The Budget and National Politics

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For Nancy and Christopher,
and for my mother.

Preface

The relationship between the federal budget and national politics is direct and substantial, although perhaps not widely appreciated or understood. Despite the complexities involved, a close look at the budget can result in a great deal of understanding about the costs and purposes of government. For example, the budget determines the level and scope of federal activity through its allocations of financial support to agencies and programs. It records the policy preferences of executive and legislative participants in the budgetary process and the constituencies and interests these participants represent. The federal budget has also become a major instrument for pursuing social and economic objectives, such as the redistribution of financial resources in society and the management of economic growth, prices, and employment. In each of these contexts, the budget introduces a necessary measure of political realism by requiring that policy goals finally be evaluated in terms of actual costs and available resources. Budget decision making is, in sum, a crucial and continuing part of the political process.

The purpose of this book is to introduce the student to the political relevance of the budget by examining the institutional responsibilities and conflicts, decision-making factors, and policy implications that characterize the budgetary process. Its scope is modest, extending primarily to presidential and congressional influences on budgetary policy. Chapter One, a general introduction to the budget system and budget process, discusses cognitive elements of budget decision making and important budget concepts and trends. Chapters Two, Three, and Four cover presidential and congressional involvement in budget policy determination and implementation. Chapter Two examines budget formulation in the executive branch and the various presidential purposes associated with budget decision making. Chapter Three, dealing with the power of the purse, presents an historical overview of the problems that Congress has encountered in exercising this power effectively and analyzes the objectives, operation, and impact of the 1974 Congressional Budget and Impoundment Control Act. Chapter Four focuses on budget implementation, particularly congressional attempts to restrict executive spending discretion. The policy implications of budget decision making are examined in Chapter Five, which deals with current controversies involving defense spending, income programs, and health programs. Finally, Chapter Six appraises two recently introduced techniques for budget decision making—zero-base executive budgeting and congressional sunset legislation—and also presents some speculations concerning future budget conflicts between the President and Congress.

In preparing this book, I have had the benefit of several thorough and thoughtful critiques. David A. Caputo of Purdue University, George C. Edwards of Tulane University, James P. Pfiffner of the University of California, Riverside, James A. Thurber of American University, and the late Jeffrey Pressman of the Massachusetts Institute of Technology all reviewed an earlier version of the manuscript and suggested many of the subsequent improvements. I am most grateful to them for their help and, of course, absolve them of any responsibility for what is written here. Also, while this study draws from many sources, I would like to acknowledge specifically Professor Aaron Wildavsky's contributions to our understanding of the politics of the budgetary process.

February 1978 *Dennis S. Ippolito*

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One

An Overview of the Federal Budget

The purpose of this book is to examine the role of the budget in national politics. This requires particular attention to the responsibilities and relative influence of the major executive and congressional participants in the budgetary process. It also requires an understanding of those characteristics of the budget upon which political decision makers focus their attention and the extent to which executive and congressional participants share a common focus. The uses of budgets are various and diverse, but for this examination the budget is interpreted as a political document.[1]

The budget that the President submits to Congress each year and the actions that Congress takes in response are a crucial set of political decisions. These decisions are, in effect, official answers in the debate about what the federal government should do, how much it should spend, and how it should finance its activities. In addition to their direct effects on government programs, federal taxing and spending policies also have substantial economic consequences. The level of spending, the composition of revenues and expenditures, and the budget surpluses or deficits that result affect economic activity, employment, prices, and productivity.

The "power of the purse" has long been recognized as a major bulwark of national authority. Writing in defense of the proposed Constitution in Federalist No. 30, Alexander Hamilton stated boldly that "money is, with propriety, considered as the vital principle of the body politic; as that which sustains its life and motion and enables it to perform its most essential functions." It was not long until Hamilton, as the first Secretary of the Treasury, engaged Congress in the first of many executive-congressional struggles over the exercise of the power of the purse.

Throughout our history, taxing and spending controversies have often focused attention on urgent matters of public policy or on the effectiveness of the Constitution's checks and balances between the President and Congress. Recent years have been no exception; the combined effects of inflation and recession have provided new challenges in the use of the budget as an element of economic policy.[2] The "energy crisis" has had a severe impact on economic and budgetary goals and assumptions.[3] There has been growing concern over the military balance between the United States and the Soviet Union, which has been reflected in budget debates over the size and composition of defense spending.[4] In 1972, an especially bitter confrontation between the Nixon administration and Congress over budget and impoundment policies provided the stimulus for a critical review of the congressional budget process. A recent and major revamping of the budgetary process, the 1974 Congressional Budget and Impoundment Control Act, has affected the relative influence of Congress and the executive on budget matters and has also altered the power of major committees in Congress.[5]

Viewed in this context, the political implications of the budget are clear. What is politically important—whether it be what government does, who decides it, or who benefits from it—is usually translated into the financial language of budget decisions. As Aaron Wildavsky, a leading budgetary scholar, has explained:

> The size and shape of the budget is a matter of serious contention in our political life. Presidents, political parties, administrators, Congressmen, interest groups, and interested citizens vie with one another to have their preferences recorded in the budget. The victories and defeats, the compromises and the bargains, the realms of agreement and the spheres of conflict in regard to the role of national government in our society all appear in the bud-

get. In the most integral sense the budget lies at the heart of the political process.[6]

These preferences and the manner in which they are recorded are often the subject of complex and detailed policy controversies—for example, the necessity, feasibility, or estimated costs over a multiyear period of a proposed major weapons system. These specific types of controversies, moreover, are usually accompanied by conflicts over budget *aggregates*—spending totals, revenue totals, and the economic impact of resulting deficits or surpluses. During early 1977, for example, three sets of budget "preferences" were recorded. The outgoing Ford administration submitted its recommendations for fiscal year (FY) 1978. Several weeks later, the new Carter administration sent to Congress its proposed revisions of the Ford budget. In May, Congress adopted its initial guidelines for consideration of the fiscal 1978 budget. In Table 1.1, the overall, or aggregate, figures are presented along with the recommended outlays for various governmental functions. Some interesting comparisons emerge, with both Congress and the Carter administration supporting higher outlays and larger deficits than did the Ford administration. The differences are especially pronounced on the outlay side, with approximately $20 billion separating the Republican President from his Democratic successor and the Democratic-controlled Congress. Receipts also differ, largely as a result of permanent tax cuts recommended in the Ford budget, many of which were rejected by President Carter and by Congress. The planned deficit, moreover, shows the Democrats supporting a larger "stimulus" than did the Republican administration, although on this point there is also a significant difference between the Carter recommendations and the congressional target. The fiscal 1978 disagreements on budget aggregates between the Ford recommendations and congressional targets paralleled those in previous years, reflecting the same kinds of partisan and ideological predispositions about spending and revenues. One interesting aspect of the fiscal 1978 budget, however, is that the new Democratic administration, mindful perhaps of its characterization as ideologically moderate, recommended higher spending than Ford, higher taxes than Congress, and a deficit that fell almost in the middle.

There are also some important policy differences in these three budgets. In Table 1.1, the highest outlay recommendation for each budget function has been designated. The Ford outlay recommendation is highest in only one functional area, national defense, although

Table 1.1
Executive and Congressional Budget Estimates and Recommendations for Fiscal Year 1978 (in billions of dollars)

	Aggregates		
	Ford administration January 1977	Carter administration February 1977	Congress May 1977
Total outlays	440.0	459.4	460.9
Total receipts	393.0	401.6	396.3
Deficit (–)	–47.0	–57.8	–64.6
	By selected functions[a]		
National defense	*112.3*	111.9	111.0
International affairs	7.3	*7.8*	7.3
General science, space, and technology	4.7	4.7	4.7
Natural resources, environment, and energy	19.7	*20.5*	20.0
Agriculture	2.3	2.3	*4.4*
Commerce and transportation	19.3	*20.1*	19.4
Community and regional development	7.9	10.0	*10.8*
Education, training, employment, and social services	19.4	26.5	*27.2*
Health	43.2	*44.5*	44.3
Income security	143.9	146.5	*147.7*
Veterans benefits and services	18.3	19.1	*20.2*
Law enforcement and justice	3.8	*3.9*	*3.9*
Revenue sharing and general purpose fiscal assistance	8.1	*9.7*	*9.7*

Note: Italicized figures represent the highest outlay recommendation for each function.

[a] Figures for general government, interest, allowances, and undistributed offsetting receipts have not been included here.

Source: Adapted from *Congressional Quarterly Weekly Report, 35,* No. 9 (February 26, 1977), 351–353; *The Budget of the United States Government, Fiscal Year 1978* (Washington, D.C.: Government Printing Office, 1977), pp. 69–201; *Congressional Record, 123,* No. 80 (May 11, 1977), H-4331.

the lowest outlay recommendation (by Congress) is only $1.3 billion less. Carter administration recommendations are highest in four functional categories—international affairs; natural resources, environment, and energy; commerce and transportation; and health—with combined outlays for these functions $3.4 billion above the Ford proposals and

$1.9 billion above congressional targets. Congress has adopted the highest outlay levels in five categories—agriculture; community and regional development; education, training, employment, and social services; income security; and veterans benefits and services—and the differences are substantial. Combined outlays for these functions are $18.5 billion higher than the Ford recommendations and $5.9 billion higher than the Carter recommendations. There is only one function—general science, space, and technology—where all sides agree on an outlay level, although the law enforcement and justice outlay levels are also quite similar. For the last functional category, revenue sharing and general purpose fiscal assistance, the Democrats agree on a funding level $1.6 billion above the Republican position.

During 1977, then, a Republican President, a Democratic President, and a Democratic-controlled Congress were seeking to achieve economic objectives and specific policy goals through decisions on the fiscal 1978 budget. The broad outlines of their agreements and disagreements reflected a mix of economic, philosophical, and political judgments and beliefs. As always, the actions and commitments finally taken on the fiscal 1978 budget would significantly affect future budgets.

The Budget System and Budget Process

The federal budget serves as the formal system for financial administration within the federal government. By scheduling receipts (what the government will receive through various taxes, tariffs, and other revenue-raising methods) and outlays (what the government will spend for various functions), it provides the means for managing programs and controlling finances. The budget covers a fiscal year that now runs from October 1 through September 30. Fiscal year 1978, for example, covers the period from October 1, 1977, through September 30, 1978.

Executive Preparation

While the budget process will be covered in detail in Chapters Two through Four, it is helpful at this point to understand the general responsibilities of the "participants." The President is responsible for formulating and transmitting budgetary requests and information to Congress.[7] This includes: (1) an accounting of how funds have been spent in the past; (2) a plan of estimated receipts and outlays; (3) a discussion of the importance or priority that the President assigns to various programs and governmental activities—that is, his recommendations about program needs; and (4) requests to Congress to provide authority—through legislation—to spend public money. The President's budget therefore reflects the administration's judgments about the needs of individual programs. It also incorporates recommendations about fiscal policy—the total outlays and receipts that the administration believes are appropriate given current and prospective economic conditions. The executive side of the budgetary process involves the President, presidential staff and advisers [particularly the Office of Management and Budget (OMB), the Council of Economic Advisers, and the Treasury Department], and the government agencies that administer various federal programs.

Congressional Action

Congressional action on the budget involves the actual legislation that determines receipts and outlays. Taxes and other methods of raising revenue are specified by legislation, and Congress may consider presidential requests for changes in revenue laws or may initiate such actions on its own. Tax legislation follows the normal legislative process, with the major committee responsibilities lying with the Ways and Means Committee in the House and the Finance Committee in the Senate.

The expenditure side is somewhat more complex, and two separate actions are required. Legislation is first needed to authorize—to set up or continue—a federal program or federal agency. In some instances, authorizing legislation also sets a limit on the amount that can be subsequently appropriated for a particular program. The periods covered by authorizations vary—some are indefinite, some are for a specified number of years, and an increasing number are for one year (thus requiring annual authorization). Authorizing legislation is handled by the legislative committee in each chamber having jurisdiction over the program or agency involved. For programs or agencies that have not been authorized or whose authorization has lapsed, authorizing legislation must be passed by Congress and signed by the President.

The appropriations actions that Congress takes allow agencies to incur obligations—that is, to take actions that require immediate or future payments of money—by granting them *budget authority.* As with authorizations, budget authority can be granted for varying periods of time. For many agencies, budget authority must be voted annually by Congress. In certain cases, such as appropriations to pay interest on the federal debt or to pay beneficiaries under most federal trust funds, Congress has provided permanent budget authority, so that annual congressional action is not required. Appropriations legislation must, of course, be passed by Congress and signed by the President.

The House and Senate Appropriations Committees have jurisdiction over budget authority, which is provided through the congressional appropriations process.[8] Appropriations bills, like revenue bills, are first considered by the House of Representatives. The House Appropriations Committee, through its subcommittees, considers the appropriations requests for specific agencies. Once appropriations bills have been approved by the House, they are sent to the Senate, where a second review process is conducted. If the House and Senate versions of a bill differ, a conference committee meets to resolve the differences. This committee includes members from both the House and Senate Appropriations Committees; once it reaches an agreement on an appropriations bill, the measure goes to the House and then to the Senate for approval. If both houses pass the bill, it is then transmitted to the President for his approval or veto.

Under the new procedures adopted in 1974, Congress now sets budget targets to guide its consideration of revenue and spending legislation. Subsequent to receipt of the President's budget, but no later than May 15, Congress must adopt a budget resolution setting totals for receipts, outlays, and budget authority. It then considers specific revenue and appropriations measures. By September 15, action is to be completed on these measures and on a second budget resolution, which sets binding ceilings on outlays and budget authority and a floor on receipts for the ensuing fiscal year. Any changes in revenue or spending bills already enacted or in the statutory limit on the debt necessitated by this second resolution must then be accomplished by September 25, so that the congressional budgetary process will be completed by October 1, when the new fiscal year begins.

Execution and Control

Once the necessary legislation has been passed to provide an agency with budget authority for the fiscal year, the director of the OMB—acting for the President—is responsible for insuring that the budget