in military personnel and weapons procurement would weaken military preparedness and the capacity of the armed forces to simultaneously conduct two major military operations, should such be necessary. There was also concern that military cutbacks would adversely affect the economic well-being of localities that are home to defense contractors and military installations. After limited success in reducing defense expenditures in its first term, the Clinton administration shifted ground and sought increased military spending in its second term. The September 11 terrorist attack produced pressure for a major increase in defense spending (see Table 5.1). The decisions to go to war in Afghanistan and Iraq further led to increased defense spending.

All of this means that when pressures develop to cut government spending, the primary target is likely to be domestic discretionary spending, which accounts for only about one-sixth of total spending. This money goes to support a broad array of law-enforcement, education, regulatory, welfare, housing, natural-resource, agricultural, and other programs—in short, much of what government does. Spending in these areas was strongly squeezed since the 1990s because of pressure to reduce government spending in the name of deficit reduction.

A point needs to be made explicitly here before we move on. With few exceptions (the food stamp program is one), only discretionary spending programs go through the appropriations process sketched out in this section. Unless the laws on which they are based are changed, funding is automatically provided for mandatory or entitlement programs, sufficient to meet all obligations.

Congressional Authorization The Constitution provides in Article I that "no money shall be drawn from the treasury, but in consequence of appropriations made by law," which means appropriations legislation enacted by Congress. To begin, two distinct steps are usually involved in the funding of public policies and programs. First, substantive legislation has to be enacted establishing a policy or program (e.g., the Clean Water Act) and authorizing the expenditure of money in its support. Second, money actually has to be made available for the policy or program by the adoption of appropriations legislation. The House has had a rule since 1833 stating that "no appropriation shall be reported in any general appropriations bill, or be in order as an amendment thereto, for any expenditure not previously authorized by law." (This rule, like other congressional rules, is sometimes waived.)

Authorization legislation is handled by the substantive or legislative committees (such as Agriculture, Commerce, and Armed Services), and appropriations legislation is the domain of the House and Senate Appropriations Committees. Programs for which funding is authorized sometimes either go unfunded or are funded at levels lower than those authorized. The foreign-aid program has frequently been funded below its authorized level. Different committees, members, and processes in Congress can produce different policy results.

The legislative committees have sometimes circumvented the appropriations committees and the obstacles they represent by resorting to "backdoor spending," which takes a number of forms. Backdoor spending may involve authorizing an agency to borrow money from the Treasury, which the agency can then spend. Or it may involve authorizing an agency to contract for purchasing goods and services. Subsequently, funds will have to be appropriated to cover the borrowing or contracts. The alternative would be for the government to renege on its commitments, which is highly unlikely. Entitlement spending also falls within the backdoor category. The House Appropriations Committee has been especially opposed to backdoor practices because they effectively diminish the committee's authority over agency spending.

For purposes of legislative enactment, the president's budget, which comes to Congress as a document of several hundred pages, is divided into twelve appropriations bills (e.g., for defense, energy and water development, interior and related agencies, and foreign operations; see Table 5.3). These are then referred to the House Appropriations Committee, which by long custom acts first on the budget. Its twelve subcommittees hold hearings, at which agency officials and others testify in explanation and defense of their budget requests, and otherwise do most of the detailed legislative work on the budget. In reviewing agencies and their programs, the members of Congress may seek information on topics such as these[17]:

1. Existence. Is the agency or the program necessary? Should it be modified or retained? Abstractly, it is easy to state that ineffective agencies or programs should be "zeroed out." It is the rare agency or program, however, that does not have some supporters who are intensely committed to it and may also directly benefit from it.

TABLE 5.3
Annual Appropriations Bills

Annual Appropriations Bills
Agriculture
Commerce–Justice–Science
Energy–Water
Financial Services
Homeland Security
Interior–Environment
Labor–Health and Human Services–Education
Legislative Branch
Military Construction–Veterans Administration
National Defense
State Department–Foreign Operations
Transportation–Housing and Urban Development

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2. Objectives. What are the goals of an agency or a program? Are they the correct ones? Are they appropriate for government? What does one decide when goals are multiple and conflicting? Or unclear?
3. Results. What is the program accomplishing? What societal changes (outcomes), intended or unintended, flow from it? Can the agency demonstrate results, as required by the Government Performance and Results Act? (See the chapter titled "Policy Impact, Evaluation, and Change.") Are there complaints about agency or program operations?
4. Line-item changes. Why does the agency want more money for personnel, equipment, or other matters? Why does it cost so much to administer a program, such as predator control or airline security? What will be the costs of a proposed new program? What will be accomplished by an agency or program with increased funding?

Hearings often focus on the fourth item, which involves changes in the level of an agency's program funding. This is both easier and more determinate than is deciding whether a program is necessary or what a program has accomplished or might accomplish. Members appear more comfortable in dealing with the financial aspects of agency operations. They are also much interested in how an agency's activities and expenditures will affect their constituents.

The subcommittees' recommendations are usually accepted with only minimal change by the full Appropriations Committee. In turn, its recommendations are customarily approved by the House with few changes. As a consequence of this pattern, detailed decision-making on appropriations is handled by small groups of House members with a strong interest in the programs with which they deal.

The Senate Appropriations Committee, to which appropriations bills passed by the House are sent, does not examine budget requests as intensively as does the House. Rather, the Senate Appropriations Committee tends to focus on "items in dispute," and serves as an appellate body to which agencies that have had their budget requests reduced in the House can appeal for restoration of at least a portion of the cuts. The Senate frequently responds positively to such pleas.

Conference committees drawn from the members of the relevant subcommittees are used to resolve the differences between the House and Senate versions of appropriations bills. Conflict resolution here often involves "splitting the difference" between the two bills. Compromises are considerably easier to reach on money matters than on social issues such as abortion, school prayer, or gun control. The latter involve "moral" choices on which it is hard to compromise or divide up the difference. Because its members are more specialized and better informed, and have more time and determination, the House usually does better than the Senate in appropriations conferences.[18]

The budgetary process also provides legislators with opportunities to pass legislation that would likely not be enacted on its own by inserting it into appropriations bills. For instance, in 2000 a lobbyist persuaded Representative Jo Ann Emerson (R, Missouri) to insert a couple of paragraphs in a 712-page appropriations bill providing for the Data Quality Act. Almost no one else understood what was involved.[19] The Data Quality Act has been used mostly to complicate and obstruct regulatory rulemaking, as intended. Policymaking is sometimes done by stealth.

BUDGETARY DECISION-MAKING The 1950s and 1960s were the heyday of budgetary incrementalism.[20] Economic growth made more revenue available to the government each year; consequently, most agencies requested, and the president typically recommended, increased funding for their programs for the next year. In incremental budgeting, an agency's budget for the current year became its "base"; the additional funds sought for the next year were an "increment," which was to be used to improve or expand its activities and which represented its "fair share" of the government's additional revenues. Congressional examination of agency budget requests centered on the increments; the frequent result was a congressional decision to provide an agency with more funds than it had in the current year but less than the president's recommendation for the next. This permitted members of Congress to claim that they were holding down or cutting spending at the same time that they were increasing funding for public programs.

Incremental budgeting was depicted by its proponents as a good budgeting process because it lessened conflict over budgetary issues, simplified budgetary decision-making by reducing the need for information and planning, and contributed to stability and predictability in budgeting. Critics contended that incrementalism was a barrier to rational decision-making and change that it assumed a situation involving only public officials, and that it did not adequately acknowledge differences among budgetary actors in power and influence.[21]

Incrementalism continues to substantially characterize budgetary decision-making, although its scope has been restricted by the growth of entitlements, and for a time the reality of budget cutbacks altered the nature of the action.

Budgeting for agency and program reductions, or what budget expert Allen Schick calls *decrementalism*, produced conflict because of its redistributive effects.[22] More for one agency frequently meant less for another. Agency officials were often pleased to be able to hold cutbacks to modest proportions. In 1995, the House Republican majority sought to make large reductions in some agency budgets, or to eliminate entire agencies in their quest for a smaller national government. Many of these actions were fended off or mitigated by agency supporters in the House, Senate, or executive branch.

Most budget changes, whether incremental or decremental, continue to be limited or marginal in size. Agencies and programs with strong political support still fare best in the appropriations process. Budgetary decision-making can still be well-described as based on limited analysis rather than on systematic or comprehensive analysis. Incrementalism, in short, remains alive and doing well.

Baseline budgeting, though by no means comparable to incrementalism, has become an important aspect of budgetary decision-making. Essentially, baseline budgeting involves the estimation of the future budget implications of current policies, taking into account inflation and uncontrollable changes such as population growth, unemployment rates, and the extent to which people eligible for program benefits will seek them.[23] Changes in expenditures caused by new legislation or presidential actions are omitted from baseline projections. What the baseline projection does, in short, is project, on the basis of a number of assumptions, such as the expected inflation rate and growth in target populations, the real future costs of current policies. This can be done for next year, the next five years, or some other time period. It yields what are essentially imaginary numbers.

Baseline budgeting also involves making estimates of the future revenues that will be generated by existing tax programs. These estimates will depend upon the assumptions made about the rate of economic growth, employment levels, and other economic variables. As with spending projections, revenue projections will be as sound and accurate as the assumptions on which they are based. By manipulating assumptions, officials can increase or decrease projected future revenue and spending levels.

Although appropriate as a way for policy-makers to estimate future revenue and spending levels and the impact that policy changes will have on them, baseline budgeting also can be used for less laudable purposes. It can be used, for instance, to make a particular budget decision appear as a reduction or an increase, depending on one's preference. Take the case of the Reagan administration's famous fiscal 1982 baseline budget reduction of $35 billion in domestic spending. On a current law projection, which does not figure in inflation, the amount was estimated at $10 billion, a less impressive sum. Allen Schick provides an explanation for the choice of the larger figure:

> Why did the Republicans, who only a few years earlier lambasted the current policy [baseline] concept as biased and expansionary, embrace it in 1981, and why did the congressional Democrats go along with this method of measuring cutbacks? The simple but sufficient answer is that the Republicans wanted to magnify the reported savings, and the Democrats wanted the actual cuts to be less than they appeared to be. The ... baseline allowed the Republicans to claim more savings and the Democrats to save more programs, a happy combination for politicians facing difficult choices.[24]

Gimmickry and symbolic action are regular components of the budgetary process.

PRESIDENTIAL ACTION Following the completion of congressional action, appropriations bills are transmitted to the president for approval. Although these bills were once described as "veto-proof" because the continued operation of the government depends on the spending they authorize, recent presidents have invalidated this bit of conventional wisdom. A number of appropriations bills viewed as budget-busting or inflationary, or including funding for purposes not favored, have been turned down by the executive. Congress must then either rework the appropriations bill to meet presidential objections or seek to override the veto.

Presidents may also use their veto power more positively by threatening to wield it on an appropriations bill under congressional consideration. This threat may induce Congress to tailor the bill to fit presidential objectives and avoid the veto, especially if congressional leaders think the votes are not available for an override. This is really a form of strategic bargaining, in which the possibility of future action is used in an effort to influence current action.

Most of the nation's governors long have had item-veto authority, which enables them to reject, or perhaps reduce, particular items in a spending bill while approving most of the bill. This enhances their power vis-à-vis the legislature on appropriations. In comparison, the president has had to accept or reject a budget bill in its entirety. Consequently, provisions for pork-barrel projects or other matters objectionable to the president could get past him or her if incorporated in general appropriations bills that he or she felt compelled to approve.

Many presidents recommended that they be given the item veto. President Ronald Reagan, for example, frequently asserted that he would balance the budget if Congress gave him the item veto, ostensibly by rejecting wasteful pork-barrel projects. The Democratic majorities in Congress displayed scant interest in this proposal. Historically, Congress has jealously guarded its power of the purse; potentially, the item veto could produce a major shift in budgetary power from Congress to the executive.

In 1996, however, the Republican majorities in Congress, joined by many Democrats, passed the Line-Item Veto Act. They apparently saw this as a means of helping to bring government spending under control and balance the budget, matters that drew much public support.[25] It was provided that the law would not take effect until 1997, by which time many Republicans thought that President Bill Clinton would be out of office. Bad guess.

The Line-Item Veto Act authorized presidential cancellation of particular discretionary spending items, including items in lump-sum appropriations

that were described in the committee reports or manager's statements accompanying spending bills; authorization of new or expanded entitlement programs; and tax provisions affecting 100 or fewer beneficiaries. After signing the bill into law, the president had five days in which to cancel specific items. Such items, enumerated by the president in a special message to Congress, were automatically vetoed unless Congress passed a "disapproval bill" reversing the president's cancellations. This bill was subject to a presidential veto, which in turn could be overridden by a two-thirds vote of each house. This convoluted procedure was sometimes called *enhanced rescission*.

Opponents of the item veto feared that it might be used extensively as a pork-slashing tool or as a means of putting presidential pressure on legislators to support his programs or face rejection of desired projects.[26] As it turned out, President Clinton made limited use of the item veto. When he did veto items, members of both parties in Congress howled. In 1997, his vetoes of thirty-eight projects in a military construction bill were overridden.

The constitutionality of the item veto was quickly challenged by some adversely affected parties. Reaching the U.S. Supreme Court under expedited procedure, it was struck down by a 6-to-3 vote in June 1998.[27] "If the Line-Item Veto Act were valid, it would authorize the president to create a different law—one whose text was not voted on by either House of Congress or presented to the president for signature," said Justice John Paul Stevens for the Court. "If there is to be a new procedure in which the president will play a different role in determining the final text of what may 'become a law,' such change must come not by legislation but through the amendment procedures set forth in ... the Constitution."

In its short life span, the item veto had little impact on government spending. Efforts to overcome the Court's decision have gone nowhere.

The total amount of funds appropriated by Congress for a fiscal year does not deviate much from the president's recommendation. A change of 3 or 4 percent, up or down, would be exceptional. For FY 1995, for example, President Clinton sought $1,537 billion in new spending authority; Congress appropriated $1,540.7 billion. For some agencies and programs, however, congressional action may differ substantially from the president's requests, reflecting differences in policy priorities. In 2002, for example, the Bush administration requested a supplemental appropriation of $20 billion for antiterrorism programs. Of this sum, $7.4 billion was allocated for defense programs, $7.1 billion for disaster recovery in New York and other states, and $5.5 billion for homeland security. Unsuccessful in their efforts to appropriate a larger amount, the Senate Democrats altered the Bush request. As enacted, the appropriation provided $3.5 for defense, $8.2 for disaster recovery, and $8.3 billion for homeland security.

Action on all the appropriations bills, including presidential approval, is supposed to be completed before the beginning of the fiscal year on October 1. It is quite common, however, for some or all of the bills to be pending on that date. Only three of the appropriations bills for FY 2009 had been adopted when it began on October 1, 2008. In 2012, Congress "worsted" this performance by enactment of none of the appropriations bills by the start of FY 2013.

When this sort of inaction occurs, a continuing resolution (CR) will be needed to preclude shutdown of the unfunded agencies and programs. Continuing rules have been used for many decades. A CR may cover a few agencies or programs or it may take omnibus proportions and cover several or all of the appropriations bills. Under House rules, CRs are not considered to be regular appropriations bills. Consequently, just about anything can be stuck in them—unauthorized appropriations, substantive legislation, pork-barrel projects—without being subject to points of order and removed. Spending authorized by a CR for agencies and programs is usually the lower of either the previous fiscal year level or the president's budget recommendation.

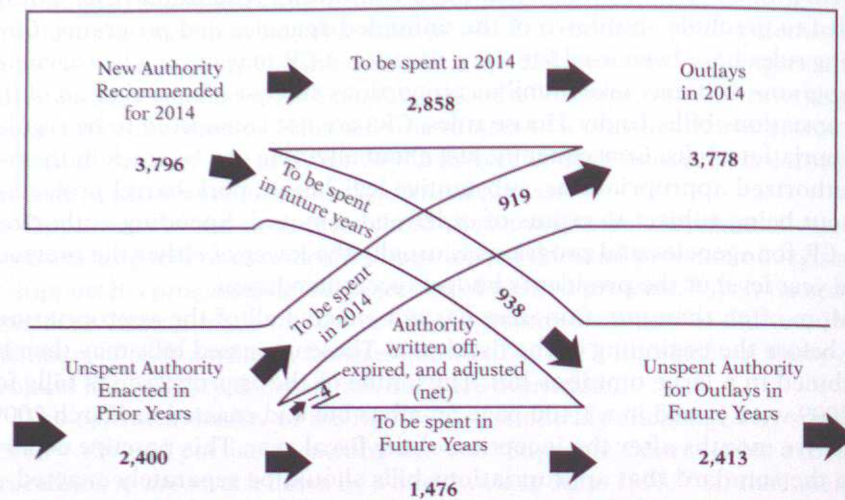
More often than not, Congress has not enacted all of the appropriations bills before the beginning of the fiscal year. These unpassed bills may then be combined in a large omnibus bill. Thus, nine of the appropriations bills for FY 2009 were joined in a 1,100-page omnibus bill and enacted in March 2009, some five months after the inception of the fiscal year. This practice departs from the standard that appropriations bills should be separately enacted. It also makes it more likely that many members will be poorly informed about what they are voting on. Omnibus bills often serve as the vehicles for legislation (riders) that could not move independently through the legislative process. And they were sometimes loaded down with earmarks; there were more than 8,000 in the 2009 omnibus bill. Since then, Congress has mended its ways.

Some technical aspects of budgeting now need to be confronted. An appropriations act creates budget authority (BA), which permits agencies to obligate (or commit) themselves for the expenditure or lending of money. When the money is actually paid out or expended, it is called an outlay. An agency must have budget authority before it can make outlays. When Congress considers and acts on presidential budget requests, the focus is on BA (a.k.a., appropriations). Discussion of budget deficits and surpluses, however, are concerned with outlays (or money that is actually paid out). The money that an agency obligates itself to pay out in a given fiscal year, however, may not actually go to the recipient until the next year or later. Many Department of Defense purchases of complex weapons systems may be paid to contractors over the course of several years. Many appropriations are for the current budget year only. If the money is not obligated, the agency loses it. Hence, "September buying" occurs. Also, budget authority may be good for a multiyear or indefinite period of time (a "no-year" appropriation). Thus, outlays or expenditures for a given fiscal year cannot be precisely known until after the year is over.

The relationship between appropriations and outlays is illustrated in Figure 5.2. In a given year, FY 2014, for instance, the money spent (outlays) will come from both that year's budget and previous budgets (in the form of unspent authority). Also, some of the funds appropriated for FY 2014 will actually be paid out in later years. Once money gets into the pipeline—that is, once expenditures are authorized—tremendous pressure grows to

FIGURE 5.2

Relationship of Budget Authority to Outlays for 2014 (billions of dollars)



Source: Budget of the United States Government, Fiscal Year 2014, Analytical Perspectives (Washington, DC: Government Printing Office, 2013), p. 130.

spend the money. If one wants to choke off government spending, the best time to act is at the appropriations (or authorization) stage in the budgetary process, before money enters the spending pipeline, but even then it is politically difficult.

THE CONGRESSIONAL BUDGET PROCESS In the decades immediately after World War II, the budgetary process had again become somewhat disjointed and chaotic. Appropriations and revenues were considered separately by different committees and processes. The budget surplus or deficit for a fiscal year was an "accidental figure," determined only when all the appropriations bills, considered separately, were enacted, totaled, and compared with available revenue. Dissatisfaction with this situation, concern about the rapid growth of governmental spending and continued budget deficits, and a desire for greater congressional attention to the fiscal-policy implications of the budget contributed to adoption of the Congressional Budget and Impoundment Control Act of 1974.[28]

The budgetary reform provisions of the act provide for a congressional budget process to coordinate the decentralized process by which budget decisions in Congress had been made. This procedure involves setting overall levels of revenues and expenditures and establishing priorities (and spending limits) among functional areas (such as agriculture, international relations, and transportation) included in the budget. New budget committees were created in the House and Senate to handle these tasks, subject to approval by the full houses. To assist the budget committees in their work, and to provide Congress with its own source of budgeting data and studies, a Congressional Budget Office (CBO) was established. The CBO has typically been more accurate than the OMB in making budgetary estimations and economic forecasts.

Based on their review of the president's budget proposal, and on information from CBO and other congressional committees, the budget committees produce a concurrent budget resolution that sets overall levels of budget authority, outlays, revenues, and the budget surplus or deficit.[29] The budget resolution also specifies spending ceilings for each of the functional areas. It is supposed to be passed by April 15, although this is rarely achieved, and it does not require presidential approval. The appropriations committees are then expected to perform their scrutiny and evaluation of agency budget requests within the policy framework provided by the budget resolution. (See Table 5.4.) In some years, Congress has been unable to pass budget resolutions because of House–Senate, Democratic-Republican differences.

Reconciliation legislation is subsequently adopted in most years to ensure that the revenue goals and spending limits in the budget resolution are actually met. In the reconciliation process, the taxation and the legislative committees propose changes in *existing* tax laws and entitlement programs (usually to increase revenues or cut spending by specified amounts). These proposed changes are packaged by the budget committees into a single omnibus reconciliation bill, which must be adopted by both houses and, unlike the budget resolution, signed into law by the president. Reconciliation, which makes permanent changes in the affected policies and programs, has been used to cut entitlement spending, increase taxes, modify discretionary programs, and sell government assets.[30]

Reconciliation was first used in 1980 under the Carter administration to make a modest reduction in the budget deficit for FY 1981. The next year the Reagan administration and the Republican leadership in Congress employed

TABLE 5.4

The Congressional Budget Process

February	Presidential budget is sent to Congress on the first Monday of the month.
March 15	Standing committees send their budget estimates to the House and Senate budget committees.
April 1	Budget committees report budget resolutions to the House and the Senate.
April 15	Congress adopts a concurrent resolution setting targets for revenues, budget authorities, and outlays.
May–July	House completes action on appropriations bills.
July–September	Senate acts on appropriations bills; conference committees resolve differences; appropriations are enacted.
September	Reconciliation legislation enacted if needed.
October 1	Fiscal year begins; continuing resolutions are passed if all appropriations have not been enacted.

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reconciliation to impose a $35 billion cutback in baseline spending. This constitutes the most sweeping use of reconciliation to the present time.

Observers seem to agree that the new budgetary process has improved the quality of congressional decision-making on the budget. More and better budgetary information is available to Congress. Budget decisions are more fully considered and debated, and members of Congress are compelled to address the overall dimensions of the budget. The budget decision-making process has been made more complex by the new procedures and participation by the budget committees. Conflict sometimes occurs between the budget committees and the appropriations and tax committees. The House Appropriations Committee, once famed for its role as "guardian of the Treasury," and its subcommittees have consequently become more protective of their members' favorite agencies and programs. This change in committee behavior illustrates one of the propositions of systems theory, namely, that change in one part of a system will produce changes elsewhere in the system.

Budget Execution

The obligation and actual expenditure (or outlay) of funds, once appropriated, rest with the various departments and agencies. To begin spending, however, they must first secure an *apportionment* from the OMB, which is authorized by the Antideficiency Act of 1905, as amended. An apportionment distributes "appropriations and other budgetary resources" (e.g., the authority to borrow money) to an agency "by time periods [usually quarterly] and by activities in order to ensure the effective use of available resources and to preclude the need for additional appropriations."[31] The OMB may also direct agencies to set aside funds for contingencies or not to spend funds when greater efficiency in operations or altered needs permit savings to be achieved without restricting accomplishment of agency goals.

The discretion that officials have in spending funds and achieving objectives is significantly affected by the language included in appropriations laws. Executive officials prefer to have broad discretion to decide whether to spend funds or to shift funds among programs (reprogramming). Congress does sometimes provide agencies with "lump-sum" or very broad appropriations that confer much spending leeway, albeit within boundaries set by the substantive legislation governing agency action.

Figure 5.3 is the section of the 2010 Agriculture Appropriation Act pertaining to the Animal and Plant Health Inspection Service (APHIS). The amounts of money that can be expended on various programs are specified, some limitations and conditions are imposed, and some transfer of funds from other Department of Agriculture programs is permitted. Some of the money is available to the agency until expended. This is a "no-year" appropriation. The agency is also authorized to collect fees for some of its services and retain them until expended. The president's budget contains more information about the programs and activities of APHIS.

FIGURE 5.3

Appropriation for the Animal and Plant Health Inspection Service, Fiscal Year 2010

PUBLIC LAW 111–80—OCT. 21, 2009 123 STAT. 2097

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

SALARIES AND EXPENSES

(INCLUDING TRANSFERS OF FUNDS)

For necessary expenses of the Animal and Plant Health Inspection Service, including up to $30,000 for representation allowances and for expenses pursuant to the Foreign Service Act of 1980 (22 U.S.C. 4085), $904,953,000, of which $24,410,000 shall be for the purposes, and in the amounts, specified in the table titled "Congressionally Designated Projects" in the statement of managers to accompany this Act, of which $2,058,000 shall be available for the control of outbreaks of insects, plant diseases, animal diseases and for control of pest animals and birds to the extent necessary to meet emergency conditions; of which $23,390,000 shall be used for the cotton pests program for cost share purposes or for debt retirement for active eradication zones; of which $5,300,000 shall be for a National Animal Identification program; of which $60,243,000 shall be used to prevent and control avian influenza and shall remain available until expended: *Provided*, That funds provided for the contingency fund to meet emergency conditions, information technology infrastructure, fruit fly program, emerging plant pests, cotton pests program, grasshopper and mormon cricket program, the plum pox program, the National Veterinary Stockpile, the National Animal Identification System, up to $1,500,000 in the scrapie program for indemnities, up to $1,000,000 for wildlife services methods development, up to $1,500,000 of the wildlife services operations program for aviation safety, and up to 25 percent of the screwworm program shall remain available until expended: *Provided further*, That no funds shall be used to formulate or administer a brucellosis eradication program for the current fiscal year that does not require minimum matching by the States of at least 40 percent: *Provided further*, That this appropriation shall be available for the operation and maintenance of aircraft and the purchase of not to exceed four, of which two shall be for replacement only: *Provided further*, That, in addition, in emergencies which threaten any segment of the agricultural production industry of this country, the Secretary may transfer from other appropriations or funds available to the agencies or corporations of the Department such sums as may be deemed necessary, to be available only in such emergencies for the arrest and eradication of contagious or infectious disease or pests of animals, poultry, or plants, and for expenses in accordance with sections 10411 and 10417 of the Animal Health Protection Act (7 U.S.C. 8310 and 8316) and sections 431 and 442 of the Plant Protection Act (7 U.S.C. 7751 and 7772), and any unexpended balances of funds transferred for such emergency purposes in the preceding fiscal year shall be merged with such transferred amounts: *Provided further*, That appropriations hereunder shall be available pursuant to law (7 U.S.C. 2250) for the repair and alteration of leased buildings and improvements, but unless otherwise provided the cost of altering any one building during the fiscal year shall not exceed 10 percent of the current replacement value of the building.

In fiscal year 2010, the agency is authorized to collect fees to cover the total costs of providing technical assistance, goods, or services requested by States, other political subdivisions, domestic and international organizations, foreign governments, or individuals, provided that such fees are structured such that any entity's liability for such fees is reasonably based on the technical assistance, goods, or services provided to the entity by the agency, and such fees shall be credited to this account, to remain available until expended, without further appropriation, for providing such assistance, goods, or services.

In recent years the Congress, under Republican leadership, has frequently included, or tried to include, specific restrictions in appropriations laws. Such provisions are negatively phrased, that is, "None of the funds provided in this Act shall be used for [a specified purpose]." These provisions, in effect, make policy in the guise of spending limitations. A classic example of a limitation provision is the Hyde amendment (named for former Representative Henry Hyde, R, Illinois), which provides: "None of the funds appropriated under this act shall be expended for any abortion except when it is made known to the federal entity or official ... that such procedure is necessary to save the life of the mother, or that the pregnancy is the result of an act of rape or incest." This provision has been included in several appropriations laws.[32]

The committee and subcommittee reports accompanying appropriations bills are commonly used to specify how members of Congress think funds should be spent and to help shape policy. The following example comes from the House Appropriations Committee's report on the annual appropriation for the Food Safety and Inspection Service (FSIS), located in the Department of Agriculture. FSIS has responsibility for regulating the meat and poultry industries to ensure that meat and poultry products are safe, wholesome, and accurately labeled.

> The Committee believes a HACCP regulatory reform process is needed to maintain the production of a clean, safe, quality meat product that ensures consumer confidence. The Committee believes its objective of timely implementation of regulations that make the strongest practicable improvement in food safety is dependent upon the development of workable, scientifically sound rules. Therefore, the Committee has included language directing the Department to convert the rulemaking on Pathogen Reduction, Hazard Analysis and Critical Control Point (HACCP) Systems, the so-called "Mega-Reg," to a negotiated rulemaking procedure. The Committee expects that the Department will be able to develop more effective food safety rules due to the quality of input this procedure will permit regarding issues addressed in this rulemaking and related regulatory requirements. Further, the Committee directs the Department to proceed expeditiously with this rulemaking to avoid significant delay in the promulgation of modernized meat and poultry regulations. Specifically, the Department is expected to act promptly to initiate a negotiated rulemaking and to require a report from the negotiated rulemaking committee within nine months of its establishment.[33]

The negotiated rule-making specified by the committee in its convoluted language is authorized by the Negotiated Rulemaking Act (1990). Here, it was intended to provide meat-industry groups with greater opportunity to intervene and soften the content of new meat and poultry regulations. Designed to reduce bacterial contamination, the new rules did not bear down as hard on the meat-packing industry as consumer groups had hoped, though they were better than the "poke and sniff" method. Also, the new rules could be enforced more stoutly.

The funding of pork-barrel projects that benefit particular localities or groups—such as a railroad museum, a blueberry research program, research on reduction of hog manure odor, or a highway interchange—was also frequently provided in committee reports. There it may be stated that the committee hopes, expects, or directs that funding will be used for specified purposes. Although committee and subcommittee reports are not legally binding on agencies, it is impolitic for officials to ignore them. Members of Congress may subsequently call to account those who disregard committee instructions.

The practice of presidential impoundment of funds has frequently stirred controversy with Congress.[34] The first impoundment on record was made by President Thomas Jefferson, who withheld funds for a couple of gunboats to operate on the Mississippi River. With the Louisiana Purchase in 1803 and the departure of the French from the New World, there was no longer need for them. Since then, presidents have claimed and exercised authority to prevent expenditure of funds for purposes they disagreed with on budgetary or policy grounds. Presidents Truman and Eisenhower refused to spend funds for military programs that they had not requested. President Lyndon Johnson impounded billions of dollars to combat inflation, although much of what he held back was subsequently released. Until the 1970s, impoundment was usually done on a selective and limited basis, and although some dissatisfaction was created and voiced in Congress, major confrontations were avoided.

President Nixon, however, precipitated an intense political conflict over impoundment that made it a high-priority item on the national policy agenda. Following his reelection in 1972, he decided to use an administrative strategy to "take on the bureaucracy and take over the government." One facet of this strategy entailed extensive impoundment of appropriations for water-pollution controls, mass transit, food stamps, medical research, urban renewal, agricultural programs, and highway construction. These impoundments "were unprecedented in their scope and severity."[35] Numerous rationales were provided, including the need to prevent the inflationary effects of "reckless" spending and the existence of inherent and implied executive power under the Constitution to take such action. In various instances, however, it was apparent that presidential impoundment was simply being used to reduce or eliminate congressionally authorized programs of which the administration disapproved. Nearly all the impoundments were challenged by adversely affected parties and were held to be illegal by the federal courts.[36]

Congress was provoked into action by the Nixon impoundments and included some controls on impoundment in the 1974 budget law. Under the act, a deferral of expenditures, in which the executive seeks to delay or stretch out spending until a time in the fiscal year when it is needed, could be done unless or until either house of Congress voted to disapprove. In contrast, an executive rescission of funds, which cancels budget authority and thus stops the expenditure of funds, becomes effective only if, within forty-five days of

notification, both houses pass a rescission bill. In actuality it is not always easy to distinguish deferrals from rescissions. Overall, the new impoundment procedures gave Congress more (and the executive less) authority over spending and made appropriations legislation more of a mandate for agencies to spend allocated funds.

In *Immigration and Naturalization Service* v. *Chadha* of 1983,[37] a case involving a minor immigration matter, the Supreme Court declared unconstitutional the use of the legislative veto. The legislative veto was held to permit Congress or its committee to disapprove rules or actions of executive agencies and officials, such as deferral of spending, in violation of the Constitution's presentment clause, which requires that bills must be presented to the president for approval or veto before they become law. Did this ruling mean, then, that the president could still engage in deferral of spending although Congress, if it so desired, could not veto the actions? This issue came to a head when President Reagan moved to defer expenditure of $5.1 billion for housing and related aid to low-income people. This action was quickly contested in the courts. In May 1986, a federal district court, later upheld by an appeals court, ruled that the president no longer had deferral authority under the 1974 budget law. Both courts took the view that Congress would not have given deferral authority to the president without retaining a legislative veto for itself. Hence, when the legislative veto perished, deferral authority for the president, based on policy or programmatic premises, also bit the dust. Deferrals based on the Antideficiency Act are still permitted. These provide for contingencies or take into account savings made possible through changes in requirements or efficiencies in operations.[38]

The problem pointed up in the controversy over deferral applies to the budgetary process generally: What is the appropriate balance between presidential discretion and congressional control in spending? In cases of conflict, whose judgment should prevail? It would be much easier to answer these questions if only managerial matters were at stake. As we have seen, though, the budget is a policy document that reflects major policy values and priorities, a characteristic that makes budgetary decision-making much more contentious.

Among others, economists disagree about the importance of budget deficits and their impact on the economy. Historically, however, popular belief in the desirability of a balanced federal budget has persisted. A balanced budget has been seen as emblematic of "prudent management," as a source of restraint on government, and as necessary to prevent shifting the costs of government to future generations. The notion that government, like a family, cannot live forever beyond its means is conventional wisdom. Almost all the American states constitutionally require an annually balanced budget. Most public officials have thought it wise to pay homage to the goal, sooner or later, of a balanced budget. Balancing the budget has often become a political issue, with the "out" party criticizing the party in the White House for its failure to balance the budget.

CASE STUDY

The Struggle to Balance the Budget

The national debt of the United States is a cumulation of annual budget deficits minus budget surpluses (which have been uncommon in the last half century). Except for a brief period in the mid-1830s, the nation has always had a national debt.[39] In the 1960s and 1970s, budget deficits were usually in the single-digit range, and thus did not add much to the national debt.

Change came in the 1980s with the Reagan administration. Government revenues declined because of a recession early in the administration and large tax cuts, in line with supply-side economics, which Reagan embraced. According to supply-side economics theory, tax cuts would encourage people to work, save, and invest, and the lower tax rates would "pay for themselves." It did not work out that way. Spending for national defense and entitlement programs increased. Revenues declined. The result: budgets of more than $200 billion annually. Many considered this alarming; some said the budget was "hemorrhaging." The national budget was raised a record eighteen times during Reagan's administration (see Table 5.5).

In this section, some efforts to devise and implement policies to bring the deficit, and the national debt, under control will be surveyed. It is a complex story, but then life is often not simple—except, perhaps, for the simple-minded.

Congress adopted the Balanced Budget and Emergency Deficit Control Act (better known as the Gramm-Rudman-Hollings Act) in December 1985. Public and congressional concern over the large budget deficits in the early 1980s provided the context and motivation for its enactment. Efforts to reduce the deficit by conventional budgetary procedures had been unsuccessful because of strong partisan differences between members of Congress (especially the Democrats) and the Reagan administration on military and social-welfare spending as well as tax increases.

The Gramm-Rudman-Hollings (GRH) proposal was introduced in the Senate in late September 1985 as an amendment to a bill authorizing an increase in the national debt, which was required to enable the government to continue borrowing money to meet its spending obligations. The amendment never received committee hearings or consideration in either house, however, although these are customary for legislation of such importance. The proposal required the president and Congress to eliminate the budget deficit within five years, either by regular budget procedures or, if these were unavailing, with automatic, uniform, across-the-board budget cuts implemented by the CBO and the OMB. Described by Senator Warren Rudman (R, New Hampshire) as "a bad idea whose time had come," within a couple of weeks the Republican-led Senate had passed the measure by a 75-to-24 vote. This indicates how strongly the Senate felt compelled to do something about the deficit, even if its action was only symbolic.

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TABLE 5.5

Budget Receipts, Outlays, Surplus or Deficit, and Gross National Debt, Selected Years from 1940 to 2013, in Billions of Current Dollars

Year	Receipts	Outlays	Surplus or Deficit	National Debt
1940	6.5	9.5	−2.9	50.7
1945	45.2	92.7	−47.6	260.1
1950	39.4	42.6	−3.1	256.7
1955	65.5	68.4	−4.1	274.4
1960	92.5	92.3	0.3	290.5
1965	116.8	118.2	−1.4	322.3
1970	186.9	183.6	3.2	380.9
1975	279.1	332.3	−2.8	541.9
1980	517.1	590.9	−53.2	909.1
1985	734.1	946.3	−212.3	1,817.5
1990	1,032.0	1,253.2	−221.2	3,026.6
1995	1,351.8	1,515.8	−164.0	4,921.0
1996	1,453.1	1,560.6	−107.5	5,181.9
1997	1,579.3	1,601.3	−22.0	5,369.7
1998	1,721.8	1,652.6	69.2	5,478.7
1999	1,827.5	1,701.9	125.5	5,606.1
2000	2,025.2	1,788.6	236.4	5,629.0
2001	1,991.0	1,863.9	127.4	5,770.3
2002	1,853.2	2,011.0	−157.8	6,198.4
2003	1,782.3	2,157.6	−375.3	6,760.0
2004	1,880.0	2,290.0	−412.0	7,355.0
2005	2,153.9	2,472.2	−318.3	7,905.3
2006	2,407.3	2,655.4	−248.2	8,451.4
2007	2,568.2	2,730.2	−162.0	8,950.7
2008	2,524.0	2,983.0	−459.0	9,986.0
2009	2,105.0	3,517.7	−1,412.7	11,857.9
2010	2,162.7	3,457.1	−1,294.1	13,528.8
2011	2,303.5	3,603.1	−1,299.6	14,764.4
2012*	2,441.9	3,652.6	−1,201.7	16,207.0
2013*	2,763.6	3,754.2	−990.6	17,482.7

*Estimated

Sources: Economic Report of the President, 2013 (Washington, DC: Government Printing Office, 2013), p. 421, Table B-78.

After much to-ing and fro-ing by the House and Senate on the bill, negotiations were entered into by a small group of congressional leaders. Meeting in private sessions, they were able to hammer out an agreement; it was passed by both houses and signed into law by the president in mid-December 1985.

As adopted, the GRH required that the national budget deficit be reduced to $171.9 billion in FY 1987 and then be lowered annually by $36 billion until it reached zero in 1991. (In 1987, the zero date was reset to 1993 because the original targets were too difficult to reach.) At the insistence of the Democrats, a number of social-welfare programs and interest on the national debt were exempted from the automatic budget cuts, and only limited cuts were permitted for some health programs, including Medicare. These limitations indicated congressional priorities on spending.

If regular budget and appropriations action failed to reach the deficit target for a year, then uniform, across-the-board reductions, divided equally between defense programs and non-exempted domestic programs would be imposed. Because a large portion of the budget was exempted from these automatic reductions, the cutbacks would hit hard on non-exempt programs. This process was called *sequestration*.

The GRH sequestration process did not work well. By setting a deficit target to be reached at the beginning of a fiscal year, GRH encouraged short-term calculations and reliance on budgetary tricks. Costs could be shifted from the current year to an earlier or later one to improve budget figures. Budget projections (the "rosy scenario") could be used that met deficit targets at the beginning of the fiscal year, however, far off the mark that they might later prove to be. As a member of Congress remarked: "The President submits a budget that relies on very optimistic technical and economic assumptions and questionable savings proposals to meet the Gramm-Rudman deficit target. Congress attacks the assumptions and proposals as phony, but uses them in the budget resolution anyway." Congress did not want to take the political "heat" by using more accurate figures that would make it look like a big spender.[40] The Gramm-Rudman-Hollings Act became a policy failure.

Another chapter was added to the saga of budget-deficit reduction in 1990. By the time President Bush sent his proposed budget to Congress for FY 1991, it appeared that the budget deficit would be at least $150 billion.[41] As the months passed, the budgetary situation worsened, partly fueled by the recession afflicting the economy. By September the situation had become ominous; deficit predictions for the FY 1991 reached $170 billion. (The actual deficit turned out to be $269 billion.)

During spring and summer, desultory budget negotiations between the White House and Congress had been unproductive. President Bush continued for a time to stick with his ill-advised 1988 campaign pledge of "Read my lips. No new taxes." In June, under pressure from Democratic congressional leaders, he backed away from his "no new taxes" position: everything was put on the table. As the beginning of the 1991 fiscal year neared, bargaining became more intense, and finally, agreement on a package of tax increases and spending cutbacks was reached at the end of September. Dissatisfaction about this agreement was rife, and it was rejected in the House by an "unholy" alliance of liberal Democrats and conservative Republicans. The latter, led by Representative Newt Gingrich (R, Georgia), were outraged by the president's violation of his "no new taxes" vow.

Negotiations between the White House and Congress resumed in the context of recriminations from both sides. At the end of October, agreement finally was reached on a new combination of tax increases, spending reductions, and budget procedures. With approval by both houses of Congress and the president, it became law as part of the Omnibus Budget Reconciliation Act (OBRA). Called the Budget Enforcement Act, its provisions are summarized here.

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For 1991 to 1993, the Budget Enforcement Act (BEA) established separate limits for discretionary spending: domestic, international, and defense. If spending exceeded the limits in an area, automatic cutbacks would be levied on all programs in that area. For 1994 and 1995, the BEA provided only a total discretionary-spending cap. In the mandatory spending area, a pay-as-you-go rule (PAYGO) applied; spending increases or tax decreases were permitted but only if offset by other spending decreases or tax increases. These BEA rules were later extended through FY 2002. Second, the act provided for various tax increases, including five cents a gallon on gasoline and a new 31 percent income-tax bracket. Third, new budget-deficit targets were specified, which could be adjusted (in all likelihood, upward) when economic conditions changed. The president and Congress could also designate "emergency spending" that was exempt from spending limitations. In all, it was predicted that the budget agreement would reduce projected budget deficits by $496 billion over the 1991 to 1995 period.

The budget deficit and what to do about it were major issues in the 1992 presidential campaign. Billionaire and independent candidate Ross Perot constantly harped about the need to eliminate the deficit. Democratic candidate Bill Clinton pledged to cut the deficit in half by the end of his first term. Once in office, however, he found this to be a daunting task. Not only did he want to increase government spending ("investment") for several purposes, but he also found that the budget deficit was larger than anticipated.

Early in 1993, the Clinton administration devised a budget plan combining tax increases (for instance, an energy tax based on the heat content of fuels and hikes in personal and corporate income taxes) and spending cutbacks in both discretionary and entitlement programs. The administration estimated that this plan would reduce the deficit by a total of $447 billion over a five-year period, thereby lowering the deficit in 1997 to around $200 billion. Democrats in Congress were generally supportive of the proposal, but Republicans sharply criticized it for including too many tax increases and insufficient spending decreases, and for not reducing the deficit enough.

Over the next several months, a titanic partisan political struggle took place in Congress, first over the adoption of a congressional budget resolution in line with the president's proposal and then over the enactment of reconciliation legislation to implement the budget resolution. The budget resolution passed by partisan votes of 240 to 184 in the House and 55 to 45 in the Senate. No Republicans voted in favor of the resolution, and only a few conservative Democrats voted against it. The budget resolution called for $246 billion in tax increases, mostly on higher-income groups, and $247 billion in spending cutbacks. The amount of spending cutbacks had been enlarged in the House to mollify conservative Democrats.[42]

Reconciliation legislation was required to implement the tax increases and entitlement spending reductions (about two-thirds of the $493 billion total). The remainder of the spending cutbacks (those in discretionary spending) was left to the appropriations committees. Partisan and interest-group conflict intensified over reconciliation because of its binding character. Clinton administration officials, including the president and vice president, had to do much persuading and bargaining in order to secure Democratic majorities sufficient for its enactment, there being little hope of picking up Republican votes.

The Omnibus Budget Reconciliation Act of 1993 was adopted by votes of 218 to 216 in the House and 51 to 50 in the Senate. Forty-one conservative House Democrats voted against it. In the Senate, Vice President Al Gore cast the tie-breaking vote as five Democratic senators joined the opposition. In addition to the gasoline tax, the reconciliation act increased corporate income taxes; added personal income-tax brackets of 36 percent and 39.6 percent, which hit higher-income individuals; and raised many user fees. Cuts were made in many spending programs, most notably defense and Medicare. In all, the act made several hundreds of changes in existing laws and programs.[43]

Although Republicans and conservative Democrats in 1994 called for additional spending cutbacks, the Clinton administration, preoccupied with such matters as reform of the nation's medical system that year, chose not to renew the deficit-reduction struggle.

The Republican majorities swept into Congress by the 1994 congressional elections made not merely deficit reduction but also balancing the budget top agenda items. They launched a two-pronged attack on the deficit. First, they sought to propose a constitutional amendment requiring an annually balanced budget, as was called for by the House Republicans' "Contract with America." Readily winning approval in the House, the amendment fell one vote short of the two-thirds approval needed in the Senate. Proponents of the amendment contended that it was needed to provide officials with sufficient motivation (or backbone) to balance the budget. Opponents questioned whether this would happen. Further, they argued that the annually balanced budget requirement would handcuff the government in dealing with economic fluctuations, especially recessions.

Dismayed, but undaunted by the failure to pass the balanced-budget amendment, the Republicans now trained their guns directly on the budget. In June 1995, once again sharply split along party lines, Congress passed a budget resolution calling for a balanced budget by the year 2002. To achieve this goal, over a seven-year period, spending was to be reduced by a total of $984 billion while taxes were to be cut by $245 billion. This arrangement represented a compromise between the tax-cutting and deficit-hawk segments of the congressional Republicans.[44] (The Clinton administration's proposed budget was ignored.)

The Republicans' attention then turned to the complex task of drafting reconciliation legislation to put their plan into law. Work on the reconciliation bill was not completed until late in November 1995. In final form, it specified, over a seven-year span, a reduction of $270 billion in

Medicare, $163 billion in Medicaid, $114 billion in entitlement programs for the poor, and a multitude of other cutbacks. The $245 billion in tax cuts included a $500-per-child tax credit for families with incomes under $110,000 and reductions in the capital-gains tax and various business taxes.[45] When the reconciliation bill reached President Clinton, it received the expected veto. Denouncing the bill as extreme and wrongheaded, the president said he would present a more acceptable proposal for balancing the budget by 2002. Indeed, negotiations on an alternative had been underway prior to his veto.[46]

To back up for a bit, when FY 1996 got underway on October 1, none of the appropriations bills had been enacted into law. Consequently, a continuing resolution providing for partial and temporary funding was enacted to permit the government to continue operating. When that resolution expired in November, a partial, four-day shutdown of the government occurred. In the parlance of budgetary negotiations, this was a "train wreck." Subsequently, another continuing resolution was passed to permit the government to resume full operations. Also, by this time (late November) a half-dozen appropriations bills had been enacted into law.

Following President Clinton's veto of the reconciliation bill, protracted negotiations over balancing the budget occurred between executive officials, including the president, and congressional leaders from both parties; these negotiations were not concluded until near the end of April 1996. During this time span the president vetoed three appropriations bills, another partial government shutdown lasting twenty-one days occurred, and a dozen temporary continuing resolutions were adopted. Much acrimony, wheeling and dealing, dissembling, and bargaining accompanied the negotiations.[47]

In April, with half of the 1996 fiscal year gone, five appropriations bills not enacted, and the likelihood of an agreement on a balanced budget a poor bet, the White House and the Republicans reached agreement on an omnibus appropriations bill to fund much of the government for the remainder of the fiscal year.[48] Both sides could claim some success. The Republicans succeeded in reducing discretionary spending by $20 billion below its 1995 level, in the process cutting funding for many agencies and programs and eliminating a substantial number of small programs. They also got President Clinton to agree to their goal of a balanced budget in 2002 and to using the more cautious CBO figures in making budget estimates.

For his part, President Clinton had been able to protect his priorities on education, job training, and the environment. For example, the EPA's budget was cut by about 10 percent, but that was less than half of the cut that was initially sought by the House Republicans. Also, almost all of the restrictive riders added by House Republicans to reorient regulatory policies were deleted. Except for agriculture, where the Federal Agricultural Improvement and Reform (FAIR) Act removed production controls as a condition for receiving income supports for most farmers, no major changes were made in entitlement programs.

When President Clinton sent his proposed budget for FY 1997 to Congress, he called for the national budget to be balanced by 2002. Because neither side wanted to renew the intense political struggle that had revolved around the 1996 budget, however, the action to achieve balance was restrained. For example, the Republicans decided to try to hold discretionary spending at its 1996 level rather than work for another round of substantial reductions, and plans for major changes in entitlement spending and for tax reductions were deferred until after the 1996 elections.

The 1996 elections resulted in the return of Clinton to the White House and reduced Republican majorities in Congress. This, plus continued public support for a balanced budget, convinced both sides that they needed to deal with one another.[49] The strong economy also made reaching a budget agreement easier because it produced more revenue. Serious negotiations ensued between Clinton administration officials and the Republican leadership. Although they were consulted, to their dismay, Democratic congressional leaders were not direct participants.

In the budget agreement concluded in May 1997, each side got some of what it wanted. The Republicans, for instance, got larger tax cuts than Clinton preferred, whereas Medicare reductions, which were less than the Republicans wanted, were more to his liking. He also got tax credits for education and additional discretionary funding. Further, it was agreed that the budget should be balanced by FY 2002. The spending caps initiated in 1990 were continued until then.[50]

The May agreement provided only the outlines of a deal; it became necessary to incorporate it in specific legislation. This task was complicated by disputes over what actually had been agreed upon (apparently there was no note-taker present). Also, most House Democrats were opposed to the agreement. The final terms of the agreement were incorporated in two reconciliation bills, which became law in August 1997. It was estimated that the Balanced Budget Act, for spending, and the Taxpayer Relief Act, for tax changes, together would reduce budget deficits by $204 billion over a five-year period.

The balanced budget arrived sooner than expected. The budget for FY 1998 produced a $69 billion surplus; surpluses followed for the next three fiscal years (see Table 5.5). Predictions of budget surpluses for the next decade and beyond replaced pessimism about the effects of budget-deficit reduction efforts and predictions of budget deficits for years to come. The CBO, which has a better record on these matters than the OMB, in early 1999 forecast that budget surpluses for the 2000–2010 period would cumulate to $2.6 trillion dollars. The future looked even better early in 2001 when OMB and CBO both forecast a cumulative surplus of $5.6 trillion for the next decade. (Almost as far "as the eye could see.")

This reversal in budgetary fortunes was the product of several factors. First was the cumulative impact of the 1990 budget agreement, the Clinton administration's 1993 budget-deficit reduction plan, and the 1997 Clinton-Republican agreement. All together, these actions provided for considerably more than a trillion dollars in budget-deficit reduction.[51] Second, there was substantial growth in government revenues because of the robust economy and the higher tax rates imposed on upper-income receivers by the 1990 and 1993 actions. Third, the strong economy operated to hold down some entitlement spending.[52]

Although the estimated budget projects were only projections, and projections have a way of missing the mark, many Washington officials chose to reify them. Consequently, the problem of what to do *about* the budget deficit was replaced on the policy agenda by the problem of what to do *with* the budget surpluses.[53] Alternative proposals quickly emerged. The Clinton administration advocated using the surpluses primarily to strengthen Social Security and pay down the national debt. Many Republicans advocated converting the surpluses into tax cuts, both to benefit taxpayers at all income levels and to ward off new spending programs. Liberal Democrats wanted to use some of the surpluses for new or expanded governmental programs, especially for low-income groups. Nor were all Republicans opposed to more spending if it went for purposes like highways and military programs.

Spending increased, exceeding the BEA caps. This was justified by designating various expenditures, even those for the 2000 decennial census, which is called for by the Constitution, as "emergency" spending.

Campaigning for the presidency in 2000, George W. Bush called for a massive tax cut to return some of the "people's money" to them. Once in office, he made tax cuts his top priority. When it became apparent that the economy was slipping into recession in early 2001, the tax cut was declared necessary to stimulate the economy, even though most of the proposed tax reductions were slated to take effect several years into the future and were for upper-income people.[54] Drawing support from Republicans and moderate Democrats, the complex measure was enacted in June 2001, amid estimates that it would reduce taxes by $1.35 trillion over a ten-year time span. Income-tax rates were lowered, especially for wealthier people, the estate tax was phased out, child and family tax credits were increased, and tax exemptions for retirement plans were increased. The law also contained a provision stating that it would be repealed in its entirety at the end of 2010; that is, all taxes would then revert to their 2001 levels. This was a gimmick used to hold down its estimated cost and to avoid Senate budget rules.[55]

The September 11 terrorist attacks on the World Trade Center towers and the Pentagon exacerbated concerns about the state of the economy and created demands for increased spending for national defense, homeland security, and recovery from the attacks. On September 15, Congress unanimously enacted a $40 billion emergency appropriation for response and recovery. This was followed in a few days by a $15 billion aid package for the beleaguered airline industry. Increased spending for antiterrorism activity and national defense soon followed.

The CBO and OMB projections of a $5.6 trillion ten-year budget surplus had rested on the assumptions, among others, that there would be neither a recession nor major changes in taxing and spending policies. Always questionable, the unrealistic character of these assumptions was revealed by the recession, the huge tax cut, and soaring spending. Budget deficits reappeared.[56] The Bush administration said that the budget deficit for FY 2002 (October 1, 2001, to September 30, 2002) would exceed $100 billion, to be followed by smaller deficits in the next two years, after which it optimistically foresaw the return of surpluses. For its part, the CBO in January 2002 estimated that the cumulative budget surplus for the decade running through 2011 would be $1.6 trillion, down $4 trillion from its forecast of a year earlier. Moreover, according to CBO, most of this surplus would occur in the final two years of the decade, when time makes such lengthy projections most dubious.[57] All of this proved false, not surprisingly.

The budget deficit reached a then-record level (in current dollars) of $412 billion in FY 2004. Early in 2005, President Bush pledged to cut the budget deficit in half within five years, mostly by reductions in spending, including for popular entitlement programs.[58] Tax increases of course were out of the question. Budget deficits did shrink for three years (see Table 5.5), more because of increased revenues generated by the improving economy than because of spending cutbacks. Revenue growth tailed off, however, because of the Great Recession that began in late 2007, the Bush administration's tax cuts, spending increases, and the rebates enacted to stimulate the economy. The FY 2008 budget deficit soared to a new record high of $459 billion. But, worse was soon to come.

Democrats chose to assign major responsibility for the return of budget deficits to the Bush tax cuts. Republicans pointed their fingers at increased government spending, especially for domestic programs, and the recessions. Although the Congressional Republicans had been highly vocal on the need for balanced budgets during the Clinton years, they now muted their concerns. Vice-President Richard Cheney asserted that "Ronald Reagan proved that deficits don't matter." Members of both parties supported more spending for politically popular and preferred programs. The Republicans also continued to call for more tax cuts and, indeed, in 2003 Congress had passed another big tax cut, this one for $350 billion.[59]

As 2008 wore on, the economic situation became graver. The bursting of the housing bubble that had developed in the early 2000s, which had been fueled by reckless lending and the notion that housing prices would forever rise, and bad investment practices combined to produce a financial crisis in American and global credit markets. Bush administration officials urged Congress to authorize the U.S. Treasury to spend $700 billion to stabilize (or "bail out") American banks. After some balkiness, Congress yielded and passed the Emergency Economic Stabilization Act in early October 2008.

Money was poured into banks in an effort to get the financial system on its feet and lending again. Many billions were also committed to the ailing American automobile industry. There was hope that in time some of the government's money would be paid back.[60] The short run effect was to further inflate the national budget deficit. More bailout spending in the future was a possibility.

The return of budget deficits has brought back another policy problem—the need to raise the legal limit on the national debt from time to time to enable the government to borrow money to meet its obligations. President George W. Bush got Congress to raise the debt limit several times during his tenure. Republicans are loathe to vote for debt increases, if at all, but prefer to attach them to other legislation where they are less obvious. Democrats have customarily supported debt increases, perhaps after engaging in some "political theater." Early in 2009 the debt limit was elevated to $12.104 trillion (an interesting bit of precision!). More increases in the debt limit will be required as deficits continue. There really is no viable alternative. Fortunately, Americans and foreigners continue to be willing to lend money to the government at low interest rates.

Mid-January 2009, when the Obama administration took office, was clearly not the best of times. If not the worst of times, it was moving in that direction. The initial year of the administration was taken up by stimulus legislation, financial regulation, health-care reform, and more. Unemployment was rapidly rising (and in time would reach 10 percent), entitlement spending was growing, and revenue was declining. The Great Recession was in full force. When FY 2009 ended that fall, the budget deficit was $1.4 trillion, and all-time record. It was to be followed by three more trillion dollar plus deficits (see Table 5.5). It is now in order to look at some of the Obama administration deficit reduction efforts and woes.

Pressure developed in 2009 for some kind of action to deal with the budget deficit, Senators Kent Conrad (D, South Dakota) and Judd (R, New Hampshire), a pair of deficit hawks, advocated the creation of a bipartisan commission to develop a plan to reduce annual deficits. In time, President Obama gave it his support but conservatives were wary, thinking the commission might lead to tax increases. When the conrad–Gregg proposal was voted on in January 2010, it was rejected 53 to 46, 60 votes being needed to move it to the Senate floor. Several Republicans, who had previously been supporters of the bipartisan commission, now voted no.

President Obama then decided to act issuing an executive order establishing a National Commission on Fiscal Responsibility and Reform. It had six members each from the House and Senate, divided equally between Democrats and Republicans, and six civilian members. The cochairs were Alan Simpson, the Republican Senator from Wyoming, and Erskine Bowles, who had served for a time as chief of staff in the Clinton administration. They were another pair of deficit hawks. The Simpson–Bowles Commission, as it came to be known, was to report its handiwork in December 2010.

When the commission reported, it called for deficit reduction of $3.9 trillion over a ten-year period.[61] This would be generated by cuts in discretionary and mandatory spending, revenue increases (mostly by eliminating some tax expenditures), and net savings in interest. Only eleven of the eighteen members gave the report their approval. The executive order specified that fourteen favorable votes were needed for the report to be "officially" submitted to Congress. Hence, the Simpson–Bowles report went nowhere. Simpson and Bowles later tried to revive it. That did not take wing, either.

In May 2011, the government reached the current national debt limit. The Treasury Department estimated that it could use extraordinary measures to meet the government's financial obligations until August. Many Republicans saw this as an opportunity to pressure the administration for budget reductions in return for raising the debt limit. As the August deadline drew closer, the President, Congressional leaders, and Treasury officials were able to reach agreement on a debt limit deal and stave off sovereign default. The Budget Control Act, as the resulting legislation was known, passed by a vote of 269 to 11 in the House and 76 to 24 in the Senate.

The Budget Control Act provided for several actions.[62] First, the national debt limit was immediately increased by $400 billion. Additional increases of up to $1.7 billion were authorized as they became necessary. In all, this provided for a national debt of $16.4 trillion, enough to eliminate the need for further increases until early 2013.

Second, it imposed statutory limits on discretionary spending totaling $917 billion for fiscal years 2012–2021. Automatic spending cuts would be imposed whenever annual appropriations limits were exceeded. Some emergency spending, as for the war on terror, was exempt from the limits.

Third, the act required additional deficit reductions of no less than $1.2 trillion over the 2012–2021 periods. A twelve-member Joint Select Committee on Deficit Reduction was created to write legislation to accomplish these reductions. Quickly dubbed the "super committee," it had twelve members, three from each party in each house, selection by party leaders. There were no restrictions on what the super committee could recommend, but it was to report toward the end of November 2011. Close to the deadline, it reported that it was hopelessly deadlocked. Republican members blamed the Democrats for refusing to make changes in entitlements; Democrats said the fault was with the Republicans who would not consider tax increases.

Fourth, the act provided that if the super committee failed to propose legislation, automatic deficit reductions totaling $1.2 trillion for 2013–2021 would go into effect. The act specified that it would include $216 billion in debt interest savings and $984 billion in spending cutbacks divided equally between defense and domestic discretionary spending. (In Congressional parlance, these automatic reductions were called sequestration.) Most entitlement programs were exempt. It was thought, at least by some, that

the threat of this drastic action would spur Congress to enact alternative legislation.

Fifth, the Budget Control Act called for the House and Senate to vote on a balanced budget amendment to the Constitution by the end of 2011. Conservative Republicans, especially in the House, had insisted on this. When the votes were taken, almost all of the House Republicans voted for the amendment. It was well short of the two-thirds majority needed in both houses, however.

Following the November 2012 elections, in which Barack Obama decisively won a second term, an observer, perhaps from another planet, might have thought that the Republicans would be more willing to bargain and compromise. That was not the case. Partisan conflict now developed over what to do about the "fiscal cliff."[63]

The fiscal cliff was the combination of circumstances that included the expiration of the Bush-era tax cuts, the end of a two percentage point reduction in payroll taxes to stimulate the economy, the termination of extended unemployment benefits, and the inception of budget sequestration, all of which would occur on January 1, 2013. This, it was thought, would be an economic catastrophe, though some of its impact would not be experienced immediately.

Negotiations between Senate leaders and Obama administration officials got underway, but progress was at first slow. Finally, at almost the final hour, an agreement was reached. Much credit was accorded talks between Vice President Joseph Biden and Republican Senate leader Mitch McConnell (R, Kentucky), who had served together in the Senate for many years and who trusted one another. On New Year's Day, 2013, Congress passed the American Taxpayer Relief Act by votes of 89 to 8 in the Senate and 257 to 167 in the House. A majority of the House Republicans opposed it. The president signed it the next day.

The American Taxpayer Relief Act made all of the Bush-era tax cuts permanent with one exception. For persons with taxable income above $400,000 ($450,000 for couples) the marginal rate was set at 39.6 percent, which it had been during the Clinton administration. Other provisions included setting the estate tax at 40 percent of the value above $5 million; extension of several corporate tax breaks; extension of some tax credits for lower-income families, such as the Earned Income Tax Credit; and a phase-out of tax credits and deductions for higher-income persons. The two-year-old cut in payroll tax was ended and the onset of budget sequestration was delayed until March 1. The latter action ostensibly was to give Congress an opportunity to enact an alternative. Nothing was accomplished in that matter.

On March 1, budget sequestration for FY 2013 went into effect.[64] The target figure for the remainder of the year was $85 billion, to be divided equally between military and domestic discretionary spending. Cutbacks were required in agency activities and services. Tens of thousands

of children were not able to enter Head Start programs, for example. Because a large portion of many agencies' budgets go for personnel expenses, agencies initiated such practices as furloughing (and not paying) many employees for a day every two weeks.

A vignette. For the Federal Aviation Administration, sequestration meant, inter alia, reducing the availability of air traffic controllers, which caused airport delays.[65] Complaints from irritated travelers poured in. Congress scurried to alleviate this situation and passed (by large bipartisan majorities) legislation permitting the FAA to use funds from other accounts to restore the air traffic control system to full strength. As someone said, all members of Congress fly. No other agencies were authorized to take similar action.

Early on it is difficult to assess the impact of sequestration on agency programs or on local communities where there are significant numbers of government employees. One prediction was that sequestration would cause the economy to "start moving more slowly."[66]

On May 19, the national debt limit, which had been temporarily suspended by congressional action in February, went back in force.[67] The $16.4 trillion limit had already been exceeded. The Treasury Department estimated it could use various stratagems to meet the government's obligations until sometime in the fall of 2013.[68] Some Republicans indicated that they would use this as another opportunity to seek reductions in government spending and the deficit.

After thirty years of conflict and struggle, the budget deficit is still a major public issue. Its resolution does not seem near. A "Grand Bargain" seems not very likely.[69]

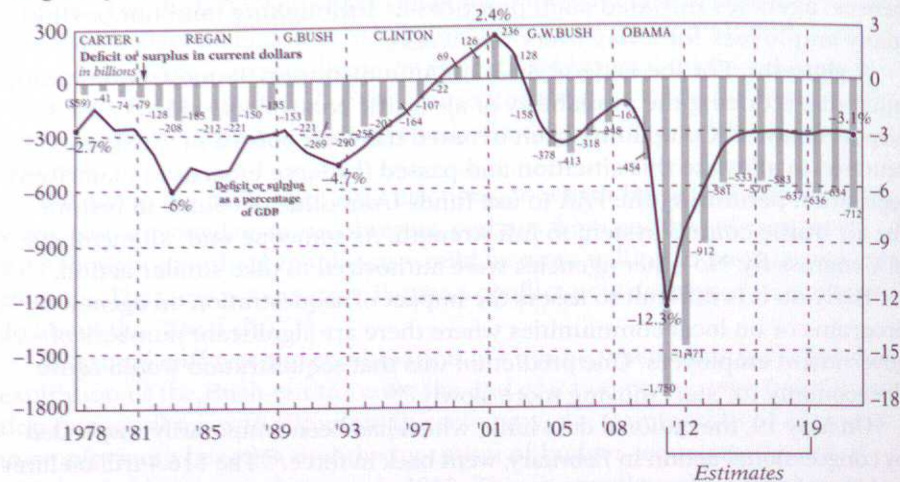
When the policy goal of a budget surplus and national debt reduction was realized for a few years during the Clinton administration, the surpluses were the product of tax increases, spending cutbacks, and a strong economy. Taxing and spending changes were not easy to obtain. Partly this was because of partisan political differences, although the parties were not as polarized as they now are. Partly, too, it was because the public, while unhappy with budget deficits, likes neither tax increases nor reductions in favored programs. The George W. Bush and Clinton administrations paid a heavy political price for their tax increases. As has been said, "No good deed goes unpunished."

Budget deficits were annual events from 1970 to 1998 (see Figure 5.4). In a sense, people learned to live with deficits (if they were aware of them), if not necessarily to approve of them. (After all, there is something immoral about debt.) The nation now confronts another extended period of budget deficits and expanded national debt. (If it is any comfort, total private debt in the United States now stands at $25 trillion.) What are the real (not alleged) policy consequences of deficits and debts? Is there a point at which the national debt, becomes "unsustainable" or "catastrophic"? How can this be objectively determined? If there were no national debt, in what ways would life in America be better?—Policy riddles about which to think.

Postscript: The CBO, in May 2013, projected that the baseline budget deficit for FY 2013 would be around $642 billion, much less than previous estimates.

FIGURE 5.4

Budget Deficits or Surpluses



Source: CQ Weekly, Vol 67 (March 2, 2009), p. 473.

Further, they project the deficits will continue to decline for the next three years. Then, barring policy changes, the budget deficits would resume their annual increases.[70] ■

For Further Exploration

- ***http://www.cbo.gov/***
  The Congressional Budget Office (CBO) website contains reports assessing various proposed congressional policies involving the use of appropriations. This site also provides documents such as cost-estimate reports on all congressional bills and official letters sent to individual representatives and senators by the CBO.
- ***http://www.publicdebt.treas.gov/***
  The Bureau of the Public Debt's website provides a useful link to statistical information regarding the current status of the national debt.
- ***http://www.taxfoundation.org/***
  Maintained by the Tax Foundation, which is a nonpartisan organization devoted to providing information on tax policies at the federal, state, and local levels, this site contains information on recent tax laws passed by Congress and provides discussions and statistical data on fiscal issues.

- ***http://www.whitehouse.gov/omb***
  The homepage of the Office of Management and Budget provides access to numerous budget-related documents, including testimony of OMB officials before congressional committees, OMB circulars and press releases, the current federal budget, and the *Economic Report of the President*.

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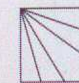

Suggested Readings

Aaron Wildavsky and Naomi Caiden, *The New Politics of the Budgetary Process*, 4th ed. (New York: Longman, 2001). The political and institutional aspects of national budgeting in the United States are woven together in this classic work.

Allen Schick, *The Federal Budget: Politics, Policy, Process*, 3rd. ed. (Washington, DC: Brookings Institution, 2007). The leading student of the federal budget process here describes and analyzes its operation and the consequences of budget rules for policy decisions.

Daniel J. Palazzolo, *Done Deal? The Politics of the 1997 Budget Agreement* (New York: Chatham House, 1999). A well-constructed case study of the Clinton-Republican agreement to balance the budget.

Dennis S. Ippolito, *Deficits, Debt, and the New Politics of Tax Politics* (New York: Cambridge University Press, 2012). This book provides a compact and insightful historical analysis of fiscal policy under the Constitution, concluding with the early years of the Obama administration.

Irene S. Rubin, *Balancing the Federal Budget* (New York: Chatham House, 2002). Rubin looks at efforts by Congress and the administration to balance the budget and their sometimes-damaging consequences to agencies.

Irene S. Rubin, *The Politics of Public Budgeting*, 5th ed. (Washington, DC: CQ Press, 2006). Budgeting at the national, state, and local levels is examined in this information-packed book.

James D. Savage, *Balanced Budgets and American Politics* (Ithaca, NY: Cornell University Press, 1988). This is a strong historical account of the budget-balancing issue as a perennial source of conflict in American politics.

Notes

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4. *Illinois Agri-News*, January 23, 2009, p. C2. The final rule is in *Federal Register*, Vol. 74 (January 15, 2009), pp. 2658ff.
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14. Schick, op. cit., pp. 116–117.
15. R. Kent Weaver, *Automatic Government: The Politics of Indexation* (Washington, DC: Brookings Institution, 1988).
16. Cf. James L. True, "Is the National Budget Controllable?" *Public Budgeting and Finance*, Vol. 15 (Summer 1995), pp. 18–32.
17. Lance L. LeLoup, *Budgetary Politics*, 2nd ed. (Brunswick, OH: King's Court Communications, 1980), p. 200.
18. Howard E. Shuman, *Politics and the Budget*, 2nd ed. (Englewood Cliffs, NJ: Prentice-Hall, 1988), p. 79.
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