thus operated to limit discussion of controversial issues. The FCC also noted that, because the Fairness Doctrine could be applied only randomly, the benefits of the rule were overstated. Furthermore, the FCC noted that market competition could operate in broadcasting as it did with print. As a result, the FCC repealed the Fairness Doctrine in 1987.

The results of repeal were quickly obvious, at least with respect to radio. There had been voices that were not heard, but to the surprise of liberals and the delight of conservatives, those voices turned out to be on the right. Without repeal, talk radio as we know it today would have been impossible.

SEE ALSO Constitutional Protections for Media; Freedom of Speech.

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FED, THE
SEE Federal Reserve; Fiscal and Monetary Policy.

FEDERAL BUDGET DEFICIT

The term federal budget deficit refers to a shortfall in the US federal budget. The federal debt is the total amount owed to creditors; the federal deficit is the shortfall of revenue receipts below spending outlays during any period (such as a year), and thus the amount by which the debt increases during that period.

Federal government services fall broadly under two headings: First, indivisible public goods, such as national defense and the administration of justice, which of their nature must be provided to all citizens. Second, “quasi” or divisible public goods, such as Social Security retirement pensions for workers and their dependents, which are received by many but not all citizens.

Federal outlays provide for current consumption of goods and services; investment in assets owned by the government, such as warships, national parks, and office buildings; transfer payments, such as social benefits to persons; and the cost of servicing the existing debt, such as interest payments to creditors. Federal receipts chiefly come from individual income taxes, which were first instituted in 1861 to pay for the Civil War; taxes levied only on labor income (such as the payroll taxes that pay for retirement pensions); taxes levied only on property income (such as the corporate income tax); excise taxes or customs duties levied on the cost of goods purchased; federal borrowing; and the creation of fiat money.

Items in the federal budget are often characterized as on-budget or off-budget. (A consolidated or unified budget was instituted in the 1969 federal budget.) On-budget items are funded by general revenues, whereas off-budget items chiefly comprise trust funds dedicated to a particular purpose, such as the Social Security Trust Funds (Old Age and Survivors, Disability and Health Insurance), the Postal Service trust fund, the Civil Service Retirement trust fund, and the Federal Highway Trust Fund. However, Congress has increasingly resorted to infusion of general revenues to pay for what were originally planned as dedicated, self-financing funds.

There is a sharp ongoing debate as to whether the federal operating budget should be financed primarily by taxes on income or by “consumption” taxes such as the sales tax. Opponents of income taxes as the primary source claim that they unduly diminish total output. Opponents of consumption taxes as the primary source point out that consumption taxes define and treat investment in people’s productive abilities (termed human capital by the Nobel laureate Theodore W. Schultz) differently from investment in productive property (nonhuman capital). Schultz’s (1961) classification had been anticipated by the ancient Greek philosopher Aristotle in Politics and by James Madison in 1792, and was later systematized by the economist John W. Kendrick (1994).

There is also sharp ongoing debate as to whether the federal budget balance should be used systematically to counteract recession and depression. From the first administration of George Washington and the first federal Treasury secretary, Alexander Hamilton, American

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economic policy has been explicitly designed to promote economic development. The early American Whig statesman Henry Clay (1777–1852) referred to his party’s Hamiltonian program as the “American System.”

The administrations of President Franklin Delano Roosevelt, from 1933 to 1945, were the first to use the theories of the British economist John Maynard Keynes (1883–1946) as explicit justification for expanding the federal deficit, usually financed by monetary expansion, to counteract economic downturns. Generally speaking, those who advocate Keynesian “stimulus” view the US economy as relatively uncompetitive, and those who oppose it regard the economy as relatively competitive.

The annual federal deficit in the history of the United States has varied systematically based on the monetary standard for the US currency, the dollar. As Figure 1 illustrates, the federal budget was near balance or in surplus throughout the period of a metallic currency (average 0.5 percent of GDP surplus). By contrast, the federal budget was in substantial deficit chiefly during periods in which the monetary system permitted the supply of convertible paper currency to increase significantly, “monetizing” the federal debt (average 2.7 percent of GDP deficit). This monetization can be accomplished both by US monetary authorities (chiefly the Federal Reserve System) and by foreign monetary authorities when they purchase US public debt for use as official monetary reserve assets.

All states but Vermont have a constitutional requirement to balance their budgets. Such a requirement has never existed at the Federal level. State budget experts point out that nominal achievement of state budget balance is often due to legal fictions. But state budget deficits averaged about 0.3 percent of total state gross output from 1979 though 2014, while the federal budget deficit averaged about 3.4 percent of GDP (NASBO 2014 and CBO 2015). This more than tenfold difference suggests that the fact that state governments in the United States do not have the power to issue money is probably a more powerful curb on budget deficits than constitutional prohibitions.

Since the 1920s many American states have formalized the budgeting of (nonhuman) capital expenditures, which are separated from current operating expenses and capital maintenance. The federal government has no such formal method of capital budgeting. In principle, rather than limiting borrowing, a capital budget matches borrowing for public investments with sources of revenue to repay the debt. Good practices are described by the National Association of State Budget Officers (NASBO 1999).

Acknowledging the sharp disagreements in politics and economic theory, John D. Mueller has argued that economically and politically successful presidential economic policy requires that the sources and uses of federal government finance be paired and restricted in this way: (1) There should be no government fiat money finance. (2) Current consumption of public goods should be financed by an income tax levied about equally on labor and property income. (3) Social benefits should be financed by current payroll taxes, and subsidies for property ownership (such as tax-advantaged saving) should be financed from taxes on current property income. (4) Owing to a strong inverse relation between social benefits...
and the birth rate, social benefits should not exceed the 2001 share of labor income (Mueller 2014, 433n).

SEE ALSO Keynesianism; National Debt.

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FEDERAL BUDGET PROCESS

Of the important things that government does, relatively few do not involve money. Thus the question of how the federal government raises and spends money is at the heart of governance. Since the early twentieth century, the federal budget process has grown increasingly complex and lengthy. In addition, sharpening partisan and philosophical differences between Democrats and Republicans have made the process more politically charged. The budget stands as a perennial political question consuming enormous amounts of attention from all of those involved in running the United States government. Indeed, the budget process with its imposing, if somewhat flexible, timetable is a particularly notable aspect of public policy.

From a strictly constitutional perspective, Congress dominates the budget process. Article I, Sections 7 and 8 give Congress the power to tax and spend, and its role is central to the entire budget process. In particular the Constitution demands that all tax bills originate in the House of Representatives. During the nineteenth century, government agencies submitted requests for funds directly to Congress, and the president’s role in the process was extremely limited. At that time the idea of a unified budget was largely nonexistent. This process changed with the Budget and Accounting Act of 1921, which instituted the idea of an executive budget and established the Bureau of the Budget to coordinate government spending requests. With this change the president became a more assertive actor in the process. To appreciate how the federal budget process works in the early twenty-first century requires an understanding of three important aspects: the major actors, the sequence of events, and the role of partisan politics in making the budget.

MAJOR ACTORS

The president, as head of the executive branch, relies on the Office of Management and Budget (OMB)—an outgrowth of the Bureau of the Budget—which is housed in the Executive Office the President (EOP). Of the executive actors in the federal budget process, the OMB is closest to the president and is tasked with coordinating all requests from federal agencies. In some sense OMB sees the budget as a whole and not through the prism of events, and the role of partisan politics in making the budget.

The president also works with the federal agencies and departments to gather and prioritize budget requests. Federal departments and agencies, which actually spend the money, have their own internal ways to assess needs, account for how money is spent, and evaluate the effectiveness of that spending. Often, agencies within a broader department must coordinate with each other to decide how much money is needed and how it is to be spent. Agencies face a dilemma in that they almost always seek to increase their spending while having to reckon with being part of a broader organization. As B. G. Guy Peters writes, “the agency must be aggressive but...