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**The Dispersion of Spending Authority
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by
John F. Cogan
Senior Fellow
Hoover Institution

THE DISPERSION OF SPENDING AUTHORITY AND FEDERAL
BUDGET DEFICITS

John F. Cogan¹

Since the 1950s, deficit spending has been a persistent characteristic of federal government finance. In only five years since 1950 has the federal government's budget been balanced. Worse, the federal government's balance sheet has significantly deteriorated in each decade. The steadily increasing budget deficits have brought the national debt to nearly \$40,000 per american family.

The persistent budget deficits are an extraordinary phenomena in American history. Throughout most of the nation's history up until World War II, a balanced federal budget was the norm. The

¹ Senior Fellow, The Hoover Institution. I am especially grateful to Mary Farrell for her invaluable assistance in all aspects of this paper. I also wish to thank Janine Hodgson for her expert help in preparing the manuscript. I have benefitted from the comments of David Brady, Bruce Bueno de Mesquita, Carl Dahlman, John Ferejohn, Roger Freeman, Keith Krehbiel, Tim Muris, Ron Pavellas, Alvin Rabushka, John Raisian, and Barry Weingast.

federal government did incur budget deficits during years of economic contractions and in times of armed conflict, but would return to balancing the budget in years following these events. The continual failure in the post World War II era to balance non-recessionary, peacetime budgets is without precedent.

The existence of the persistent post war deficits has thus far defied unified explanation. In the popular press each decade's deficits have their own unique explanation. In the 1960s, it was the simultaneous effort to fight the war on poverty and the Vietnam war. In the 1970s, it was economic stagnation. In the 1980s, it was major tax cuts and a large defense build-up. Although each of these explanations is in some sense correct, there appears to be a more systematic and fundamental force at work.

This paper examines the role that the Congressional budget process has played in contributing to the emergence of the persistent post World War II federal budget deficits. My central thesis is that two key institutional changes made by the Congress during the 1930s were critically important in producing the nearly continuous string of post World War II budget deficits. The first and most important change was to transform the jurisdiction over expenditures from a highly centralized Congressional committee structure in each House to a widely decentralized committee structure. The modern process of spreading spending jurisdiction among committees began in 1932 when the Reconstruction Finance Corporation was created and financed outside the normal appropriations procedure. The decentralization process accelerated

during the next four decades. By the mid-1970s, almost every substantive Congressional committee in each House of Congress had authority to report legislation to the floor committing funds from the U.S. Treasury.

Broadening spending authority created what is known as a common resource problem². The common resource is general fund revenue. The problem is that when many Congressional committees have authority to spend general fund revenue, no individual committee has any incentive to restrain its spending commitments since the total level of spending is beyond any single committee's responsibility. The result is an accelerating rate of expenditures relative to general revenues until the available revenue pool is exhausted and deficit financing is relied upon.

A second institutional change, also occurring in the Congress at about the same time, exacerbated the consequences of the proliferation of spending committees. This change was the creation of tax-financed trust funds, e.g., Social Security, Medicare Hospital Insurance. Establishing tax-financed trust funds and placing jurisdiction over them primarily in the tax writing committees created incentives for the tax writing committees to substitute trust fund revenues for general fund revenues.

The combination of these two institutional changes drove general fund expenditures upwards and general fund revenues downwards relative to Gross National Product (GNP). The result was

² Demsetz, (1967) Hardin, (1968).

ever increasing general fund and total budget deficits.

The outline of this paper is as follows. Section II provides a summary of trust fund and general fund expenditures, and revenues during the post World War II period. Section III discusses the institutional changes in committee jurisdiction that have occurred since the 1930s and the reasons why these changes would be expected to produce the observed tax and spending outcomes in the two budgets. Section IV examines three prior periods in American fiscal history in an effort to test the committee proliferation hypothesis: 1789 to the late 1870s, when almost all spending was under the jurisdiction of one committee in each House; the early 1880s to 1920 when spending jurisdiction was splintered among a half dozen committees; and 1921-30 when appropriations jurisdiction was once again consolidated in a single committee in each House. Evidence is found of a sizeable increase in expenditures and in the incidence of deficits during the early 1880s to 1920 period. An equally dramatic halt in the growth of expenditures and a return to balanced budgets is found in the 1920s. Section V examines the budget behavior of the tax-financed trust fund and the trade-off between trust fund and general fund revenues. Section VI summarizes the evidence and draws conclusions.

SECTION II
POST WORLD WAR II BUDGET TRENDS

Figure 2.1 illustrates the growing mismatch between federal revenues and expenditures that has been characteristic of the federal budget throughout the post World War II era³. Since the Korean conflict, federal expenditures have risen relative to GDP from 18 percent in 1955 to almost 23.5 percent in 1992. Federal revenues relative to GDP, on the other hand, are remarkably constant. Revenues exhibit only a slight upward drift during the postwar period. Since the mid-1950s, taxes as a percent of GNP have ranged outside the 17.5-19.5 percent interval only three times.

³ Historical tables, U.S. Budget 1992

Trends in total budget revenues and expenditures mask dramatically divergent trends that have taken place between the trust fund and general fund components of the budget. Before describing these distinct trends, it is important to understand the essential differences between trust fund and general fund programs.

Most expenditures on trust fund programs are financed by a specific tax levied on the public.⁴ The proceeds from trust fund taxes flow into a special account in the budget and program expenditures are made by withdrawing funds from the account. Trust

⁴ The definition of trust funds used in this paper differs from the official U.S. Budget definition. For the purposes of this study, only six major federally tax-financed trust funds are included as trust funds. These trust funds are: Social Security Old-Age and Survivors Insurance, Social Security Disability, Railroad Retirement, Federal Aid Highways, Medicare Hospital Insurance (Part A), and the Airport and Airways fund. Together these six trust funds account for 80% of all trust fund expenditures and 85% of all trust fund receipts (Budget of the U.S. Government, Special Analyses, 1991). The Unemployment Insurance trust fund, which is also tax-financed, is excluded from this group because over 90% of its revenue is derived from taxes levied by the individual states and thus are outside the control of the Congress. It is also excluded from the general fund budget calculations.

In addition to these tax-financed trust funds, the official U.S. Budget contains over 70 other trust funds. This latter group of trust funds is financed either wholly or primarily by general fund revenues. They are of three generic types. One type may be thought of as hybrid trust funds. Hybrid funds that are only partially financed by taxes and collections from the public. The other source of funding is general revenues. This first type includes Black Lung Benefits, Civilian and Military Retirement, and Medicare (Part B). A second type consists of trust funds financed through gifts and donations. Almost every government Cabinet agency and the Legislative Branch has at least one such trust fund. A final type of trust fund is one which is financed entirely by general revenues. The General Revenue Sharing Trust Fund (no longer in existence), is an example of this type of fund. For the purposes of this study, these three types of trust funds are treated as general fund programs.

fund tax revenues can only be used to support the activities of the trust fund program and, therefore, are termed dedicated revenues.

General fund programs, on the other hand, are not financed by any specific revenue source. Instead, revenues from a multitude of sources are pooled together in a common fund which is used to finance a broad array of general fund activities ranging from national defense to grants to study the migratory patterns of certain types of birds.

Figures 2.2 and 2.3 depict revenues and expenditures separately for trust fund and general fund programs during the period 1950-87. As figure 2.2 illustrates, trust fund revenues and expenditures have been in approximate balance throughout the post-World War II period. Neither large surpluses nor large deficits persist for any significant length of time. Surpluses, such as those which emerged in the early 1950s and those during the late 1960s and early 1970s, have been quickly eradicated by expansions in spending or economic contractions. Deficits, such as those which occurred in the late 1950s, mid-1970s, and early 1980s have been quickly eliminated by a combination of increases in dedicated taxes and reductions in benefits.

Figure 2.2
GENERAL FUND DEFICIT: 1950-1992
 (as percent GDP)

Figure 2.3
TRUST FUND DEFICIT: 1950-1992
 (as percent GDP)

In contrast, as is illustrated in Figure 2.3, an enormous gap has opened-up between expenditures and revenues in the general fund. Both the time-path and the magnitude of the general fund deficit match the time trend and the size of the total budget deficit. In fact, in an accounting sense, the entire post-World War II growth in the total budget deficit is attributable to the general fund deficit. Table 2.1 provides a quantitative dimension to this relationship: both the total and general fund deficits have risen in lock-step; from less than one percent of GNP in the 1950s to around 4.5 percent of GNP during the 1980s.

TABLE 2.1

Total Budget and General Fund Deficits: 1950-92

(Percent of GDP)

<u>Year</u>	<u>Total Budget</u>	<u>General Fund</u>
1950-59	0.5%	0.8%
1960-69	0.8%	0.9%
1970-79	2.1%	2.2%
1980-89	4.3%	4.3%
1990-92	4.6%	5.6%
Source: <u>Budget and Budget Appendix of the U.S. Government,</u> <u>Annual issues, fiscal years 1952-94.</u>		

As the trends in Figure 2.3 and the data in Table 2.1 suggests, the forces that have been at work in producing the persistent budget deficits have been operating on the general fund for the entire post World War II period and possibly longer. Although the budget deficits of the 1980s are much larger than those of prior decades, they nevertheless represent a continuation of previous trends.

Figures 2.2 and 2.3 also reveal the existence of an apparent systematic substitution of trust fund revenue for general fund revenues during the post-World War II period. While total budget revenues have been remarkably constant at around 18-19 percent of GNP, trust fund revenues have risen steadily and general fund taxes have declined significantly. Since the mid-1950s, trust fund revenues have risen from just under two percent to almost eight percent of GNP by the mid-1980s. In contrast, general fund revenues have declined from almost sixteen percent of GNP during the mid-1950s to just slightly over eleven percent of GNP in the mid-1980s.⁵ The almost dollar-for-dollar substitution of trust fund for general fund revenue relative to GNP suggests that increases in trust fund taxes may be crowding out general fund

⁵ Trust fund revenues in Figure 2.2 include both taxes collected from the public and intergovernmental transfers, such as interest payments on trust fund loans to the general fund and military wage credits to the Social Security funds. These intergovernmental transfers account for 10-15 percent of total trust fund receipts. In similarly, general fund outlays include intergovernmental transfers to the trust funds. Such transfers constitute only about 5 percent of general fund outlays.

taxes.

The coexistence of chronic general fund deficits and balanced trust fund budgets is a paradox. Why does the Congress adhere to the principle of a balanced budget in the trust funds while, at the same time, open up a massive fiscal imbalance in the general fund? Clearly the forces that have been at work in producing the former have been absent from the latter. A natural place to begin an analyses of these forces is in the difference between the institutional mechanisms the Congress employs in making its fiscal decisions in each of the two budgets.

SECTION III

THE DISPERSAL OF SPENDING POWER: 1932-1974

In the general fund, the Congress currently exercises its power of the purse authority through a highly decentralized committee system. In each House no single Congressional committee has responsibility for all general fund financial decisions. Instead, jurisdiction over expenditures is divided among a multitude of committees. How the jurisdiction over expenditures is divided in a given Congress depends as much on tradition, politics, and the powers of particular committees as it does on the formal rules of each House of Congress.

In the modern Congress, various financial mechanisms have been employed to facilitate the operation of dispersed spending power. Some techniques, such as permanent appropriations and borrowing authority completely bypass the annual appropriations process. Others, such as appropriated entitlements, the revolving fund, and contract authority technically require annual appropriations, but by the time the appropriation decision is made, the budget resources have already been effectively committed. Thus, for programs financed through the latter techniques, the appropriation is regarded as a pro forma decision.

Table 2.2 displays the current (1992) distribution of general

fund program outlays among Congressional committees.⁶ In each House, the Appropriations Committee has jurisdiction for over just under two-thirds of all general fund outlays. Jurisdiction for programs covering the remaining 37 percent of general fund outlays is spread among 17 House and 13 Senate legislative committees. The large share accounted for by the Ways and Means Committee reflects its jurisdiction over several major entitlements, including AFDC, Supplemental Security Income, and its shared jurisdiction over Medicare (Part B) with the Energy and Commerce Committee. The Energy and Commerce Committee's 16 percent share primarily reflects the importance of appropriated entitlements for health care, e.g., Medicaid and part of Medicare (Part B).

The wide distribution of spending authority among Congressional committees is a relatively recent phenomenon. Table 2.2 compares the current distribution to the distribution that prevailed in 1932. The year 1932 is chosen as a point of reference because it immediately predates the first of a series of legislative actions that dispersed spending authority. In that fiscal year, neither contract authority nor borrowing authority were in use. The only major entitlement was veterans benefits; and although there were numerous permanent appropriations, their combined outlays were small. As the data in Table 2B show, the Appropriations Committee maintained control over the lion's share

⁶ The details of how Table 2.2 is constructed are provided in Appendix A.

of spending.⁷ The only other committee which had any significant authority over spending was the Post Office and Post Roads Committee. In each House, no other committee controlled more than 1.5 percent of the total.

⁷ In computing each committee's share of outlays, interest on the national debt, IRS tax refunds (for 1932), and veterans compensation and pensions were excluded from total general fund greatly outlays. The exclusion of veterans payments requires some explanation. In 1932 these veterans payments constituted 20 percent of the entire non-interest budget expenditures and 70 percent of all outlays not under the control of the Appropriations Committee. The large magnitude of the outlays reflects the high lingering costs of World War I. Their relatively large amount was only a temporary phenomenon. By 1939, veterans payments had declined to 5 percent of the budget. To include these war-related payments would have distorted the relative importance of spending authority among committees.

TABLE 2.2

Distribution of Federal Program Expenditures
by Committee

	<u>Percent of</u> <u>General Fund Outlays</u>
<u>A:1992</u>	
<u>House Committee</u>	
Appropriations	63%
Ways and Means	7%
Energy and Commerce	11%
Agriculture	6%
All Other (14)	3%
<u>Senate Committee</u>	
Appropriations	69%
Finance	14%
Agriculture, Nutrition and Forestry	7%
Government Affairs	5%
All other (10)	5%
<u>B: 1932</u>	
<u>House Committee</u>	
Appropriations	89%
Post Office	7%
All other Legislative Committees (37)	4%
<u>Senate Committee</u>	
Appropriations	89%
Post Office	7%
All other Legislative Committees (31).	4%
Source: <u>U.S. Budget, 1934 and 1994.</u> See Appendix A for details. Number in parenthesis is the total number of committees.	

The broadening of spending authority during this 50-year period did not result from identifiable changes in key Congressional rules or changes in the organization of committees. Instead, it occurred as a result of a series of separate legislative actions that created spending mechanisms which effectively committed budget resources either independently or in advance of formal appropriations.

If there is any single legislative activity that marks the beginning of the modern process of broadening spending authority, it is the creation of the Reconstruction Finance Corporation (RFC) in 1932. In creating the RFC, the appropriations process was circumvented by permitting the Corporation to borrow directly from the U.S. Treasury. Never before had such a funding technique been used.⁸ But, soon it would come to be used to finance numerous agencies and programs. Within the next five years, the Commodity Credit Corporation, the Tennessee Valley Authority, the Homeowners Loan Corporation, the Rural Electrification Administration, and the Federal Public Housing Authority were created and allowed to obtain financing through the same mechanism.

By the early 1950s, seventeen different programs located in

⁸ Schick, (1984). The use of borrowing authority was challenged after World War II. Opponents argued that borrowing authority violated a 1920 House rule, that granted to the Appropriations Committee the sole authority to report legislation making appropriations. The challenge was defeated, however, when the House decided that making funds available for obligation by this method did not constitute an appropriation. (Congressional Record, June 28, 1949, pg. 8538).

nine executive branch agencies had been given borrowing authority⁹. By the late 1950s, borrowing authority had been extended to more than 30 programs, including farm and housing subsidies, civil defense activities, and college housing loans, area redevelopment projects, and the Export-Import bank¹⁰. In the early 1970s, the use of borrowing authority by the legislative committees peaked. However, by this time the effects of another legislative device -- appropriated entitlements -- were driving the general fund budget.¹¹

The appropriated entitlement has become the most important

⁹ U.S. Budget, 1953

¹⁰ U.S. Budget, 1964.

¹¹ The World War II years witnessed the widespread adoption of another technique, contract authority, to circumvent the appropriations process. Contract authority authorizes an agency to enter into contracts to undertake a particular project in advance of an appropriation. Thus, as a practical matter federal funds have already been committed by the time the appropriation is made. The Appropriations Committee action is, therefore, purely pro forma.

In order to expedite the process of financing the World War II effort, Congressional committees undertook widespread use of this device. For example, to aid in the final push to end the war in the Pacific, 25 percent of all general fund appropriations were used to liquidate prior contract authorizations (U.S. Budget, 1947).

Following the war, the legislative committees continued to make liberal use of contract authority. Contract authority was used by almost every legislative committee to finance almost every conceivable type of construction activity. In 1951, more than 50 budget accounts were funded through contract authority. These accounts included such activities as Public Health Service Grants for hospital construction, various GSA office construction projects, aid to airports, the Alaska Railroad, and construction activities of the Bonneville Power Administration and National Park Service. (U.S. Budget, 1953). Despite the large number of accounts, total expenditures funded through this device were relatively small.

mechanism that Congress has employed to spread general fund spending authority among its committees.¹² Table 2.3 provides an indication of the importance of entitlements. It provides a list of the major general fund entitlements, each program's date of enactment, and the funding level for each program. Together these 15 entitlements account for 88 percent of all general fund spending under the jurisdiction of committees other than Appropriations. Although appropriated entitlements have existed since the beginning of the Nation, most major entitlements were created during two relatively recent periods: the 1930s and 1965-74.

Prior to the 1930s, major entitlements were limited to payments to individuals who had performed some specified service in government: disabled veterans, and retired military and civilian personnel¹³. During the economic emergency of the 1930s, general fund entitlements were expanded to include persons who had not performed any direct government service, such as farmers, and to state governments to assist in providing aid to poor single mothers, the aged, and the blind. Nearly thirty years later, another group of major general fund entitlements was established. This group provided health and nutrition entitlements directly to individuals and financial assistance entitlements to states and local governments, educational agencies, and banks for various

¹² I should point out that there is no uniform definition of an entitlement or agreement on which programs are to be regarded entitlements.

¹³ Glasson (1918) McNeil, et. al. (1983)

services.

TABLE 2.3

Major Entitlement Programs*

	<u>FY92 Outlays</u> (\$ in millions)
Veterans Compensation (1789)	\$17,296
Military Retirement (1861)	24,491
Civil Service Retirement (1920)	34,001
Commodity Credit Corporation (1933)	16,635
Aid to Families with Dependent Children (1935)**	15,104
Old Age Assistance (1935) }	
Aid to the Blind (1935) }	19,445
Aid to the Permanently & Totally Disabled (1950) }	
Food Stamps (1964)	21,804
Medicaid (1965)	67,827
Medicare (1965)	50,285
Guaranteed Student Loans (1965)	4,803
Social Services Block Grant (1965)	2,708
General Revenue Sharing (1974)	7,345
Child Nutrition Sharing (1972)	<u>6,146</u>
Subtotal	\$287,890
<p>* Year in parenthesis is that date the program was enacted or placed on an entitlement basis.</p> <p>** Includes about \$450 million in outlays for Child Support Enforcement which was enacted in 1975.</p> <p>Source: <u>U.S. Budget, 1992.</u></p>	

Throughout the 40-year period of increasingly decentralized budget decisionmaking, the Congress made several attempts at consolidating spending authority. Most important of these was the 1974 Budget Control and Impoundment Act.¹⁴ The 1974 Budget Act restricted some forms of spending that were used by the legislating committees, in particular, borrowing authority and contract authority. It also restricted somewhat the ability of Congress to create new entitlement programs, but left those then in existence untouched. Moreover, the Congress was unwilling to impose any new decisionmaking apparatus on the existing decentralized structure. It simply superimposed what amounted to a coordinating committee, the Budget Committee, on top of the existing fragmented decisionmaking process. In doing so, it failed to address the fundamental incentives for additional spending and against retrenchment that a fragmented system provides.¹⁵

Why both Houses of Congress beginning in the 1930s chose to broaden spending authority among its committees and why it was done in such a piecemeal fashion over the 40-year interval are

¹⁴ See Schick (1980) for a comprehensive discussion of the history and the impact of the Act.

¹⁵ The committee reforms in the House that were adopted late in the same year arguably had an important affect of increasing the degree of decentralization over financial matters. Particularly important was the transfer of jurisdiction for general fund health care entitlements, Medicaid and Medicare (Part B), from the Ways and Means Committee to the Energy and Commerce Committee. Congressional Quarterly, 1974, pg. 635).

unanswered questions. Undoubtedly the forces which produced the majority sentiment in favor of broadening spending authority were similar to those operating to increase expenditures. In this sense, the broadening of spending authority is in part a mechanism by which the Congress chose to achieve a desired objective. However, once in place, the decentralization of spending authority would be expected to have a causal impact on the growth in spending and deficit financing.

The process by which this occurs works as follows. In making budget decisions with respect to programs under its jurisdiction, each individual Congressional committee attempts to be responsive to the wishes of those concerned about the adequacy of program benefits. But, each committee also recognizes that any increased benefits must be financed. Thus, each committee faces a trade-off. On the positive side, increases in program benefits produces certain "rewards" to committee members from those who are recipients of the higher benefits. On the negative side, the greater benefits must somehow be paid for, either by higher current taxes or deficit financing.

However, the size of the overall tax burden or the deficit is beyond the control of any single committee. The political blame for the tax or deficit consequences of higher spending is shared by all committees. Thus, each committee reaps the full political rewards of higher expenditures on its programs, but each committee bears only a portion of the adverse political consequences of financing higher expenditures. Faced with this situation, each

committee rationally concludes that it should spend more on its programs. This conclusion, of course, is reached by all committees. The result is that the combined spending by all committees exceeds what it would have been had each committee borne the full consequences of its actions.

In a dynamic setting, this process feeds upon itself. With each round of the budget process, every committee has the opportunity to observe the spending behavior of all other committees. The other committees, in response to the incentives provided by the multiple committee system, are observed to spend an ever-increasing amount on programs within their individual jurisdictions. Repeated observations on these actions serve to reinforce the individual committee's belief in the futility of practicing fiscal restraint and in the wisdom of raising expenditures on programs within its jurisdiction. Competition among the separate committees soon develops.

The competition is fueled by the actions of the special interests. Special interest groups begin to exert pressure on the individual committees to ensure that each group retains its "fair share" of the total budget. No individual committee has any institutional reason for resisting these pressures. With divided spending jurisdiction, each committee's institutional role is confined to the programs under its jurisdiction. Each committee, observing the behavior of the other committees, knows that it can only maintain its fair share of the total by increasing spending on its programs by at least as much as other committees. Each

committee becomes locked-in by the competitive forces which compel it to continually raise the level of spending on its programs. The problem created by widely distributed spending authority is analogous to similar problems that arise any time there are many competing claimants for a common resource. To illustrate, imagine a publicly owned forest which is opened to any and all logging companies who desire access to it. No individual company would have any reason to restrain its logging activities. In fact, each company would have every incentive to cut down as many trees as it possibly could before a competitor does so. In this setting, the inexorable forces of competition would inevitably lead to the depletion of the forest. The depletion would not necessarily occur, however, if one and only one logging company was given access to the forest. A single logging company would not only preserve some of the existing trees for later use, but would also act to replenish the depleted supply of trees that resulted from its current harvesting operations.¹⁶

There are more than theoretical reasons for believing that the wide distribution of spending authority would have severe fiscal consequences. In earlier periods, many members of Congress argued

¹⁶ The problems of the budget and the forest are instances of what has become known as the "tragedy of the commons", after an article by the same title written two decades ago by Garrett Hardin (1968). The general rule of the tragedy is that open access to a common resource leads to over consumption and eventual exhaustion of the common resource. In the words of Hardin, "Freedom in a commons brings ruin to all" (Hardin, pg. 1244). In the economic literature, the common resource problem is discussed at length by Demsetz (1967).

that a wide distribution of spending authority would inevitably lead to increased spending and budget deficits. Perhaps the most forceful such argument was made over a century ago by one of the House of Representatives' most distinguished members, Samuel Randall. During his career, Mr. Randall had been both Speaker of the House and Chairman of the Appropriations Committee. In 1885, in response to a proposal to divide the jurisdiction over appropriations among several Congressional committees, Mr. Randall offered the following warning:

"If you undertake to divide all these appropriations and have many committees where there ought to be but one you will enter upon a path of extravagance you cannot foresee the length of or the depth of until we find the Treasury of the country bankrupt."¹⁷

Chairman Randall was not alone in his view. The Congressional Record and other historical documents contain numerous similar statements by other national leaders, ranging from James Garfield to Woodrow Wilson¹⁸.

But more importantly, there is considerable supporting empirical evidence from both the contemporaneous and historical budget records. Evidence from the contemporaneous record is provided by the budget experience of the tax-financed trust funds. This discussion is deferred to Section V where we take the issue of

¹⁷ House Report #373

¹⁸ House Report #373

trust funds. The historical record, which provides more compelling evidence, is examined in the next section.

SECTION IV

THE HISTORICAL EXPERIENCE: 1789-1930

In contrast to the years following World War II, the institutional structure of budget decisionmaking in Congress was highly centralized throughout most of the Nation's prior fiscal history. From 1789 to 1877, and again from 1922 to the early 1930s, jurisdiction over virtually all spending authority rested with a single committee in each House. Only in the intervening period was this authority widely distributed among Congressional committees. A comparison of Congressional spending behavior during each of these periods provides the basis for testing the proposition that the post-1930 splintering of spending jurisdiction among Congressional committees led to increases in the growth in total government spending irrespective of revenues.

For the first 90 years of the Nation's history, almost all spending authority was concentrated in a single committee in each House. From 1789 to 1865, the Ways and Means Committee had jurisdiction over all appropriations in the House. The Senate in 1816, after briefly experimenting with select committees to handle appropriations, created the Finance Committee as a standing committee with jurisdiction over appropriations. Since these two committees were also the tax-writing committees in each House, the institutional arrangement in these early years can be viewed as consisting of a single "budget" committee responsible for virtually

all matters on both sides of the federal budget ledger. In 1865, the House voted to move appropriations jurisdiction from the Ways and Means Committee to a newly created Appropriations Committee. The Senate followed suit two years later and shifted jurisdiction from the Finance Committee to its Appropriations Committee.¹⁹ The shift of jurisdiction over appropriations still left a single Congressional committee in each House in charge of all appropriations. This institutional arrangement continued in both Houses until 1877.

During the Nation's early years, roughly from 1790 to 1835, the desire to liquidate the debt produced a string of almost continuous annual budget surpluses until the Revolutionary War debt was fully extinguished in 1835.²⁰ After the debt was repaid and before the Civil War, neither surpluses nor deficits persisted for any significant length of time. The longest string of consecutive

¹⁹ The rationale for the change was that because of the increased workload, the job of handling revenues, expenditures and banking and currency matters was too burdensome for a single committee to handle in a well-considered but expeditious manner. As Representative Samuel Cox remarked during the floor debate:

"no set of men, however enduring their patience, studious their habits or gigantic their mental grasp and overburdened with the labor incident to the existing monetary condition of the country growing out of this unparalleled civil strife can do this labor as well as the people have a right to expect." (Congressional Globe, March 2, 1865, Page 1312).

²⁰ Following a somewhat shaky start during the 1790s, the budget ran surpluses each year through 1835 except during the War of 1812 and three years in the 1820s, two of which were years of severe economic contraction (U.S. Treasury, 1980, Dewey 1931).

budget deficits was the four-year period, 1840-43, and the economy suffered through a severe economic recession in the first three of these years²¹. The longest string of consecutive budget surpluses was the eight year period, 1850-57. These surpluses were used to reduce the national debt that had increased greatly during the Mexican-American War.

Following the Civil War, the Appropriations Committees continued the fiscal restraint practiced by its predecessor committee. Expenditures related to the war effort were cutback sharply; enough so that the income tax was allowed to expire, tariffs were cut, and the war-related debt was reduced by a third²².

The year 1877 marked the beginning of a period of radical change in the House of Representatives' procedures regarding spending decisions. The House, in a series of rule changes during the next nine years, stripped the Appropriations Committee of its authority over eight of the fourteen appropriation bills (Fenno, 1966). In each instance, appropriations authority was transferred to the legislative committee which had authorizing jurisdiction over the programs contained in the appropriations bill. In 1877-79 the House Committee on Commerce was allowed to report Rivers and Harbors appropriations directly to the floor, bypassing the Appropriations Committee completely. In 1880, the Agriculture and Forestry Committee was given jurisdiction over the Agriculture

²¹ Dewey (1931)

²² U.S. Treasury, 1980, Dewey (1931)

Department's appropriations. And in 1883, appropriations for Rivers and Harbors was formally transferred from the Appropriations Committee to a newly created Rivers and Harbors Committee.²³

The most drastic action, however, occurred in 1885. In that year, jurisdiction for the Army, Consular and Diplomatic, Indian Affairs, Military Academy, Navy and Post Office and Postal Roads appropriation bills were all transferred from the Appropriations Committee to the various legislative committees. Fourteen years later, the Senate divided appropriations jurisdiction.²⁴

The 1885 dispersal spending authority was without historical precedent. Taken together, the appropriations transferred from the Appropriations Committee constituted almost one-half of all non-mandatory appropriations.²⁵

The splintering of appropriations jurisdiction in the House

²³ The Senate transferred appropriations jurisdiction for Rivers and Harbors from the Appropriations Committee to the Senate Committee on Commerce in 1877.

²⁴ The Senate divided jurisdiction in 1899. The resolution to split jurisdiction was taken up under unanimous consent and adopted without any floor debate. (Congressional Record, January 27, 1899). As a result of the Senate action, the Senate Appropriations Committee retained responsibility for only three supply bills: the Legislative, Executive and Judicial bill, the Sundry Civil bill, and the deficiency bill. Jurisdiction for the remaining 80 percent of all discretionary appropriations was divided among ten separate legislative committees.

²⁵ Non-mandatory appropriations exclude permanent appropriations such as interest on the national debt, and those that are treated as pro forma appropriations, such as Veterans Pensions.

was followed by an upward surge in spending. During the seven years following the House decision, federal program spending grew at a rate unprecedented in the Nation's 100-year history. By 1893, program spending was 50 percent larger than it had been in 1886. The growth of expenditures transformed the 40 percent surplus that existed during the period 1881-85 into a deficit by 1894. The deficit persisted each year through the remainder of the 1890s. Program expenditures continued their upward march during the years following the Senate decision to divide appropriations jurisdiction in 1899, rising another 45 percent between 1900 and 1916²⁶.

The relationship between the growth in federal expenditures and the splintering of spending jurisdiction has been the subject of two recent studies. Brady and Morgan (1987), using aggregate time series data find a large and statistically significant effect of the dispersal of spending jurisdiction on the growth in spending. In another analysis using more disaggregated data, Stewart (1988) obtains similar results. The following is a more detailed look at the role that the division of spending jurisdiction played in contributing to the observed spending increase.

Figure 2.5 shows the trends in appropriations during the period 1873 to 1916. Appropriations during the 46 years encompassing both the years preceding and following changes in jurisdiction are illustrated. Separate trends are shown for appropriations that remained within the Appropriations Committee

²⁶ U.S. Treasury, 1980

jurisdiction and those that were given to the legislating committees.²⁷ As the graph illustrates, prior to 1887 when the jurisdiction change in the House became effective, funding levels contained in appropriation bills that were subsequently given to the legislative committees (hereafter termed Legislative Committee Appropriations) grew at about the same rate (actually at a somewhat slower rate) as those that were retained by the Appropriations Committee.

Immediately following the change in jurisdiction, legislative committees appropriations increased sharply. The Appropriations Committee, on the other hand, continued its prior restraint.

The upward trend in legislating committees' appropriations continued nearly to the end of the century. The size of the change in legislative committee appropriations trend is not trivial.

²⁷ Appropriations totals are limited to those for annually funded discretionary programs. Thus, excluded from the appropriations enacted for any given year are permanent appropriations, such as interest on the national debt, and appropriations contained in private relief bills. Appropriations in private relief bills are not under the jurisdiction of the Appropriations Committees and should be viewed in the modern rubric of budgeting as appropriated entitlements. Also, and most important, veterans pensions are excluded from the totals on the ground that the enabling statutes make these pensions an entitlement.

The growth in pensions during this 16-year time period and throughout the remainder of the 19th Century is particularly noteworthy. Expenditures on pensions, after remaining roughly constant throughout the decade of the 1870s began to soar in 1880. From 1878 to 1886, expenditure on pensions rose by 133 percent. Its growth alone accounts for more than one-half of the entire growth in government non-interest expenditures. The increase is the result of a single law, the Pension Arrears Act of 1879, which provided benefits retroactive to the date of disability to all Veterans who were disabled in the line of duty during the Civil War.

During the ten years prior to the transfer of jurisdiction, the Appropriations Committee cut appropriations for transferred programs at a 5.0 percent annual rate relative to GNP. During the ten years following the transfer, the legislative committees increased appropriations at an annual rate of 1.8 percent.

The Spanish-American War produced a sharp upward surge in legislative committee appropriations. An increase was to be expected since the legislative committees had appropriations jurisdiction over the supply bills for the Army, Navy and the Military Academy appropriation bills. However, the sharp increase in appropriations between 1898 and 1903 was not limited to those involved exclusively in the war effort. For example, Agriculture Department appropriations increased by 64 percent, Rivers and Harbors by 69 percent, Indian Affairs and Consular and Diplomatic by 17 percent. Following the Spanish-American War, legislative appropriations built up presumably as part of the war effort were cutback to some extent--but not enough to return them to pre-war levels.

Tables 2.4-2.6 provide a more detailed look at the change in appropriation levels that took place immediately following the transfer of jurisdiction. Table 2.4 compares annual appropriations for Rivers and Harbors during the five-years preceding the shift in its jurisdiction with the annual appropriations during the five years following the jurisdictional change.²⁸

²⁸ The FY1878 appropriation bill for Rivers and Harbors was the first to bypass the House Appropriations Committee. However, no final appropriation bill was agreed to, and, hence, FY78

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TABLE 2.4
Rivers and Harbors Appropriations
(\$ in Thousands)

<u>5-year Average</u>	<u>1873-77</u>	<u>1879-1883</u>	<u>Percent Change</u>
Rivers and Harbors	\$5,967	\$9,565	60.3%
Total	\$108,984	\$107,859	-1.0%
Discretionary			
Source: <u>U.S. Department of Treasury, Digest of Appropriations, 1939.</u>			

²⁸ The FY1878 appropriation bill for Rivers and Harbors was the first to bypass the House Appropriations Committee. However, no final appropriation bill was agreed to, and, hence, FY78 appropriations are excluded from the data.

TABLE 2.5
Agriculture Department

<u>5-year Average</u>	<u>1876-80</u>	<u>1881-1885</u>	<u>Percent Change</u>
Agriculture	\$194	\$380	95.9%
Department			
Total	\$95,195	\$110,869	15.5%
Discretionary			
Source: <u>U.S. Department of Treasury, Digest of Appropriations, 1939.</u>			

TABLE 2.6
Legislative Committee

<u>5-year Average</u>	<u>1882-86</u>	<u>1887-91</u>	<u>Percent Growth</u>
Legislative	\$47,439	\$53,863	13.5%
Comm(s)			
Appropriations	\$49,668	\$53,015	6.7%
Comm			
Source: <u>U.S. Department of Treasury, Digest of Appropriations, 1939.</u>			

As the data indicate, Rivers and Harbor appropriations jumped by 60 percent during the five years immediately following the transfer of its jurisdiction to the Committee on Commerce. Total appropriations for discretionary programs, in contrast, remained at the same level following the transfer as they were in the years prior to the transfer.

Tables 2.5 and 2.6, which provide the same comparisons for agricultural appropriations and for appropriations given to the legislative committees in 1885, tell a similar story.

The long-run cumulative increase in legislative committee appropriations is even more significant. Table 2.7 compares growth rates in appropriations relative to GNP during the 30 years following the House decisions to split jurisdiction. The fiscal restraint practiced by the Appropriations Committee between 1886 and 1916 is indicated by the 5.4 percent decline in their total appropriations relative to GNP during the period. The relative extravagance of the legislative committees is evident from the sizable appropriation growth rates. As a result of these higher growth rates, legislative committee appropriations, which in 1885 were about equal in magnitude to the Appropriations Committee's, exceeded those of the Appropriations Committee by 50 percent 30 years later.

TABLE 2.7

Appropriations Committee vs. Legislative Committees:Appropriation Growth Rates

	<u>30-year Growth Relative to GNP</u>
Appropriations Committee (1884-1914)	-5.2%
1885 Legislative Committees (1884-1914)	50.0%
Rivers and Harbors Committees (1875-1905)	20.7%
Agriculture Committee (1878- 1908)	1307.0%
Source: <u>Digest of Appropriations, 1939</u> . Computations are based on 5-year moving averages of annual appropriations centered on the years provided in parentheses. Totals exclude all mandatory spending.	

As a result of the rapid growth in the budget, issue of budgetary process reform gained momentum throughout the years preceding World War I. The issue soon became ripe for the campaign trail. Both political parties recognized the problem and promised to do something about it. The Democratic Platform of 1916 called for a return to the pre-1865 single committee regime:

"We demand careful economy in all expenditures and to that end favor a return by the House of Representatives to its former practice of initiating and preparing all appropriation bills

through a single committee."²⁹

The Republican Party platform was less explicit. It called for enactment of former President Taft's "oft-repeated and earnest proposal efforts to secure economy and efficiency through the establishment of a single and business-like budget system. . . ."³⁰

President Wilson, himself a student of Congress, joined those calling for budget process reform in his 1917 State of the Union message following his election to a second term. In his address Wilson stated,

"And I beg that the members of the House of Representatives will permit me to express the opinion that it will be impossible to deal in any but a very wasteful and extravagant fashion with the enormous appropriations of public moneys. . . . unless the House will consent to return to its former practice of initiating and preparing all appropriation bills through a single committee. . . ."³¹

World War I temporarily diverted attention from the issue of budget process reform. But, as soon as the war ended the reform effort was immediately taken up again. In October of 1919, a select committee on the Budget was established and submitted its report to the Congress later in the year. The centerpiece of the report was a recommendation that the House adopt a resolution which

²⁹ Democratic National Convention Proceedings, 1916, pg. 128

³⁰ Republican National Convention, 1916, pg. 93

³¹ House Report #373.

"centers in one Committee on Appropriationsthe authority to report all appropriations."³² According to the committee, effective control over the budget could not be achieved without consolidating spending jurisdiction. As the Committee report summarized: "Without the adoption of this resolution true budgetary reform is impossible."³³

The Select Committee knew it was proposing a dramatic step. Never before in the history of the Congress had authority been stripped away from so many committees. However, the Committee also knew that the wide distribution of spending jurisdiction was not in the general interest. "While it (the resolution) means the surrender by certain committees of jurisdiction which they now possess and will take from certain members on those committees certain powers now exercised, we ought to approach the consideration of the big problem with a determination to submerge personal ambition for the public good."³⁴

The day the House Select Committee on the Budget submitted its recommendations, it also reported out a bill to implement them.³⁵ The bill, authored by the Select Committee's chairman, James W. Good, sent shocked waves reverberating through legislative committee hearing rooms. It proposed that the House wrench appropriations authority from seven powerful legislative

³² House Report #373

³³ House Report #373

³⁴ House Report #373.

³⁵ Willoughby, (1927)

committees.

More than seven months elapsed before the resolution was brought to the House floor.³⁶ But, the time it came to the floor, a majority had been marshalled in its favor and the resolution passed by a vote of 200 to 117.³⁷

There are undoubtedly many reasons for the House action. The overriding one though is a belief that without it, fiscal restraint could not be achieved. Still, it is not clear whether budget economy arguments alone would have carried the day in the House. Also important was the fact that the resolution had previously been embraced in almost identical form by the Democratic party platform and was consistent with the thrust of the Republican party's platform. During the floor debate on the consolidation bill, several members reminded the Democratic members of this fact, but none as forcefully as James Good. In a powerful statement, Good began by invoking the words of former party leader William Jennings Bryan on the importance of adhering to the platform. "The Representative who secures office on a platform and then betrays the people who elected him is a criminal worse than he who embezzles money." Good then reminded his fellow Democrats that an election was 5-months away: "a real test has come, vote to repudiate your platform or vote to carry out its provisions. But I want to assure you those Democrats who vote to repudiate their platform in this respect will, I believe, live to regret that

³⁶ Congressional Record, June 1, 1920

³⁷ Willoughby (1927) pg. 37.

action, and your deserts may come sooner than you think."³⁸

The Senate followed the House two years later. On March 6, 1922, the Senate amended its rules to provide that all appropriation bills should be considered by one committee instead of many.³⁹

The years following the consolidation of spending authority in the House and Senate was a period of remarkable fiscal restraint. During the 1920s, the almost unbroken upward march of government spending of the preceding three decades was halted. The budget was in surplus each year from 1920 to 1930 and the size of the budget surplus actually increased from the beginning of the decade to its end.

Table 2.8 summarizes the budget expenditures and surpluses for the decade. The aggregate data for this brief 10-year period are compelling. The year 1922 marks the end of the natural wind-down of federal expenditures following World War I.⁴⁰ From that year to the beginning of the decade, federal government expenditures remained virtually unchanged. Relative to GNP, the decade of the 1920s witnessed a reversal of prior decade increases in government spending.

³⁸ Congressional Record, June 1, 1920, pg. 8116.

³⁹ As Willoughby (1927) notes, the rules governing the House and Senate differ. But, the principles underlying them are the same.

⁴⁰ War-time expenditures peaked in 1919 at \$18.5 billion. Outlays then declined to \$6.4 billion in 1920 to \$5.1 billion in 1921 to \$3.3 billion in 1922.

TABLE 2.8

Federal Spending and Budget Surpluses: 1920s(\$ in billions)Percent of GNP

<u>Year</u>	<u>Outlays</u>	<u>Surplus</u>	<u>Outlays</u>	<u>Surplus</u>
1920	\$3.3	\$0.7	4.6%	1.0%
1924	2.9	1.0	3.4%	1.1%
1926	2.9	0.9	3.0%	0.9%
1930	3.3	0.7	3.4%	0.7%
*Source: <u>Annual Report of the Secretary of the Treasury, 1980.</u>				

The 11-year string of consecutive budget surpluses from 1920 to 1930 was the longest since the 1880s when the spending authority was dispersed in the House.

SECTION V
THE BEHAVIOR OF TRUST FUND BUDGETS

The Social Security Act created the first tax financed trust fund: the Old Age Survivors Insurance Trust Fund. Prior to the passage of the Social Security Act in 1935, no major tax financed trust fund existed in the federal budget. In contrast to general fund programs, jurisdiction over expenditures for each of the tax-financed trust funds resides with a single committee (see Table 2.9). This difference provides a natural test for the importance of the dispersal of spending authority hypothesis. If the thesis of this paper is correct, we should expect to observe no persistent deficits in the trust funds.

TABLE 2.9
Major Tax Financed Trust Funds*

<u>Program</u>	<u>House Committee with Spending Jurisdiction</u>
Old-Age Survivors Insurance (1935)	Ways and Means
Railroad Retirement (1936)	Ways and Means
Social Security Disability Insurance (1956)	Ways and Means
Highways (1956)	Public Works
Medicare Hospital Insurance (1965)	Ways and Means
Airport and Airways (1970)	Public Works
*Source: <u>Committee on Ways and Means, 1988.</u>	

With the exception of the Railroad Retirement fund, the individual tax-financed trust funds have all avoided running persistent deficits. The extent to which they have is provided by the summary statistics on each of the trust funds in Table 2.10.

TABLE 2.10

Selected Performance Indicators of Tax FinancedTrust Funds: 1935-92*

	<u># of Years in Operation</u>	<u># of Years in Deficit</u>	<u>Longest String of Consecutive Deficits</u>
Social Security			
(OASI) (1935)	54	14	8
Railroad Retirement			
(1937)	54	35	35
Disability Insurance			
(1956)	35	12	4
Highway Trust Fund (1956)	33	10	3
Medicare (Part A) (1965)	26	1	1
Airports & Airways (1970)	21	2	2
*Source: <u>U.S. Budget, annual issues 1952 to 1992 and Annual Reports of the Secretary of the Treasury, annual issues, 1941-51.</u> Dates in parenthesis are the respective dates of enactment of the program.			

As the data indicate, although each of the trust funds (again with the exception of the Railroad Retirement fund) has at times run deficits, these deficits have been few in number and do not

persist for any significant length of time.⁴¹ Most of the deficits when they do occur have been during years of economic contraction. In these years, the decline in economic activity produces a sharp fall off in trust fund revenues. As the economy recovers, so do trust fund revenues and the fund returns to surplus.⁴² The financial behavior of the trust funds is strikingly similar to that of the total budget in the 19th century, when spending jurisdiction was highly concentrated.

The creation of tax-financed trust funds did not have a neutral effect on the budget deficit. Quite the contrary. The trust funds, because of the manner in which they were financed and because of the incentives they created for the tax-writing committees, produced significant downward pressure on general fund revenues.

⁴¹ For purposes of comparison, the general fund budget has been in deficit 35 years since 1950. The longest string of consecutive deficits is the current one, 27 years.

⁴² The Railroad Retirement fund has been financially insolvent for most of the post World War II period. In the early 1950s, the fund required a sizeable infusion of revenues from the Social Security trust fund and since the mid-1970s, the fund has received an annual "windfall subsidy" from the general fund. Despite these bailouts, benefit payments continually exceed receipts and, as a consequence, annual loans from the general fund are required. The fiscal problem faced by the fund is in part due to the employment problems in the railroad industry. A combination of forces has produced an almost perpetual decline in rail employment since the early 1960s. Since revenues for the trust fund are derived from a payroll tax, the trust fund faces a chronic insufficiency of revenues. The secular employment decline has affected the trust fund much like a long-term aggregate economic decline would affect the solvency of any of the other tax financed trust funds.

When the Social Security trust fund was created, the issue of the appropriate method of financing the fund's expected long-term expenditures arose. The Social Security program's architects recognized that the program's costs would rise over time as the program matured. To finance the expected rise in costs, two options were available.⁴³ The first was to set the tax necessary to finance the long-run costs at a constant level over the life of the program. This option would generate surplus revenues early in the program's development. The surplus could be used later to defray the higher costs as the program matured. The second option was to schedule a series of increases in taxes over time so that revenues would rise in step with the program's costs.⁴⁴ The tax writing committees chose the latter option. The same basic decision was made for each of the trust funds; but especially important were those whose future costs were expected to rise: Disability Insurance and Medicare.

Adoption of this rule meant that the tax writing committees would have to finance the trust funds and the general fund on the

⁴³ Derthick, (1979)

⁴⁴ In the case of the highway trust fund, a similar situation arose (Schwartz, 1976). The basic objective of the program was to complete the interstate highway system. The expected time it would take to complete the job and the dollar cost of the program were known (or thought to be). One available financing option was a gasoline tax that would be set to finance the program on a "pay-as-you-go" basis. Another option was to finance the entire present and future costs of completing the highway system at the start of the program by issuing government bonds to the public. They chose the former.

same basis: current taxes for current benefits. Adoption of this rule also meant that payroll tax increases would necessarily have to be built into certain trust funds (Social Security, Disability Insurance and Medicare). A consequence of the automatic tax increases built into one fund would naturally be downward pressure on taxes in the other fund.

The introduction of a tax bias compounded the problem. There were two sources for this bias. Benefits of trust fund expenditures could be specifically identified and were directly tied to the revenues raised, while the general fund expenditures were more diffuse, ranging from national defense to nutrition programs. The greater ability to identify the direct benefits of any trust fund tax hike made trust fund taxes less painful to raise.

The second source of bias resulted from placing jurisdiction over expenditures for the Social Security Act programs in the tax writing committees. This meant that allocating the proceeds of Social Security Act taxes would be in the hands of the tax writing committees. Allocating the proceeds of general fund taxes, on the other hand, would be determined by at least a dozen other committees. If taxes had to be raised, the tax writing committees would naturally tend to favor the former.

Table 2.11 shows the combined impact of these forces on trust fund and general fund revenues during the post World War II years. The table displays revenues as a percent of GNP for five-year intervals during each decade. From each decade to the next, trust

fund revenues rise and general fund revenues decline. The growth in the former is only slightly greater each decade than the decline in the latter. It is almost as if there exists a dollar-for-dollar substitution of trust fund for general fund revenues relative to GNP. The rise in trust fund revenues seems to be crowding out general fund revenues.

TABLE 2.11

Trust Fund Taxes vs. General Fund Taxes

(as a percent of GNP)

	<u>1950-54</u>	<u>1960-64</u>	<u>1970-74</u>	<u>1980-84</u>	<u>1990-92</u>
Trust Fund	1.0%	2.9%	4.6%	5.8%	6.9%
General					
Fund	16.3%	14.8%	13.5%	12.9%	11.5%
*Source: <u>U.S. Budget</u> , various years. Trust Fund taxes include OASI, DI Medicare (HI), Highway trust fund, and Airport trust fund taxes. General fund taxes include all other taxes except state Unemployment Insurance taxes.					

SECTION VI

SUMMARY AND CONCLUSIONS

The central thesis of this paper has been that two key institutional changes occurring in the Congress during the last 50 years have contributed importantly to the emergence of structural federal budget deficit. The division of spending authority among numerous committees created upward pressure on general fund expenditures. The enactment of major tax-financed trust funds simultaneously produced downward pressure on general fund revenues. Evidence that supports this thesis has been found both in the budget patterns following the 19th Century decision by the House of Representatives to divide spending authority and in the balance between expenditures and revenues in the trust funds.

This paper, however, has provided only a partial explanation for the budget deficits. Many questions remain unanswered. For example, the institutional arrangements employed by the Congress are undoubtedly influenced by the desire to facilitate a particular outcome. Thus, one remaining and rather fundamental question is why the institutional changes occurred? To what extent were these changes simply a mechanism used to facilitate an increase the rate of spending? Why were the particular forms of institutional change adopted? Also, this paper has not addressed the role of the President in the budget process. Yet, through the power to propose, the bully-pulpit, and the power to veto, the President can obviously wield an enormous influence over fiscal outcomes. The President's role in the process needs to be given an explicit

treatment in future work.

APPENDIX A

The first step in creating the distribution of general fund outlays by Congressional Committees for 1982 is to divide total budget outlays into general fund and trust fund expenditures. For 1932, since none of the tax-financed trust funds classified as trust funds in this study were in existence, this first step is unnecessary. The primary sources of information on these funds for 1982 are the 1984 Special Analyses of the Budget of the U.S. Government and the 1984 Budget Appendix.

General fund outlays are defined as total budget outlays less outlays to the public by the six tax-financed trust funds plus net interfund transfers from the general fund to the six trust funds. The treatment of interfund transfers requires comment since not all such transfers were counted. There are three generic types of transfers from the general fund to the trust fund: interest payments, "regular" general fund payments, and "special" general fund payments. Interest payments are made on federal securities held by the trust funds and are counted as a general fund outlay in this paper. "Regular" general fund payments are transfers made to the trust funds in behalf of future beneficiaries of the trust fund program. Examples of these transfers are federal employer contributions for social security (OASDI) and Medicare (HI) and federal payments for noncontributing military service credits. These "regular" payments are included as general fund outlays. The final category of payments, termed "special" payments, are not counted as general fund outlays. These payments, few in number and

in amount, are to make up for deficiencies in trust fund receipts.

The second step was to separate general fund outlays, program-by-program, into discretionary programs and so-called mandatory programs. Unfortunately, there is no uniform agreement on which programs are discretionary and which ones are mandatory. The rule used in this paper was to classify as mandatory spending programs, the following types of budget accounts:

- 1) revolving funds
- 2) permanent appropriations
- 3) funds allocated by contract authority
- 4) funds available through borrowing authority
- 5) trust funds (other than the six tax-financed trust funds and Unemployment Insurance)
- 6) proprietary receipts from the public
- 7) appropriated entitlements

The first six types of programs are separately identified in the budget. Thus, there is no ambiguity about whether a particular account falls within one of these six classes. Appropriated entitlements are not, however, identified in the budget because there is no agreement on a uniform definition. The list of appropriated entitlements used in this study was obtained from the U.S. Office of Management & Budget. All 1982 accounts categorized as mandatory spending accounts are listed at the end of this appendix.

The third step was to assign each so-called mandatory spending

program to the Congressional committee having jurisdiction over that program.

Two sources of information were used to make these assignments. The first is a periodic report on the activities of each House and Senate committee made in compliance with the Legislative Reorganization Act of 1946 as amended. These reports are prepared by the individual committees and are submitted to each Committee's respective chamber. Included in each report is a statement of the committee's jurisdiction. These reports are listed in the bibliography. Another source that was particularly helpful was a 1978 publication by the General Accounting Office entitled Table of Federal Programs, March 1977. This report identifies the jurisdiction of all programs in the budget in 1978.

Once mandatory spending programs (budget accounts) were linked to the relevant committee of jurisdiction, outlays from each account were assigned to its respective committee. In situations in which jurisdiction for an account is shared between two committees, the outlays were divided evenly between the two.

Programs (budget accounts) funded by discretionary appropriations were assigned to the Appropriations Committee. No subdivision of the committee into subcommittees was made.

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