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BUDGETARY POLITICS in American Governments

third edition

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To my recently deceased father-in-law, Jim Ahrens,
whom I admire greatly

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PREFACE

For the past twenty years, I have taught a course on budgetary politics at both the University of Wisconsin-Madison and the University of Utah. The organization of this book reflects the approach I take in the classroom. The course is comparative in its perspective, with discrete sections devoted to the substance and politics of budgeting at the national, state, and local levels. It begins with common building blocks of knowledge to give students a shared conceptual and theoretical foundation. This approach has been particularly useful in a course that draws students with different academic preparation and experience, and enables those who have little training in political science, public administration, or economics to acquire the tools necessary to understand the substance and politics of budgeting in different governmental settings. The ability to generalize and account for significant exceptions lies at the heart of the study of politics. This book aspires to reach that goal.

The book begins by introducing the subject of public budgeting: what it is, the functions it performs, the distinctive features of the budgetary process, the common constraints faced by budget makers, the various sources of political conflict over the budget, and the intergovernmental dimensions of public budgeting. Attention then turns to theories of budgetary decision making in an effort to help students appreciate how and why budget participants make the choices that they do.

After discussing budgetary decision making, the focus shifts to the products of those choices—taxing and spending. Students learn about the patterns of stability and change in taxation and spending over time, in the aggregate, and at each level of government. They also learn about who benefits from budgetary choice and who pays for those benefits, how to evaluate taxes and user fees, and how the president and Congress can employ taxing and spending as fiscal-policy tools.

With this as a foundation, the focus moves to an in-depth discussion of the substance and politics of budgeting at the national, state, and local levels. Although a chapter is devoted to each level, the experience of each is related to that of the others.

Attention then turns from budget making to budget execution. The discussion covers the purposes of budget control and the means used to carry it out. Students learn that the budgetary process and its politics do not end with legislative passage of the budget. Budgets continue to be "made" during the post-appropriations phase of the process through budget transfers, supplements, and controls on spending.

The book concludes with an assessment of the patterns of stability and change that have characterized public budgeting in the recent past, followed by a discussion of the constraints and opportunities that lie ahead.

CONTENTS

CHAPTER 1

Introduction: Public Budgeting in Perspective

Budgeting lies at the heart of public policy making at all levels of government in the United States. Public budgets meet the test of the popular adage: "Put your money where your mouth is; talk is cheap." In more scholarly terms, they illustrate programmed resource commitments that lay bare policy priorities and cut through political rhetoric. Budgets disclose the priorities of key institutional actors in the budget-making process and serve as instruments to measure the relative success of those actors in shaping the final budget version enacted into law.

Unlike the general legislative process, the budgetary process is action-forcing. Governmental policymakers do not decide whether to consider legislation approving a budget; they treat the need for a budget as a given. Most other legislation is much more discretionary in character; participants see a need and propose legislation to meet it. Most often, however, nothing other than their perception of need or opportunity prompts that action. In contrast, budgets expire. When they do, governments no longer have any authority under which to spend public funds. Policymakers have to approve new budgets or continue the existing ones. Typically, they try to use that opportunity to fashion budgets that advance their own policy and fiscal priorities.

Policymakers face fiscal and political constraints when trying to get what they want out of the budgetary process. Tough economic times can create serious revenue constraints when carry-forward balances prove inadequate to offset depressed tax collections. "The money is just not there" is a familiar refrain in times of economic downturn. In such an environment, chief executives often attempt to restrain the spending appetites of agencies by issuing budget instructions that limit agency requests, frequently giving the agencies budget targets within which their requests are expected to fall. A central budget office's instructions may even require agencies to submit alternative budget requests that fall below current funding levels.

Economic conditions affect not only the level of revenue governments receive to finance their many activities but also the level of spending the budget needs to accommodate. Recessions, for example, characteristically increase the number of claims on public assistance programs, pushing up the costs of those programs. Thus at the very time revenues decline, expenditures in recession-sensitive programs are driven up by heightened demand.

Inflationary economic conditions can also increase public spending, requiring salary increases to protect public employees from losses in purchasing power and to meet the rising prices of purchased goods and services. Economic stagnation and high rates of inflation put double pressure on government budget makers; revenues quickly become insufficient to pay for the rapidly rising costs of doing the government's business.

Good economic times encourage increased spending. They generate the revenues necessary to finance the spending priorities of agencies, chief executives, and legislative bodies. Nevertheless, politics constrains policymakers from using the budget to advance their own policies and programmatic priorities and their own political fortunes. Not only do policymakers face competition from others over how public funds are to be spent; they also often face pressures to "return" actual or expected revenue surpluses in the form of tax cuts.

Other units of government can also impose fiscal constraints on a government's budgetary choices, constraints that can take the form of reductions in financial assistance or of mandates entailing increased spending. Just as state and local governments have become dependent on federal financial aid (although that dependence has decreased somewhat over the past decade), local governments have come to rely on state aid as well. State and local governments have built federal aid into their operating budgets to finance ongoing government operations, and the reduction or selective elimination of this aid leaves the recipients with the difficult choice of cutting programs or coming up with revenues from other sources to fill the holes.

One government can also force another government to make expenditures beyond those it otherwise would make (within the limits of federalism). Such requirements, or mandates, can be either programmatic (e.g., they can require that programs meet certain service standards) or procedural (e.g., they can specify that certain records be kept and reports issued), and they can be imposed either by direct order or as a condition of financial aid. At the state level, where local governments are legally, dependent on the state for their creation and their continued existence, state mandates placed on local governments most often take the form of direct orders. Federal mandates, on the other hand, tend to be formulated as conditions of federal aid.[1] In either form, they place additional spending pressures on the governments affected.

Judicial decisions and court orders that require governments to expand or improve services, to distribute financial aid in prescribed ways, or to alter employee compensation plans also act to increase public budgets and force additional spending. Although courts have no formal role in the budgetary process (beyond that of the judiciary submitting its own budget requests), they become involved through litigation initiated by plaintiffs who most commonly contend that government programs, either by commission or omission, have denied them equal rights guaranteed by the United States Constitution and state constitutions. In deciding in favor of a plaintiff, a court may often order relief. Such relief can require not only monetary settlements but also changes in government programs, both of which—particularly the latter—can be costly. A jurisdiction thus cited has no option but to comply with a court's directive. Funds must be found, and the budget must accommodate the claim.

Federal courts have been the most active in issuing relief orders, and those orders have been largely aimed at the states. Acting to ensure equal protection under the law, as guaranteed by the Fourteenth Amendment, federal courts have ordered states to improve care and treatment standards for the institutionalized mentally ill and developmentally disabled and to pay damages when state or local employees are victims of discrimination or political retaliation. In addition, federal courts have ordered states to improve living conditions in correctional institutions, basing those orders on judgments that—in violation of their Eighth Amendment rights—existing conditions constitute cruel and unusual punishment for prisoners subjected to them.[2]

State courts have prominently intervened in matters related to the public financing of primary and secondary education. Courts in seventeen states (most recently in Missouri, New Hampshire, New Jersey, Ohio, Texas, Vermont and Wyoming) have ruled that existing financing methods were in violation of state constitutional articles of education or guarantees of equal protection. These courts have ordered the offending states to change aid formulas (and in some cases to increase funding) so that poorer districts receive higher per student aid relative to wealthier districts, thus helping to close the spending gap between them.[3]

REASONS FOR CONFLICT OVER PUBLIC BUDGETING

The budgetary stakes are high, and the competition to set the course of public spending is keen. Public budgeting is very much a political contest in which victors can be distinguished from losers. It is also one in which victories and losses frequently require qualification as positions become compromised and accommodated throughout the budgetary process.

Conflict over public budgeting is high for several reasons. Public budgets (1) allocate a significant share of societal resources, (2) serve as the focal point for policy making in most governmental jurisdictions, (3) illuminate political relationships and highlight conflicts at the heart of politics, and (4) serve as a tool to ensure accountability.

Public Budgeting Allocates a Significant Share of Societal Resources

Total government spending in the United States consumes about 46 percent of all personal income. Breaking it down, federal spending takes 28 percent, state spending 10 percent, and local spending another 8 percent.[4]

Although these comparisons illustrate the relative claims governments make on private resources, the distribution of these claims does not engender significant political conflict in the budget-making process. Nor do taxpayers think a great deal about the collective magnitude of these claims or about the macroeconomic effects of transferring resources from the private to the public sector; instead, they look at how these claims, in the form of taxation, affect their own resources. Their reference point is how much they are being asked to pay this year compared to how much they paid last year. The most vigorous political controversy is generated when public budgets, and the taxes required to support them, grow faster than the taxpayers' ability to pay for that growth. Elected policymakers are especially sensitive to the political fallout of tax increases, which can spark voter backlash. Elected chief executives and legislatures therefore usually turn to tax increases only as a last resort to make ends meet in difficult economic times.

Because of balanced-budget requirements in most state and local governments, the politics of public budgeting dictate that policymakers first turn to budget reductions and reallocations to balance revenues and expenditures. When these are not feasible or sufficient, few chief executives or legislatures propose tax increases without including significant accompanying budget cuts.

Public Budgeting Serves as the Focal Point for Policy Making

At a minimum, public budgeting sets spending priorities for the year or biennium to come. In setting spending levels, budget makers place relative values on the many purposes of government spending: certain programs are created and funded for the first time, some programs are allowed to grow faster than others, and other programs are reduced or eliminated altogether. In this sense, budget participants decide that at a given time certain policy areas are more important than others and therefore deserve more financial support.

Several states give budget makers the greatest opportunity to use the budget as a policy vehicle by permitting substantive language, in addition to appropriations, to be included within budget bills. A few states require any substantive language to be tied directly to appropriations, while others include no such restriction. In those latter states, a budget bill can be used to create new statutory law, repeal existing provisions, make changes in others, or place contingencies on the release and use of appropriated funds. The range of state experience is discussed more fully in Chapter 5.

In comparison to the states, Congress relegates much of the substantive policy that may be included within state budget bills to authorizing legislation outside of the various appropriations bills. Because Congress uses the reconciliation bill as an omnibus budget adjustment bill (discussed in Chapter 4) and has increased its practice of "loading up" appropriations bills with riders, restrictions, and expressions of congressional intent, this distinction has become weakened.

At the local level, budget legislation tends to be limited to appropriations, a practice consistent with the generally conservative and restrictive parameters states have placed on local budget makers. Yet the composition of local budgets probably serves as an even greater constraint on the ability of local policymakers to use the budget as a vehicle of policy change. Faced with revenue constraints that are usually tight and a budget heavily committed to the costs of employee salaries and fringe benefits, local policymakers have little leeway to reallocate resources in pursuit of new policy initiatives, however hard they try. The answer for them often has been to find creative ways to generate new revenues and control the costs of governmental services, a subject pursued in Chapter 6.

Among institutional budget participants, chief executives at all levels of government are best positioned to use the budget as a policy-making tool. The budgetary process gives them the opportunity to lay out their vision of how best to use scarce fiscal resources. They set the agenda and establish the priorities to which the legislative branch must react. They also show how the budget package is to be funded. This factor puts them in a strong position, because a legislature that proposes to increase spending must then show how it will be financed. When budgets are required to be balanced and projected surpluses are expected to be nonexistent or negligible, any additional spending a legislature may approve has to be covered by tax or fee increases or by reallocation.

The political process in most government jurisdictions also discourages the legislative branch from using the budget as a policy vehicle. The fragmented nature of the legislative process, with its many bases of power, makes it difficult for a legislature to speak with a single voice as can a president, governor, or mayor. Despite the priorities that top legislative leaders may espouse and urge, the legislative process is geared to reconcile the preferences of many different legislators, many of whom hold influential positions in their own right and use those positions to shape the final budget.

In this light, congressional leaders compared their situation to that of the president. They saw the president presenting a comprehensive spending plan to Congress, one that sets national priorities, identifies policy tradeoffs, and specifies the level of borrowing, if any, needed to finance the spending package. They saw the president's budget as a means of charting both a substantive and a fiscal policy direction for the nation. In response, Congress reformed the congressional phase of the federal budgetary process. Central to that reform is the requirement that Congress approve a budget resolution that establishes spending targets and provides a plan for subsequent congressional action on the budget, including committee recommendations and floor action. Those targets setting spending limits both overall and by functional area were intended to allow Congress to offer a comprehensive alternative to the president's budget. The details of congressional budgetary reform and the extent to which it has achieved its objectives are discussed in Chapter 4.

Public Budgeting Highlights Conflicts at the Heart of Politics

Because the stakes are high, public budgeting heightens the bases of political conflict, bases that include (1) underlying value differences, (2) differences in instrumental policy preferences, (3) constituency interests, (4) partisanship, (5) role conflicts, and (6) institutional rivalries.

Due to Value Differences

The values policymakers bring to budget making reflect the underlying principles of classic liberal political thought: a belief in individual rights and governmental restraint, with the accompanying conviction that government is a necessary institution to protect those rights. Some believe these principles assign a highly limited role to government. For them, government should do only enough to protect life, liberty, and property. They see the private marketplace of supply and demand as the best and most effective allocator of value in society. Others believe that government has an obligation to ensure all individuals an equal opportunity in their pursuit of advancement and personal fulfillment. Still others go a step further and believe that government should take actions necessary to improve the conditions of the disadvantaged and needy. They believe that government should protect what they define as the public interest and correct for market failure.

These different values come into high relief in the budgetary process; a significant element of the budget debate centers on what government should rightfully be doing, how much it should be doing, and at what price it should be doing it. Those subscribing to a minimalist role for government see the need for far less public spending overall, limit their support to selected governmental activities that they view as consistent with government's appropriate role in society, and opt for eliminating or greatly reducing programs that cross the boundaries of normative acceptability. Those favoring a more interventionist role are inclined to support the spending that they view as necessary to advance the public interest.

These are pure types. Policymakers can and do modify their values in different situations. Those who espouse a minimal role for government more readily apply that value when someone else's interests are being minimized. But when "less government" means the elimination of one of their own prized benefits, the principle can become objectionable in its application. Less government may be just fine when it comes to social welfare programs, but government intervention is acceptable in the form of tax breaks, agricultural subsidies, or low-interest loans. Thus, although values do inform choices, they compete with other interests and claims on those choices.

Due to Instrumental Policy Preferences

The policy preferences of budget participants typically reflect their values. For example, those who advocate government intervention as necessary to advance the welfare of the disadvantaged may champion different policy instruments to accomplish that objective. Those who support this government intervention to guarantee equal opportunity are most likely to support such programs as preschool education, need-based student financial aid, and job training—all of which help equip people to compete on a more equal footing. Those who emphasize improving the condition of the disadvantaged are most likely to support efforts to increase the level of public assistance payments, add more low-cost housing, and expand health care benefits for the needy.

Due to Constituency Interests

The policy preferences of elected officials can conflict with the interests of their constituents. For example, a conservative (classic liberal) member of Congress representing a heavily agricultural district, who typically supports spending restraint and a limited role for government, might vote to include generous agricultural price supports in the budget, in response to the economic interests of farmers in his district. Similarly, a state senator who has established a strong record on environmental protection issues, but has two breweries in her district, might oppose a proposal to require deposits on nonreturnable bottles.

Constituency interests are frequently at cross-purposes; they do not align in uniform, reinforcing ways. Coalitions, nonetheless, can form around common constituency interests. Legislators come together to support actions that benefit their constituents collectively. That process of coalition building has been greatly aided by the availability of computer-based models that simulate the distributional effects of legislative proposals, attracting competing coalitions drawn from representatives of "winning" and "losing" districts—coalitions that can cut across value positions and party lines.

Due to Partisanship

Presidents and members of Congress, governors and state legislators, and some local chief executives and legislative members are elected in partisan elections. Where that occurs, legislative bodies are organized on a partisan basis. Members of the majority party assume all the leadership positions in each chamber, including those of presiding officer as well as all committee and subcommittee chairs.

In a system of partisan politics, the president, governor, or mayor who offers budget recommendations is also a Republican or Democrat who communicates those preferences to a legislative body organizationally controlled by partisans who may be either colleagues or opponents. Legislative bodies with majorities drawn from the same party as the chief executive might be expected to support executive recommendations more readily than they would the recommendations from the standard-bearer of the opposing party.

Partisan relationships, therefore, pose another potential source for political conflict in the budgetary process, and they merit attention in any attempt to describe and account for patterns of influence and choice in public budgeting.

Due to Different Roles of Budgetary Participants

A role can be thought of as the distinctive behavior consistently associated with the position an individual holds in society. The element of consistency is important, because consistent behavior leads to clear expectations that that behavior will continue. The role of mother, for example, can be distinguished from the role of daughter on the basis of the pattern of distinctive behavior expected from each in their interac-