

## Congress and the Budget



The basis for the modern budgeting process and the law that includes the president in this process was created by the Budget and Accounting Act in 1921. Since 1970, the Office of Management and Budget (OMB) has also assisted the president in setting national spending priorities.

There are several stages and two major steps to setting the federal budget and in a way, it is like an American household where the most focus is on both the incoming and outgoing monies.

### **Step 1 – The President Proposes a Budget**

The president's proposed budget must be reviewed by congressional committees in accordance with the Congressional Budget and Impoundment Control Act of 1974. These committees are assisted by the Congressional Budget Office (CBO).

The federal government's fiscal year begins in October and the president is expected to submit his proposed budget by February of that fiscal year. The president's proposal does not carry any constitutional weight but it does carry a great deal of political weight.

The majority of many fiscal year's federal budget has already been allocated or promised.

**Entitlement Programs** – *programs that provide benefits to those who qualify under the law, regardless of income* include Social Security and Medicare, and they take up the bulk of the annual federal spending monies. Because spending is “locked-in” it is referred to as

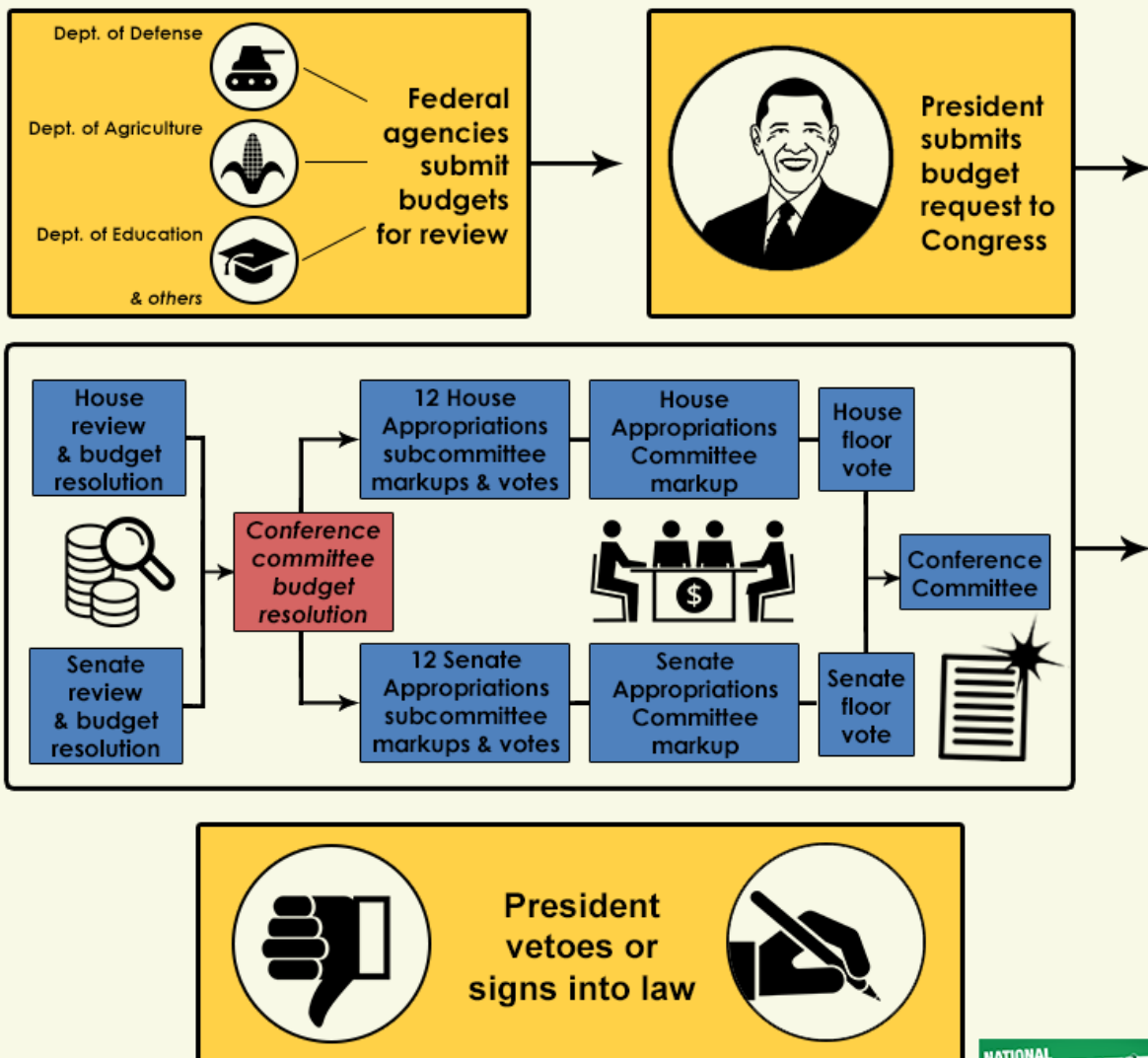
**Mandatory Spending** – *spending required by existing laws that is binding and compulsory.*

The amount available for **Discretionary Spending** – *the amount available for programs and policies at the discretion of Congress and the president*, including defense spending, contributes a much smaller amount of the overall budget.

## Step 2 – Congress Acts

Based on the president's proposals, Congress is then expected to produce a budget resolution that provides a broad outline for federal spending. The next step is setting the budgets for departments, agencies and bureaus and this is the role of the House and Senate Appropriations Committees. These committees then submit budget resolutions that are passed from Congress to the president for approval.

# The Annual Federal Budget Process



## Taxation, Deficits, and Debts

Apart from a short time during the Civil War, the federal government did not tax people until the **Sixteenth Amendment** in 1913 which was the ratification of a **national income tax system**.

Key definitions to understand about the budget:

**Budget Surplus:** *the amount of money remaining when the government takes in more than it spends.*

**Budget Deficit:** *the annual shortfall (monetary gap) when a government takes in less money than it spends.*

**Deficit Spending:** *when a government spends more than it collects in revenue, resulting in a budget deficit that increases the national debt. Governments typically finance deficits by borrowing money through issuing government bonds.*

When there is a budget deficit, the federal government will be borrowing for the foreseeable future. Unfortunately, the use of deficit spending shows no signs of declining.

## The Social Security Dilemma

The **Social Security Act** of 1935 created sets of programs to support groups of vulnerable people in America. It established **Unemployment Insurance**, **Old Age Insurance**, and **Old Age Assistance** programs that were later supplemented with **Disability Insurance**. Social Security is best known as old-age insurance, providing monthly payments to a person's latter years. Approximately 96.5% of Americans in old age qualify.

Social Security was designed to be self-funding. Today, life spans are much longer than they were in 1935 and this has created a problem. It is an **entitlement program** because it is financed by payroll taxes paid by individuals and does not have income-based requirements for persons to receive its benefits. The level of benefits received depends on that person's contributions during their working years (or the contributions of a spouse in the case of survivorship).

As of October 2023, the average monthly benefit was \$1,827 a month, the maximum monthly benefit being \$ 3,627 for someone who retires at full retirement age.

Americans do not have individual savings accounts for Social Security, payments come from the current payees. In 2023, about 67 million Americans were receiving a total of \$1.4 trillion in Social Security benefits. The majority received retirement benefits but some were disabled workers and survivors.

## Why the financial stress on Social Security?

There are a huge number of “Baby Boomers” – those born after World War II, who have reached retirement age and have subsequently created a financial stress on the system.

The number of Americans 65 and over will increase from 58 million in 2022 to about 75 million in 2035.

In 2023 there were an estimated 2.7 workers for each Social Security beneficiary, by 2035 the estimates are that there will only be 2.3 workers for each beneficiary.

If there are no changes to the current laws, projections say that only three quarters of the promised benefits will be paid.

For 2025, the **Social Security payroll tax** rate is 6.2% for employees and 6.2% for employers, for a combined total of 12.4% on eligible wages. This tax applies to earnings up to an annual limit of \$176,100. Any earnings above this amount are not subject to Social Security tax. Self-Employed individuals pay the full 12.4% but can deduct the employer equivalent on their annual taxes.

### **Medicare tax rates**

The Social Security tax is part of the Federal Insurance Contributions Act (FICA) tax, which also includes Medicare tax.

Standard Medicare tax: The rate is 1.45% each for employees and employers, and there is no wage base limit. Additional Medicare tax: A 0.9% additional tax applies to earnings above \$200,000 for single filers (\$250,000 for married couples filing jointly). Only the employee pays this additional tax.

Reducing the benefits to current recipients will produce a backlash from a large group of politically active Americans and organizations such as the AARP. Raising the payroll tax on current workers is another possibility, a proposal that is supported in a recent poll by 73% of the public.

Another solution is to allow individuals to invest some of their funds into privately directed investment accounts. This idea comes from the theory that individuals will be more careful and skillful than the government in seeking a better investment for their future. Others oppose this plan as they claim such a plan creates too much personal risk and failure as individuals will be at the mercy of stock and bond market corrections or poor investment strategies.