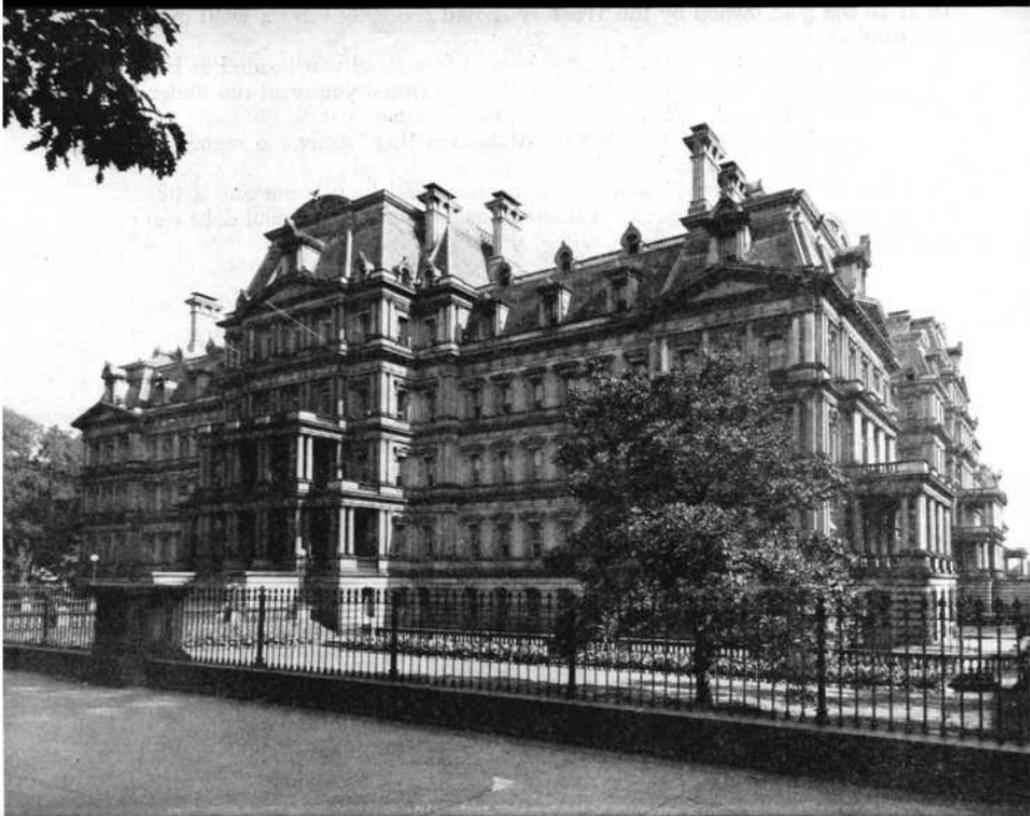


## 34. The Budget and Federal Expenditures



**T**HE budget of the national government is a prediction of governmental revenues and a plan for their expenditure during the coming year. The revenue phase of the budget shows where the money for spending is expected to come from. Mainly, of course, revenue comes from taxes. Often the prediction of how much money will come in is supplemented by proposals to increase, reduce, or otherwise alter the flow of revenue. The expenditures portion of the budget takes up all the activities of the numerous agencies of the government; it tells what each is intended to spend and for what purpose. The principal authors of the budget of the United States are the Bureau of the Budget, the President and his advisers, and the Departments. The task of Congress with regard to the budget is

to transform it into groups of laws calling for taxes and for appropriations of money for specific activities.

The budget is chiefly a mass of figures, but the process of arriving at the figures requires deciding which activities of the government for the year ahead will be most trivial and which most important. For example, the budget will show whether the government expects to pursue intensively its investigations and prosecutions of monopoly by showing the number of people the government would like to employ in the Antitrust Division of the Department of Justice. Again, if the government is asking large increases in funds for the Air Force, a greater emphasis on air power is suggested. A government's attitude toward economy may be revealed when the budget does or does not propose a balance between revenue and expenditure; should a deficit, registering more spending than revenue, be planned, the government is in a way asserting that none of the recited activities is so unimportant that it may be cut back in order to forestall borrowing. Thus the pattern of expenditures and its balancing against revenue exposes the policy of the government.

The publication of a proposed budget is always an exciting occasion for those with a professional interest in government. A banker will be concerned because the amount of money the government will collect and spend will affect the ease or difficulty with which his customers may acquire funds, the interest rates that he gives and receives on money, and so on. Public officials read in the budget the proposed fate of their staff and plans, and they can compare their own fortune with that of other officials. The United States has a relatively open budget process; most matters in a proposed budget leak out beforehand and are publicly debated for some time after they are suggested but before they are finally decided upon. Other nations, in which the executive is in a strong position to carry out its budget proposals, as in England, keep their budgets carefully hidden from preview until the day of their announcement to the public.

Everywhere, as in America, the publication of a budget or a proposed budget attracts the attention of a discerning audience that is both domestic and foreign. For instance, when the budget of the Soviet Union is made known each year, it is pounced upon and eagerly read by a host of intelligence officers throughout the world. From it they strive to extract valuable information about the policies and intentions of the Kremlin. The expenditures planned for the army and the air force indicate changes in hostile aims, in types of armaments, and in the power of the leadership of different schools of military theory. The amount allocated to consumer goods rather than to heavy industry discloses other plans and problems of Soviet society. These are only two of the ways in which the budget of the USSR yields hints about future Soviet behavior toward the rest of the world. Americans can be sure that Soviet rulers are no less diligent in scrutinizing the American budget, for the same reasons.

## FRAMING THE BUDGET

### *The fiscal year*

It must be indicated at the outset that in money matters the national government does not adhere to the calendar. Rather, it has a so-called "fiscal year" that commences on July 1 and terminates on June 30. For purposes of enumeration, the fiscal year concludes, but does not begin, in the calendar year of its number. For instance, fiscal 1955 ran from July 1, 1954, until June 30, 1955. The body of taxes and appropriations that Congress enacts in any given year goes into effect on July 1 of that calendar year.

### *Agency requests*

The drafting of the budget is inaugurated more than a year before the budget comes into action, by a call issued by the Bureau of the Budget to each of the different government agencies for estimates regarding the amount of money they need for their operations in the coming fiscal year. The various agencies, departmental and independent, are after all the principal spenders of federal money. More than twelve months before the inception of the fiscal year, in expectation of this call, the different agencies, starting at about the division level, have begun to ready their monetary demands for the coming year. These demands are, of course, frequently greater than the allocations of funds made during the current year; most administrative officers are convinced that the functions of their agencies should be expanded and need more money.

The division requests for funds, after being consolidated, are brought to the financial or budget office of the agency concerned. Considerable pressure may have been brought by private interests and also by congressmen upon the division, to swell its requests for money; at the same time, representatives of the Bureau of the Budget and other parts of the Executive Office of the President have impressed upon the agency chiefs the desirability of limiting their budgetary requests. The finance officers of the agency themselves appear, perhaps because of professional motivations, to constitute a restraining effect upon the monetary goals of the line officials. Eventually, after the agency chiefs have completed drafting their budgetary proposals, the draft is submitted to the Bureau of the Budget.

### *The Bureau of the Budget*

The Bureau of the Budget, which is in the Executive Office of the President, is the most important of all the President's staff bodies. The Bureau is under the general supervision of the Director, who is appointed by the President. Significantly, the Senate has nothing to do with his appointment, at least formally; the Director serves for an indefinite term and is directly responsible to the President. Ostensibly the major function of the Bureau is to examine the requests for funds that are submitted by the

different agencies; it is empowered to "assemble, correlate, revise, reduce, or increase" these requests.

However, the power of the Bureau far exceeds its purely fiscal authority, for in order to evaluate the various requests it must analyze the ends proposed for them. Thus the Bureau quite properly enters the broad field of presidential policy-making. The working of the Bureau is one of the most important indexes to the fact that the President, and not Congress, really plans the operations of the national government. One of the principal branches of the Bureau is the Office of Management and Organization, to inspect the structure and functioning of the many administrative units. The purpose of this office is to study the organization and aims of the agencies that are to spend the money they have requested. In performing this task the Office frequently counsels the President with regard to administrative problems.

Thus, once the agency proposals for money have been sent to the Bureau of the Budget, the Bureau initiates an analysis of what ends will be achieved by the money requested. Working closely with the President, the Bureau revises the budgetary proposals in terms of the general policy of the administration. It divides itself into groups for the study of different types of requests. These groups hold hearings at which the chiefs of the agencies concerned testify respecting their estimated needs for the coming year. Meanwhile, the Treasury Department transmits to the Bureau its expectations of the amount of revenue it will collect in the coming year, and a statement regarding the size of the national debt and how much interest will be due on the debt.

In any event, the President and the Bureau together compile the data given them by all the agencies, to frame the national budget. When the budget is finally assembled, it constitutes a book more than a thousand pages long, weighing several pounds. The President now prepares a message to be delivered to Congress and the nation on the occasion of his tendering the budget to Congress. Then, early in January—sometimes on the day after the State of the Union address—the President gives the budget to Congress and delivers the budget message, to introduce and explain his budgetary proposals and to urge their enactment.

### ***The budget before Congress***

In order for the national government to spend any money, Congress must appropriate the needed funds. Perhaps the most significant duty of Congress, at least so far as domestic problems are concerned, is the passing of a budget. The Constitution requires that all revenue measures begin in the House; however, appropriation bills may start in either branch of Congress. Convention dictates, however, that bills for spending money shall also commence in the House. In practice, both houses study the budget simultaneously. Once each house has received the budget, it deletes those sections referring to the acquisition of money—the revenue measures—and turns them over to the proper committee, that on Ways and Means in the House and that on Finance in the Senate. The

remainder of the budget, the part that deals with expenditures—which is by far the larger portion—is submitted to the Committee on Appropriations in each house.

Each Committee on Appropriations now resolves into a number of standing subcommittees to analyze the presidential proposals, each subcommittee dealing with one broad class of expenditures. (Refer back to Figure 44, page 372.) The assignment of committee members to these subcommittees can be a powerful factor in deciding what treatment the projected budget will obtain. The principal source of information for these groups is the hearings that they conduct. The witnesses at these hearings are the chiefs of the agencies whose estimates the subcommittee is studying, and interested private persons who may either present relatively unbiased accounts, or aim frankly at swaying the subcommittee to a certain line of action. Sometimes congressmen who are not members of the Appropriations Committee but who are on the standing committee concerned with the function being examined by the subcommittee will attend these hearings, and participate in the interrogation of witnesses.

Custom directs the agency chiefs to defend the sums requested for their offices, even though these sums may not concur with the personal notions of the chiefs themselves; the chiefs, then, are advocates for the President. In practice, however, subcommittee members through questioning these chiefs may evoke statements that do not support the budgetary projects. Indeed, matters may be arranged beforehand between an agency official and a sympathetic congressman so that questioning can be aimed at bringing forth justification for large changes in the President's requests. A congressman who, for example, favors greater expenditures for a specific function than the President has recommended, who is acquainted with the agency chief, and who knows that the chief too wants to spend more money than the budget will allocate to him, may agree with the chief before the latter testifies as to what line the questioning will pursue.

After the hearings have been concluded, each subcommittee now drafts a bill for appropriating money to carry out the activities it has been studying. The bill may increase or decrease the amounts asked by the President, may completely omit some items, and may introduce items not mentioned by the President. Legally and constitutionally Congress is free to do as it wishes about the budget. Actually the presidential recommendations are very influential, especially when the President and the majority of Congress are of the same party.

However, congressmen sometimes resent the presidential suggestions, partly from a feeling that the chief executive has invaded a field of action in which Congress ought to be supreme. This sentiment is particularly noticeable in the senior members of the Appropriations Committees; they may be among the most powerful and best-informed members of Congress, men who have held office for twenty years or more. Agency chiefs often must employ great tact in presenting their cases, lest the semblance of bringing pressure upon congressmen utterly undo their projects. At the

same time, as party leader the President has major extra-legal controls over Senators and Representatives who oppose him.

The individual bills one by one finally come to the floor of Congress. Only once in recent history have these bills been combined into a single grand appropriation. Subcommittees have varying amounts of work to do, and operate at different paces. As with other bills, congressmen tend to assume that the members of the subcommittee are well enough informed to have prepared a satisfactory bill; hence there is comparatively little discussion on the floor. Of course, this generalization is inapplicable in cases of highly controversial appropriations; proposed expenditures such as the Marshall Plan, to assist European economic recovery after World War II, may call forth a torrent of impassioned oratory.

Another important goal for Senators and Representatives is that one of these appropriations should arrange for an expenditure that is wished by their constituents. It is in this way that congressmen can demonstrate to their districts and States that Congress is providing for local interests. Sometimes there will be little economic justification for this type of expenditure; on such occasions, the money falls into the category known as "pork," i.e., money that is primarily a token of a congressman's work on behalf of his constituency. A fruitful source of pork is the annual appropriation for rivers and harbors under the jurisdiction of the national government; Congress has enacted many appropriations for widening rivers, "for the improvement of interstate commerce," that contain scarcely enough water to float a canoe. Senators and Representatives collaborate in their respective houses, assisting one another in enacting appropriations for pork, a practice termed "log-rolling" in which congressmen emulate the frontier settlers who helped one another to build houses.

These appropriation bills are passed in the same fashion as any other act of Congress. They are then submitted to the President for his approval or disapproval. The President only rarely vetoes an appropriation bill, for in so doing he would deprive the government of the money needed for its operations. For this reason congressmen often are able to impose expenditures upon the government that the President dislikes.

### *Administration of the budget*

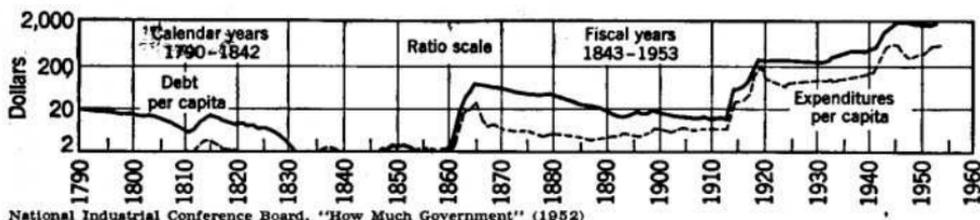
In effect, the budget is administered by the entire government, since each expenditure authorized by law comprises an act of budget administration. The leaders in this administrative process are the Bureau of the Budget and the finance and budget officers of the different agencies. The Bureau in fact supervises the operations of these officers, examines the accounting techniques of all government agencies, suggests changes in these techniques that may increase the efficiency of the agencies, and recommends to the President the changes that may improve administration. To further oversee budget administration Congress has established a major agency that is presumably outside, and independent of, the administrative branch of the government: the General Accounting Office (GAO). The chief of the GAO is the Comptroller of the United States,

who although formally independent of all other agencies is more nearly the servant of Congress than of any other branch of the government. The Comptroller General is appointed by the President and confirmed by the Senate. To safeguard his independence, Congress made the term of the Comptroller General fifteen years, and provided that he may be removed only by Congress—by impeachment, or, if the removal is for cause, by joint resolution.

The principal function of the Comptroller General is to examine expenditures, to see if they are authorized by law. An appropriation bill, it should be remembered, simply empowers the Treasury Department to grant certain sums to the various agencies, to be spent for certain purposes. Vouchers and warrants testifying to these transactions are brought to the GAO in freight-car loads; any disputed transaction must be studied to determine whether the expenditure falls within the law. The Comptroller General occupies what is potentially a policy-making office of the highest significance, because the authority for the expenditure will depend upon his reading of the law. The Comptroller General, then, can thwart any program of the government by simply refusing to initial expense vouchers. The Comptroller General during President F. D. Roosevelt's first term, a Republican who was hostile to many New Deal undertakings, refused to authorize many expenditures that he thought improper. This office, then, is one more whose conduct is determined to a considerable extent by the predispositions of the incumbent.

## THE PATTERN OF FEDERAL EXPENDITURES

Federal expenditures today amount to many billions of dollars annually, or several hundred dollars for every person in the United States. Since 1789 the total of federal government spending has increased hundreds of times more rapidly than the population, as Figure 70 shows; the budgets of Alexander Hamilton called for only a few millions of dollars, or about one dollar per capita. Federal expenditures have also increased several times as rapidly as expenditures by State and local governments. With



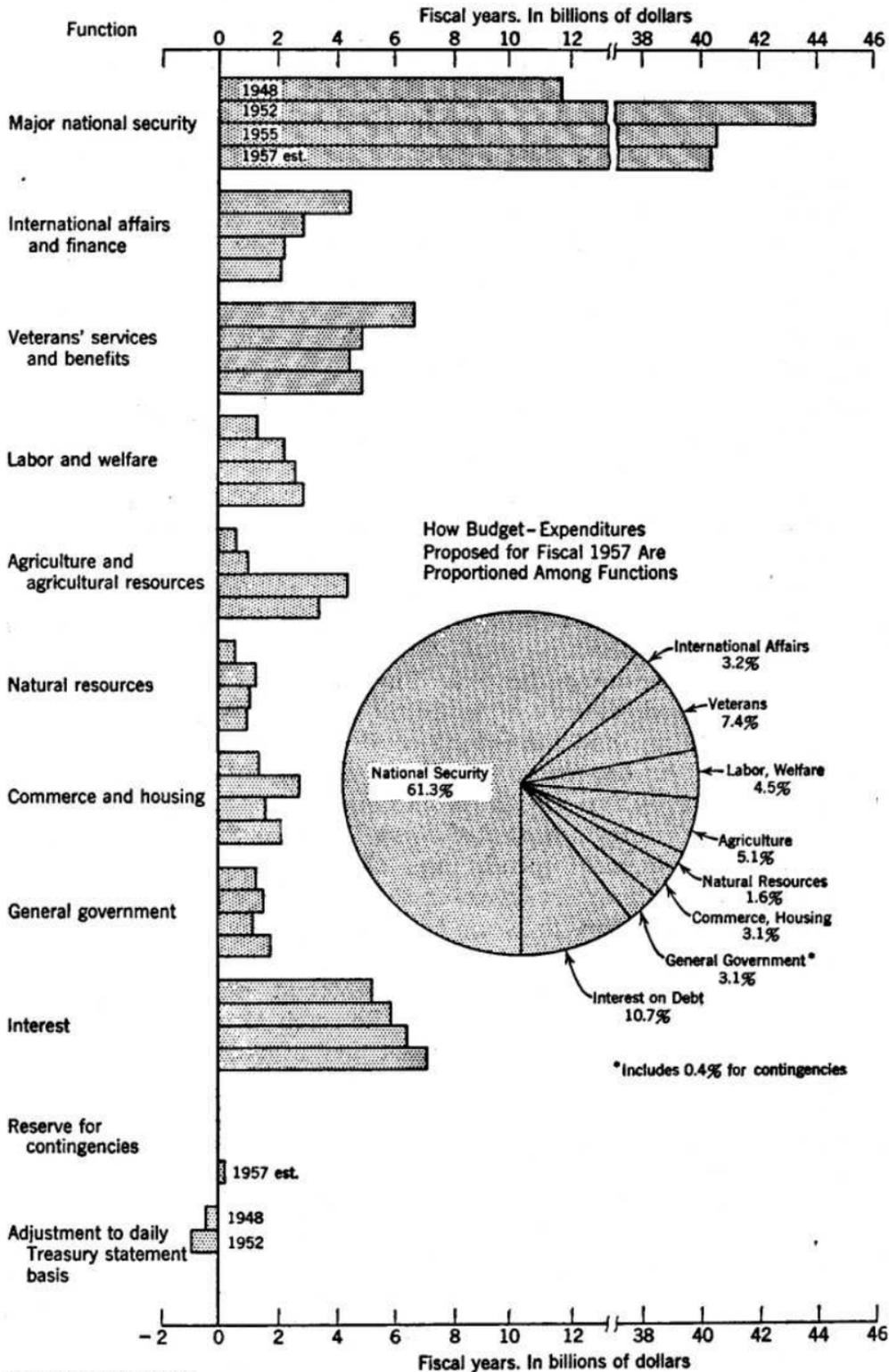
**Figure 70. Total Federal Government Spending, 1789 to the Present.** This is a "ratio" or logarithmic chart. That is, the increase in spending has been so great that if the same dollar interval measure were used on the left vertical bar, the curve would run off the page during the Civil War and during the Twentieth Century; hence, although the natural numbers are given on the scale, the distances between 2, 20, 200 and 2,000 are proportional to the logarithms of those numbers, causing a telescoping of the measure so that it can be read at a glance.

the exception of the Civil War era, not until a century after the adoption of the Constitution did any Congress in its two-year period appropriate one billion dollars. The government did not begin to spend over a billion dollars annually until World War I. However, in the single war year 1945, Congress appropriated over one hundred billion dollars. In the first years after World War II, federal expenditures were reduced to less than forty billion dollars a year. However, to achieve the goal of defending the United States from the threat of world Communism, beginning in 1952 the federal government raised its expenditures to sixty-five billion dollars. Barring a sudden collapse of the Soviet Union, it seems that federal costs will remain this great for years to come.

What the government spends money for shows what theories of policy dominate the government, and gives some notion as to what interest groups carry the greatest weight. Figure 71 presents the government's pattern of spending in four recent years. The proportion of its funds that the government dedicates to any given task has fluctuated widely through the years. Today the largest item in the national budget is war—paying for past wars and preparing for future wars. As an illustration, in the estimates for fiscal 1957, national defense and related international costs accounted for sixty-one per cent of all expenditures; veterans' affairs, seven per cent; and interest on the national debt, which had been incurred chiefly through war, eleven per cent. All other expenditures made up only about twenty-one per cent of the total. Thus about four dollars out of every five were earmarked, directly or indirectly, for military uses. It is noteworthy that Congress and the federal court system together spend about one hundred million dollars, or around two dollars out of each thousand; all the rest is spent by the executive branch and the independent agencies.

Tremendous pressures are exerted upon Congress to restrain expenditures. If the government spends more than it gathers in revenues, it incurs a deficit. Government financing is not the same as personal financing; a deficit does not have the same impact upon a government that it has upon an individual. However, since to many people these two forms of financing are similar, a deficit has an important effect upon national morale. For example, when the Survey Research Center in 1952 asked a national cross-section of Americans what they disliked about the Democratic Party, a sizable proportion of the replies had to do with alleged uneconomic spending. When an agency does spend more money than Congress has initially awarded it, Congress must enact a so-called "deficiency appropriation" to give the agency the funds it needs. Deficiency appropriations generally receive little publicity, for they do not comprise an asset to the administrators for whose relief they have been passed. These appropriations can be used, and have been used, as devices for escaping from the confinement of a budget; items in a budget are sometimes set so low, for political purposes, that the agency could not possibly execute its obligations with the funds given it.

Thus three types of deficit occur: (1) an overall planned deficit; (2) a deficit arising from increased agency expenditures; and (3) a deficit emerg-



U.S. Bureau of the Budget

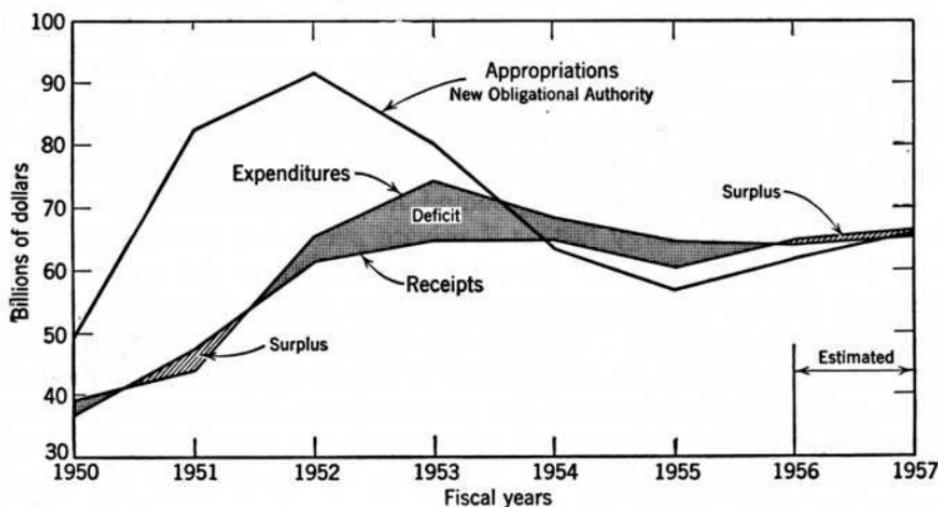
Figure 71. The Pattern of Government Spending in Recent Years.

ing from a drop in revenues. Figure 72 pictures the relations between expenditures and receipts in recent years. It shows the amount of the deficit or surplus; and it shows the trend of appropriations. It is well to remember that appropriations, as the figure indicates, are authority for new obligations; they are *not* expenditures. It may be that an appropriation never is spent, or its spending may be delayed for years. Note should be made of the fact that beginning in 1954 more money was being spent than was being appropriated; of course, it was being spent from the appropriations of previous years. If money is appropriated for an army tank or a bomber it will not ordinarily be spent until the time of delivery, which may be months or years after the appropriation.

## THE IMPACT OF GOVERNMENT SPENDING

Government spending has a significant impact upon the whole national economy. Fundamentally, the purpose of government spending is to enable the government to maintain itself and to pay for the goods and services it has undertaken to provide. In an era such as that of a century ago, the expenditures of the government amounted to relatively little more than this, save for a few special interest areas. However, in that period the total of government spending made up only a minute fraction of the entire national business; the presence or absence of government spending in a given field did not have much effect upon that field.

Today, by contrast, the government is the largest single element in the national economy. Government expenditures amount to approximately one-fourth of the total national income; that is, one dollar out of every four paid to Americans is in the form of a government check. Hence the distribution of government spending is fundamental to national wealth and prosperity. Consequently government spending is not regulated solely by the institutional requirements of the government, that is, by the need



Bureau of the Budget

Figure 72. Recent Fluctuations in National Finances.

to purchase supplies and pay the salaries and wages of civil service employees. Rather, government spending is planned in terms also of the effect it will have upon the economy; by spending money, or refusing to spend money, the government may take a hand in the determination of whether the country shall have prosperity or a depression.

There are manifold ways, both deliberate and unintentional, in which government spending has an impact on the national economy. One school of thought, for example, holds that whenever a depression threatens, the government should inaugurate a major spending program, especially in the field of public works, so as to keep people at work and money circulating. This principle was applied on a large scale in the first New Deal years, in the form then known as "pump-priming." The assumption was that the national economy needed some sort of stimulus in order to revive; it was believed that once the normal circulation of money, goods, and services had been restored, the government could withdraw from the scene. As matters have evolved, the government has not to this date carried out a complete withdrawal; it appears almost certain that it will stay at least in its present relationship vis-à-vis the national economy.

The theory of "pump-priming" is nowadays an accepted part of government spending policy. However, not much is heard of it, for three reasons. In the first place, to repeat, it is accepted, and therefore it is not hotly debated as it was in the 1930's; the only questions are how, where, and when to set the process going. In the second place, World War II and the huge defense expenditures ever since have tremendously stimulated industry and employment; that is, although "pump-priming" was not the intent of the vast military programs, it was the effect, magnified ten-fold. For instance, the New Deal expenditures of fiscal 1934, when public works programs were pushed to new heights, amounted to only one-tenth of the expenditures planned for fiscal 1957, when defense spending was to be heavy.

Thirdly, in part because of defense spending, but also because of many other economic factors, an economic boom has continued since World War II; pump-priming of industry has been unnecessary. However, it should be observed that when a recession of business activity occurred in 1954, the Republican administration declared its intention immediately to "prime the pump" with a public works program, should conditions worsen.

Whatever may be the motives behind heavy government expenditures, the economy gains energy just as if private persons or private companies had spent the same money. However, the directions and results of the energy in the case of government spending are different from those in the case of private spending. Whether the directions and results are better or worse are questions for each person to decide for himself on the basis of the many varied activities of the government and the private economy. Obviously, washing machines and automobiles are useful; they are solely the products of private industry. However, the government also spends money on roads, canals, harbors, waterways, and power plants, all of which are also useful. The government spends money for the training

of people in manufacturing and agriculture; private companies also spend money for training their employees. Both are useful expenditures. Most government spending is for military armaments and personnel. The nation's industry does not spend for these purposes directly, that is, businessmen do not operate private armies in modern times; yet few would say that this kind of government spending is unnecessary.

Other functions need the same examination. What does government spending for old age pensions provide? No new machines certainly; yet it fulfills an obligation to the aged that most people would acknowledge. Hence the spending is useful in that sense. Again, government spending for the conservation of natural resources such as forests and farm lands gives long-term dividends to the next generation. Is that useful spending? Most people believe that it is. Thus the purposes of government spending, even when the amounts are large, can usually be justified to a major part of the population.

### QUESTIONS AND PROBLEMS

1. How does the Bureau of the Budget cope with the agency estimates?
2. What powers do the congressional Appropriations Committees have to determine the shape and size of the federal budget?
3. Describe briefly the operations of the General Accounting Office.
4. What are the ten largest categories of expenditures of the federal government?
5. Define the following in one sentence: budget; fiscal year; appropriation; deficiency appropriation; "pump-priming."
6. What are the major effects on the economy of governmental expenditures?
7. What might be the results of a fifty per cent decrease in national governmental expenditures in, for example, fiscal 1959?