1. The Politics of Public Budgets

A public budget links tasks to be performed with the amount of resources required to accomplish those tasks, ensuring that money will be available to wage war, provide housing, or maintain streets. Most of the work in drawing up a budget is technical, such as estimating how much it will cost to feed a thousand shut-ins with a Meals-on-Wheels program or how much revenue a 1 percent tax on retail sales will produce. But public budgeting is not only a technical, managerial process, it is also necessarily and appropriately political.

- Budgets reflect choices about what government will and will not do. They reflect the public consensus about what kinds of services governments should provide and what citizens are entitled to as members of society. Should government provide services that the private sector could provide, such as water, electricity, transportation, and housing? Do all citizens have a guarantee of health care, regardless of ability to pay? Is everyone entitled to some kind of housing? Should government intervene when market failures threaten people’s savings and investments?

- Budgets reflect priorities—between police and flood control, day care and defense, the Northeast and the Southwest. The budget process mediates among groups and individuals who want different things from government and determines who gets what. These decisions may influence whether the poor get job training or the police get riot training—either one a response to an increased number of unemployed.
• Budgets reflect the degree of importance that legislators place on satisfying their constituents and responding to interest group demands. For example, legislators may decide to spend more money to keep a military base open because the local economy depends on it, and to spend less money to improve combat readiness.

• Budgets provide accountability for citizens who want to know how the government is spending their money and whether government has generally followed their preferences. Budgeting links citizen preferences and governmental outcomes; it is a powerful tool for implementing democracy.

• Budgets reflect citizens’ preferences for different forms and levels of taxation, as well as the ability of some taxpayer groups to shift tax burdens to others. The budget indicates the degree to which the government redistributes wealth upward or downward through the tax system.

• At the national level, the budget influences the economy, and so fiscal policy influences how many people are out of work at any time.

• Budgetary decision making provides a picture of the relative power of budget actors within and between branches of government, as well as of the importance of citizens, interest groups, and political parties.

Budgeting is both an important and a unique arena of politics. It is important because of the specific policy decisions it reflects: decisions about the scope of government, the distribution of wealth, the openness of government to interest groups, and the accountability of government to the public at large. It is unique because these decisions have to take place in the context of budgeting, with its need for balance, its openness to the environment, and its requirement for timely decisions so that government can carry on without interruption.

Public budgets clearly have political implications, but what does it mean to say that key political decisions are made in the context of budgeting? The answer has several parts: First, what is budgeting? Second, what is public budgeting, as opposed to individual or family budgeting or the budgeting of private organizations? Third, what does political mean in the context of public budgeting?

**What Is Budgeting?**

The essence of budgeting is that it allocates scarce resources, implying choices among potential expenditures. Budgeting implies balance between revenues and expenditures, and it requires some kind of decision-making process.
Making Budgetary Choices

All budgeting, whether public or private, individual or organizational, involves choices between possible expenditures. Since no one has unlimited resources, people budget all the time. A child makes a budget (a plan for spending, balancing revenues and expenditures) when she decides to spend money on a marshmallow rabbit rather than a chocolate one, assuming she has money enough for only one rabbit. The air force may choose between two different airplanes to replace current bombers. These examples illustrate the simplest form of budgeting because they involve only one actor, one resource, one time, and two straightforward and comparable choices.

Normally, budgeting does not compare only two reasonably similar items. There may be a nearly unlimited number of choices. Budgeting usually limits the options requiring consideration by grouping together similar things that can be reasonably compared. When I go to the supermarket, I do not compare all the possible things I could buy, not only because I cannot absorb that number of comparisons, but because the comparisons would be meaningless and a waste of time. I do not go to the supermarket and decide to get either a turkey or a bottle of soda pop. I compare main dishes with main dishes, beverages with beverages, desserts with desserts. This gives me a common denominator for comparison. For example, I may look at the main course and ask about the amount of protein for the dollar. I may compare the desserts in terms of the amount of cholesterol or the calories.

There is a tendency, then, to make comparisons within categories where the comparison is meaningful. This is as true for governmental budgeting as it is for shoppers. For example, weapons might be compared with weapons or automobiles with automobiles. They could be compared in terms of speed, reliability, and availability of spare parts, and the one that did the most of what you wanted it to do at the least cost would be the best choice. As long as there is agreement on the goals to be achieved, the choice should be straightforward.

Sometimes budgeting requires comparison of different, seemingly incomparable things. If I do not have enough money to buy a whole, balanced meal, I may have to make choices between main dishes and desserts. How do I compare the satisfaction of a sweet tooth with the nourishment of turkey? Or, in the public sector, how do I compare the benefits of providing shelters for the homeless with buying more helicopters for the navy? I may then move to more general comparisons, such as how clearly the requests were made and the benefits spelled out; who received the benefits last time and whose turn it is this time. Are there any specific contingencies that make one choice more likely than the other? For example, will the country be embarrassed to show our treatment of the homeless
in front of a visiting dignitary? Or are disarmament negotiations coming up, in which we need to display strength or make a symbolic gesture of restraint? Comparing dissimilar items may require a list of priorities.

Budgeting often allocates money, but it can allocate any scarce resource—for example, time. A student may choose between studying for an exam and playing softball and drinking beer afterward. In this example, it is time that is at a premium, not money. It could be medical skills that are in short supply, or expensive equipment, or apartment space, or water.

Government programs often involve a choice of resources and sometimes involve combinations of resources, each of which has different characteristics. For example, some federal farm programs involve direct cash payments plus loans at below–market interest rates, and welfare programs often involve dollar payments plus food stamps, which allow recipients to pay less for food. Federal budgets often assign agencies money, personnel, and sometimes borrowing authority, three different kinds of resources.

**Balancing and Borrowing**

Budgets have to balance. A plan for expenditures that pays no attention to ensuring that revenues cover expenditures is not a budget. That may sound odd in view of huge federal deficits, but a budget may technically be balanced by borrowing. Balance means only that outgo is matched or exceeded by income. Borrowing means spending more now and paying more in the future, when the debt has to be paid off. It is a balance over time.

To illustrate the nature of budget balance, consider me as shopper again. Suppose I spend all my weekly shopping money before I buy dessert. I have the option of treating my dollar limit as if it were more flexible, by adding the dimension of time. I can buy the dessert and everything else in the basket, going over my budget, and then eat less at the end of the month. Or I can pay the bill with a credit card, assuming I will have more money in the future with which to pay off the bill when it comes due. The possibility of borrowing against the future is part of most budget choices. But a budget is not balanced if there is no plan for and reasonable expectation of paying back the loan over time.

The minicase on San Diego’s underfunding of its pensions illustrates that time is an important dimension of budgeting (see box on page 5). In this example, a city approved an increase in costs, while avoiding paying for future benefits it was creating. It took years for the problems to surface, and many more years for a solution to be worked out.
**Process**

Budgeting cannot proceed without some kind of decision process. The process determines who will have a say at what point in the decision making, and structures the comparisons among alternatives. A successful budget process assures that decisions are made in proper order and in a timely way.

Returning to the shopping example, if I shop for the main course first, and spend more money than I intended on it because I found some fresh fish, there will be less money left for purchasing the dessert. Hence, unless I set a firm limit on the amount of money to spend for each segment of the meal, the order in which I do the purchasing counts. Of course, if I get to the end of my shopping and do not have enough money left for dessert, I can put back some of the items already in the cart and squeeze out enough money for dessert.

---

**Minicase: The Time Dimension of Budgeting—Pensions in San Diego**

In 2004, San Diego faced a financial crisis that was fundamentally of the city’s own making. When the economy was good and investment returns on pension funds were strong, the city pension board made benefits more generous but at the same time allowed the city to pay less than it actually owed. Pension board members reportedly assumed that a strong stock market would continue to buoy the pension fund, giving high returns on dollars already invested and hence reducing the necessary contributions from the city. These choices were made in 1996 and renewed in 2002. After 2002, though, the economy faltered: San Diego got caught. The city had bet on continued growth of the economy, creating a deficit in the pensions of $1.4 billion.

In 2004, some minor steps were taken to reconstitute the pension board and to prevent the city from engaging in underfunding pensions in the future, but it was not until July 2008 that major changes were made in the pension program. The threat that a measure would be put on the ballot to curtail pension benefits forced a compromise with the unions. The reduction in benefits, especially to newly hired employees, would not help the city’s current financial problems but was estimated eventually to save more than $20 million a year.

Thus a problem that began in the mid-1990s blossomed and became public knowledge in 2004, was addressed seriously in 2008, and will have an impact over the next thirty years. The temptation to increase future benefits and avoid paying for them in the present is always there in budgeting, and it may take years—and cost political careers—to work out solutions.
Governmental budgeting is also concerned with procedures for managing trade-offs between large categories of spending. Budgeters may determine the relative importance of each category first, attaching a dollar level in proportion to the assigned importance, or they may allow purchasing in each area to go on independently, later reworking the choices until the balance between the parts is acceptable.

The order of decisions is important in another sense. I can first determine how much money I am likely to have, and then set that as an absolute limit on expenditures, or I can determine what I must have, what I wish to have, and what I need to set aside for emergencies, and then go out and try to find enough money to cover some or all of those expenditures. Especially in emergencies, such as accidents or illnesses, people are likely to obligate the money first and worry about where it will come from later. Governmental budgeting, too, may concentrate first on revenues and later on expenditures, or first on expenditures and later on income. Like individuals or families, during emergencies governments commit expenditures first and worry about where the money will come from later.

**Governmental Budgeting**

Public budgeting shares many of the characteristics of budgeting in general but differs from personal and business budgeting in some key ways:

1. In public budgeting there are a variety of participants, who have different priorities and different levels of power over the outcome. In family and business budgeting there may be only one key actor or a few, and they may have similar views of what they want the budget to achieve.

2. Individuals and small business owners spend their own money. By contrast, in governmental budgeting, elected officials spend citizens’ money, not their own. Public officials can force expenditures on citizens that they do not want, but citizens can vote the politicians out of office. Consequently, public officials try not to stray too far from what they think the public wants. Because of the variety of budgetary actors and demands, however, there is no single set of demands to follow. To create enough coherence to guide decisions, budget processes in the public sector involve the negotiation of consent among representatives of competing groups and interests.

3. Because elected officials make spending decisions for citizens, accountability is an important part of public budgeting. The budget document helps explain to the public how its money was spent. That document is necessarily public, unlike business budgets, and may be the focus of public controversy if citizens do not like what they see or do not fully understand it.
4. Public budgets are planned well in advance of the beginning of the fiscal year and are intended to last a whole year or even two years. Many changes can occur over that period of time—in the economy, in public opinion, in political coalitions, in the weather. Public budgets need to be able to respond to such events during the year without major policy changes. If the deals that were necessary to prepare the budget come undone during budget implementation, budget actors will lose their trust in the process. Private sector budgets are more flexible: they can be remade from week to week or month to month, and policy changes can be adopted at any time. Private sector budgets are not designed to last unchanged for eighteen months or more. Moreover, private sector budgets are less open to pressures from the outside, from public opinion or frequent changes in elected officials.

5. Public budgets are incredibly constrained compared with those in the private sector. There are often rules about the purposes for which revenue can be spent and the time frame in which it can be spent, as well as requirements for balance and limits on borrowing. Capital projects may require public referendums for approval, and taxation growth may be limited to the inflation rate unless citizens approve higher rates in a referendum. Other levels of government may impose spending requirements or limit the forms of taxation permitted. Past agreements may control spending levels or result in tax sharing with other jurisdictions. Courts may play a role in budgeting, telling jurisdictions what they may tax or how their budget process may or may not change. Rather than one bottom line, which is the business model, government agencies may have multiple bottom lines, each of which must balance.

The minicase concerning the DeKalb budget (see box on page 8) should give the reader a feel for governmental budgeting and some of the ways it differs from personal or business budgeting. One key feature of public budgeting is an ongoing, not always courteous dialogue between opponents and supporters, because no matter how many interests are served by a budget, some claimants will feel they did not get all they wanted or expected. Sometimes politicians and professional staff ignore, and at other times respond to, the constant stream of criticism and lack of understanding of the issues opponents demonstrate.

The venue of the Dekalb debate was the local newspaper. Accountability does not happen by itself; budgets do not wade into crowds and attract circles of admiring readers. Budgets have to be interpreted, and someone has to tell a good story to get the readers involved. This is where newspapers come in, but reporters are not necessarily knowledgeable, and newspapers are not necessarily neutral. Public officials often think they are giving clear signals on the budget and are
DeKalb, Illinois, has a council-manager form of government with an active, policy-oriented mayor. One mayor, who favored business development and expansion, sometimes at the expense of the existing residents and neighborhoods, was defeated by a candidate who advocated balance between new development and existing neighborhoods. Not long after the new mayor and a new manager took office, the local newspaper ran an editorial criticizing the new manager for his fiscal practices. The editorial was filled with innuendo, exaggeration, and outright mistakes.

The editorial was a thinly disguised effort to discredit the new administration and its policies of balanced growth. It argued that taxes and fees were growing, that the city was trying to build too large a fund balance (demonstrating unnecessary taxation), and that it was unclear where the increased revenues were going. The editorial further charged that the former administration had run a tight ship and that the city was in good financial shape when the new mayor took over, but that now staff were resigning and were not being replaced, reportedly to save money. The implication was that the new manager and mayor were fouling things up.

The new manager responded with a letter to the editor. In his reply, he documented the problems he had inherited from the prior administration. The city finances had not been so fine when he began his term. Property taxes increased due to state-mandated expenditures; the increase in sales taxes was obligated to the Tax Increment Financing District, a district formed a number of years earlier to fund economic development, and to other units of government through existing intergovernmental agreements. The actual amount of sales tax revenue going into the general fund was decreasing, not increasing, so there was no puzzle about where the increased revenue was going, contrary to what the newspaper editorial had said.

Finally, the editorial had correctly pointed out that the city had increased the fees levied on developers to pay the present and future costs of growth. The new administration's goal was for growth to fund itself, rather than be subsidized by the existing community residents. The manager argued that such policies were common, not only elsewhere in the country, but in the neighboring cities with which DeKalb was competing. This fee policy symbolized the policy difference between the current and previous administrations.
puzzled by citizen responses. The budget can be harder to explain than elected officials imagine. Public budgeting is complex and rule bound, whereas political dialogue is simple, simplifying, and sometimes biased.

Another theme that emerges from the DeKalb minicase is that nearly all new administrations have to run against their predecessors. They come into office and find a mess and try to clean it up. If they get started without a process of reckoning, they are likely to be blamed for the financial mistakes of their predecessors who, as in this case, may have run down fund balances and put off expenditures until the next administration. The inherited budget may be booby-trapped in a variety of ways, precisely because time is an element in budgeting, and expenditures can be put off or revenue moved up.

Prior administrations may still be around to find fault, hoping to return to office, and other potential electoral rivals can play a similar role, picking the budget apart, making normal decisions look odd, emphasizing projects that have not been completed or that came in over estimated costs. Taxpayer groups may publicly pick apart the budget, from their own somewhat narrow points of view. Politics thus infiltrates budgeting whenever the budget goes public. Budgeters have to stay alert to the political implications of their actions and the implications of politics for their actions. Keeping governmental finances afloat can be difficult when others are intentionally rocking the boat. There can be great temptation to keep parts of the budget obscure to prevent massive criticism from political opponents.

The attack and defense of the DeKalb budget made clear that there is policy in the budget, not just technical decisions about the timing of debt or the property tax rate. The editorial was wrong in some of its charges, but it was right in noting the increase in fees for developers. These fees were not just a way of balancing the budget; they reflected a judgment about who should pay for government and who should benefit from public spending. In this case, the former mayor had implemented a policy whereby all residents paid for growth. He claimed that everyone benefited, but it seemed likely that developers and new businesses benefited disproportionately compared with existing residents and businesses. In many cities, growth is highly subsidized, often by citizens who do not benefit directly from it and who might prefer that additional growth not take place. In DeKalb, the citizens were asked in a political campaign precisely whether they wanted to continue to subsidize growth, and they said no, voting to change mayors in order to change the existing policy. If politicians drift too far in their policies from what the citizens wish, they are likely to be turned out of office at the next opportunity.

The manager’s letter to the editor made clear that public budgeting is constrained—by other levels of government (through prior agreements to
earmark tax increases and by state-mandated expenditures) and by competition with surrounding jurisdictions. The manager defended the charging of fees to developers by noting that surrounding towns were doing the same thing, so the community would not lose development by charging a fee.

The point of the minicase is that public officials must not only do the right thing for the community and follow the public will, as best they understand what that is, but also figure out a way to explain and justify their choices. They are engaged in a dialogue in which there are always other arguments, whose advocates represent legitimate interests. Equally important, engaging in this dialogue is a way of getting the public involved and getting across information about budgetary decisions in a way that people can understand.

In sum, public budgeting is necessarily and legitimately different from personal and business budgeting. It is not only that the budget is fought out in public, but that it involves a variety of actors with different perspectives and interests. Moreover, those who make the decisions about spending are not the ones who actually pay the bills, and that fact introduces problems of responsiveness of elected officials and accountability to the public. More than personal or business budgets, public budgets are highly constrained, surrounded by rules, and hence somewhat rigid, while at the same time open to, and necessarily influenced by, changes in the environment.

A Variety of Actors

The actors involved in budgeting have different and often clashing motivations and goals. In the executive branch, bureau chiefs, budget officers, and chief executives are involved in the budget process; in the legislative branch, legislators and their staff members make proposals and react to proposals given to them. Interest groups may be involved at intervals, and sometimes citizens get into the act or the press gets involved in budget issues. Courts may play a role in budgets at unpredictable intervals. What are these actors trying to achieve?

Bureau Chiefs. Many students of budgeting assume that agency heads always want to expand their agencies for reasons of personal aggrandizement, but many bureaucrats are more motivated by the opportunity to do good for people—to house the homeless, feed the hungry, find jobs for the unemployed, and send out checks to the disabled. Not only are the motivations for growth often less selfish than the traditional model suggests, but agency heads sometimes refuse to expand when given the opportunity. Administrators may prefer to hire fewer but more qualified employees and refuse to add employees if doing so would not add to the agency’s capacity to get things done. Expansion may be seen as undesirable if a new mission swamps the existing mission, if it appears contradictory to the existing mission, or if the program
requires more money to carry out than is provided, forcing the agency to spend money designated for existing programs on new ones or do a poor job. Moreover, most bureaucrats, if not all, believe that their role is to carry out the policies of the chief executive and the legislature. If that means cutting back budgets, agency heads cut back the agencies. Agency heads may be appointed precisely because they are willing to make cuts in their agencies.4

Bureaucrats, then, do not always try to expand their agencies’ budgets. They have other, competing goals, which sometimes dominate. Also, their achievements can be measured in other ways than by expanded budgets. They may try to attain some specific items in the budget, without raising totals, or may try for changes in the wording of legislation. They may strive to obtain a statutory basis for the agency and security of funding. They may take as a goal providing more efficient and effective service, rather than expanded or more expensive service.

The Executive Budget Office. The traditional role of the budget office has been to scrutinize requests coming up from the agencies, to find waste and eliminate it, and to discourage most requests for new money. The executive budget office has been perceived as the naysayer, the protector of the public purse. Most staff members in the budget office are very conscious of the need to balance the budget, avoid deficits, and manage cash flow so that there is money on hand to pay bills. Hence they tend to be skeptical of requests for new money.

In recent years, however, there has been a change in the role of the budget office. At the national level under President Ronald Reagan, budgeting became much more top-down, with the director of the Office of Management and Budget (OMB) proposing specific cuts and negotiating them directly with Congress, without much scrutiny of requests coming up from departments or bureaus. OMB became—and remains—more involved in trying to accomplish the policy goals of the president through the budget.5 At the state level, too, there has been an evolution of budget staff from an operation concerned mostly with technical goals to one more concerned with political and policy-related goals. When the governor is looking for new spending proposals, these may come from the budget office.

Chief Executive Officers. The role of the chief executive officer (the mayor or city manager, the governor, the president) is highly variable, and hence these executives’ goals in the budget process cannot be predicted without knowledge of the individuals. Some chief executives have been expansive, proposing new programs; others have been economy minded, cutting back proposals generated by the legislatures, reorganizing staffs, and trying to maintain service levels without increasing taxes or expenditures.
Legislators. Like agency heads, legislators sometimes have been depicted as always trying to increase spending. The argument runs that they want to be reelected, and their success depends on their ability to provide constituent services and deliver “pork”—jobs and capital projects—to their districts. Legislators are reluctant to cut one another’s pork, lest their own be cut in return. As a city council member described this norm of reciprocity, “There is an unwritten rule that if something is in a councilman’s district, we’ll go along and scratch each other’s back.”

While there is some truth to this picture, the importance of legislative earmarks to overall expenditures has been exaggerated. Earmarks are directions in legislation for spending money on particular companies, contracts, locations, or projects or for granting tax breaks to particular companies or individuals. It is a broader and more neutral term than the word pork, which has a strong negative connotation. Legislative earmarks have typically been a small proportion of the budget. Moreover, for some legislators, being reelected is not a high priority. They view elected office as a service they perform for the community rather than a career, and while they may be responsive to constituents’ needs, they are not motivated to start new projects or give public employees a raise in order to get reelected. Also, some legislators feel secure about reelection and hence have no urgent need to provide projects or tax breaks to constituents to increase their chances. Even assuming the motivation to be reelected, holding down taxes may be as important to reelection as spending on programs and projects. The consequence of tax reduction is usually curtailed expenditures on programs. Legislators are bound to try to balance the budget, which puts constraints on the desire to spend.

Pressure to provide earmarks bumps up against the need to control the total dollars involved. At the national level, the congressional leaders who control spending earmarks are always dealing with more requests than they can afford. They have to turn down some requests but at the same time have to create a sense that the process is fair. “As a result, they work to create rationales for saying ‘no’: we don’t earmark in this program, that amount would be too large a share of the account in question, we need a sign-off from the authorizing committee, the committee has already given you more than your share in other projects, and so on.”

Legislators can organize themselves in such a way as to insulate themselves somewhat from demands for earmarks. Legislators can select more electorally secure representatives for key positions on appropriations committees, people who do not need earmarks to get reelected; the leadership can separate committees that deal extensively with interest groups from those that deal with expenditures; they can set up buffer groups to deal with interest groups; they can structure the budget...
process so that revenue limits precede and guide spending proposals; they can set aside a limited pool of funds for earmarked projects.

In recent years, at the national level, earmarks have come under particular fire because they permit or even invite corruption: some legislators have rewarded campaign contributions or other favors and gifts with earmarked contracts or projects that benefit specific firms. The resulting scandals fueled a drive for reform that has resulted initially in greater transparency and later partywide pledges to abstain from earmarks. In 2007, President Bush instructed the agencies to ignore any legislative earmarks that were not written into law. President Obama stated in his state of the union address in 2011 that he would veto any bill with earmarks in it. While some legislators have found ways around the controls, preliminary evidence suggests a dramatic drop in spending for legislative earmarks. This decline is illustrated in Figure 1.1.

**FIGURE 1.1 Reduction in Total Number and Cost of Earmarks, 2008–2010**

![Graph showing reduction in total number and cost of earmarks, 2008–2010](https://example.com/earmarks-graph.png)


**Note:** Figures for 2008 and 2009 are enacted earmarks; figures for 2010 are from the FY 2010 Conference Committee. There were no earmarks for the State and Foreign Operations Subcommittee in FY 2010.
Minicase: Persistence of Earmarking

In 2011, Democratic senator Claire McCaskill’s office did a study of earmarking in the House Armed Services Committee for the 2012 Defense Authorization Act. The report found violations of the Republican ban on earmarking in the House, with earmarks proposed by both Democratic and Republican members. To quote from the report,

Under the system put in place by the Committee Chairman, members of the Committee were directed to submit requests for increased authorizations in defense spending accounts ahead of the Committee’s consideration of H.R. 1540, much as members had done in the past when requesting traditional earmarks. However, instead of the Committee adding funds for the earmark projects to the base text of the bill, as would customarily take place, the Committee prepared amendments for each earmark that the members then offered during the mark-up of H.R. 1540. A special fund was created by the Chairman to allow the Committee members to easily offset their earmark spending, as required by Committee rules. These amendments were subsequently adopted in large groups with little or no debate. Members were not required to disclose their requests or disclose the entity they were seeking to direct funding to, as required by House rules on earmarks in past years.

A review of the amendments offered by Republican lawmakers on the Committee was significantly handicapped because most Republican lawmakers had removed public records of their past earmark requests from their websites. Public disclosure of earmark requests had been required by the House Appropriations Committee in the last Congress when earmarking was permissible. In contrast, Democratic lawmakers had generally not acted to limit the transparency of their past earmark requests. The information that remains on their websites significantly advanced the ability to tie their amendments to H.R. 1540 to past earmark requests.

The amount of money identified by McCaskill’s office in the Defense Authorization Act of 2012 was $834 million. There were only 115 earmarks identified, compared to a peak in 2005 of almost 14,000 earmarks that cost an estimated $27.3 billion.

The McCaskill report suggests several themes. First, some legislators do feel the need to earmark funds, even against demonstrated public will. Second, legislators fear embarrassment, so when they do something they promised
they would not do, they reduce transparency so it is harder to see what they are
doing. Third, efforts to bring down the level of earmarking have generally been
successful. In this case, the committee chair used the technique of setting aside
a designated and limited pool of funds for earmarks. Earmarks have not been
eliminated but the number and cost have been reduced.

A Thorough Analysis of the House Armed Services Committee’s Attempt to Circumvent
the Earmark Ban, report prepared by the office of Senator Claire McCaskill, online at

While earmarks persist and may have become less visible, both the number
and cost have gone down and are under control, as illustrated by the minicase of
the Armed Services Committee in 2011. Armed Services traditionally has ear-
marked huge sums of money.

The demand for earmarks has varied from one congressional committee to
another, depending on the programs in the committee’s jurisdiction. Defense has
often been a heavy user of earmarks, as have the committees dealing with transpor-
tation and water. The number and cost of earmarks by congressional committee are
presented in Figures 1.2 and 1.3. Earmarks are benefits that are geographically tar-
geted, sometimes for a small number of people or even a single company. By con-
trast, entitlement programs benefit large numbers of people across the country; as
entitlements grow as a portion of the budget, programs with local pull account for
a smaller and smaller proportion of the budget.10

Interest Groups. Interest groups, too, have often been singled out as the driving
force behind spending increases. They are said to want more benefits for their
members and to be undeterred by concerns for overall budget balance or the
negative effects of tax increases. Well-funded interest groups reportedly wine and
dine legislators and provide campaign money for candidates who agree with their
positions.

This picture is partly true, but oversimplified. Interest groups have other
policy goals besides budget levels. Most probably deal with the budget only
when a crisis occurs, such as a threat to funding levels. Because they can be
counted on to come to the defense of a threatened program, they reduce the
flexibility of budget decision makers, who find it difficult to cut programs with
FIGURE 1.2 Number of Earmarks by Appropriations Subcommittee, FY 2010

FIGURE 1.3 Cost of Earmarks by Appropriations Subcommittee, FY 2010 US$ (millions)


Note: Figures are from the FY 2010 Conference Committee. There were no earmarks for the State and Foreign Operations Subcommittee in FY 2010.
strong interest group backing. But many areas of the budget do not have strong interest group backing. For example, foreign aid programs have few domestic constituencies. Agencies may even have negative constituencies—that is, interest groups that want to reduce their funding and terminate their programs. The American Medical Association sought for years to eliminate the Health Planning Program. Often when interest groups are involved, there are many of them, rather than one, and the groups may have conflicting styles or conflicting goals, canceling one another out or absorbing energy in battles among themselves. A coalition of interest groups representing broad geographic areas and a variety of constituencies is likely to be more effective at lobbying. To that end, coalitions may form, but some members of the coalition may not go along with measures supported by others, so the range of items that the unified group can lobby for may be narrow. Extensive negotiations and continual efforts are required to get two or more independent groups together for a lobbying effort, and the arrangement can then fall apart. Interest groups are sometimes more interested in maintaining their autonomy than joining an effective lobbying coalition that may not press their issues enthusiastically. Moreover, some interest groups are interested in lowering taxes rather than maintaining or increasing spending.

Citizens. Citizens play a role in budgeting when they vote on referendums to limit revenues, forbid some forms of taxation, or require budgetary balance. They may initiate legislation that requires some given percent of revenues to be spent on education, or otherwise lock in their budget priorities. They sometimes voice their opinions at budget hearings, reply to public opinion polls, and call or write their elected representatives. Their knowledge of the budget is not usually detailed, but their feelings about the acceptability of taxation and priorities for spending constrain public budgeting. The public’s preferences for less-visible taxes and for taxes earmarked for specific expenditures have been especially important in shaping tax structures. Citizens have reacted to reports of corruption by voting affirmatively on referenda to create inspectors general to oversee spending and discover and punish fraud and abuse.

The Courts. The courts play an intermittent role in determining expenditures. They become involved when other actors, often interest groups, bring suit against the government. Suits that affect the budget may involve service levels or the legality of particular forms of taxation. If a particular tax is judged unconstitutional, the result is usually lost revenues. If there is a suit concerning levels of service, a government may be forced to spend more money on that service. There
can also be damage suits against governments that affect expenditures. These are usually settled without regard to the government agencies’ ability to pay. The result may be forced cuts in other areas of the budget, tax increases, or even bankruptcy. When the courts get involved, they may determine budget priorities. They introduce a kind of rigidity into the budget that says do this, or pay this, first.

The courts sometimes get involved in decisions about which budget actors have more power over budget decisions. In New York, the courts decided in favor of the governor over the legislature; in Maryland, the courts decided that the governor had to fund programs that the legislature had passed and he had approved in prior years. In Chicago, the courts have gotten involved in determining the degree of independence of the inspector general.

Courts sometimes judge whether programs are legal and whether rights have been violated. At the national level, the Supreme Court judged the constitutionality of the Obama administration’s health reform law, which contains both revenue increases and spending cuts. Typical areas in which courts have become involved and mandated expenditures by state and local governments are prison overcrowding (declared cruel and unusual punishment) and the deinstitutionalization of mentally ill and mentally handicapped patients. In each case the rights of the institutionalized population required more services or more space, often involving expenditures of additional funds. From the perspective of the courts, the priority of rights outweighs immediate concerns over balanced budgets, autonomy of governmental units, and local priorities.

The Press. The press plays several roles in budgeting. First, it helps spread the word about budgetary decisions, explaining the significance of those decisions in more understandable terms than those in the budget document. They frame the issues for the public. Second, reporters tend to look for conflicts, for scandals, or for abuses that make good stories. Third, editorials may call for spending decreases, tax reductions, or argue against particular proposed spending cuts. They advise the public on whether to vote for or against referenda and inform citizens of the likely consequence of passage or failure to pass such measures.

Not only do these various actors have different and potentially clashing budgetary goals, but they wield different levels of power at different times. In some administrations, the budget office may completely dominate the agencies; at times Congress may differ from the president on budgetary policy and pass its own preferences. At irregular intervals, the courts may preempt the decision making of the executive and the legislature. Particular interest groups may be able to obtain tax breaks for themselves. The combination of different preferences and
different levels of power has to be orchestrated by the budget process in such a way that agreement is reached and the players stay in the game, continuing to abide by the rules. If some actors feel too powerless over the budget, they may cease to participate or become obstructionist, blocking any agreement or imposing rigid, non-negotiable solutions. Why participate in negotiations and discussions if the decision will go against you regardless of what you do? If some actors initially lose on important issues, they may try later to influence budget implementation to favor themselves. Or the actors with less budget power may try to change the budget process so that they have a better chance of influencing the outcomes next time.

**Separation of Payer and Decider**

One of the major characteristics of public budgeting is that those who pay the bills are not the ones who make the decisions on how the money is to be spent. The possibility exists that elected officials will spend the money differently than taxpayers wish. This problem and its solution over time have been clearly visible at the local level.

In some cities in the later 1800s, the problem was solved by having taxpayer groups elect their own members as mayors and council or board members. Payer and decider were, if not the same individuals, then the same social class with the same interests. At that time nearly all local taxation was based on property taxes and only those who owned property could vote or run for office in many places. Under the control of these taxpayers, local officials spent money on projects that would benefit those paying the taxes—projects such as public markets, ports, roads, and bridges.

Over the years, however, as more poor people moved into the cities and were permitted to vote even without property ownership, a gap began to open between the wealthy paying the bills and those benefiting from government services. Those who made the taxing and spending decisions were no longer under the thumb of the major taxpayers. What the wealthy wished to spend their tax money on and what elected officials actually spent the money on began to diverge. When tax money was not being spent on the wealthy, they opposed taxation. Antitax revolts subsequently became widespread.

During the twentieth century, property ownership broadened as immigrants and blue-collar workers bought their own homes. Also, over the last generation taxation at the local level has shifted away from dependence on property taxes and toward sales taxes. The result is that there is not now a class of taxpayers and a class of tax users or consumers of government services. Everyone pays local taxes, including the poor in many cities. The result has been to shift the focus of concern to whether
everyone benefits from public taxation or only a few. For those services that benefit only a few, the question arises, why should everyone have to pay for them? At the national level, and to some extent at the state level, the tension between those who pay the taxes and those who benefit from them remains because the graduated income tax in theory exempts the very poor and taxes the very rich more heavily than the middle class. The result has been an ongoing effort to shift the burden of taxation up or down in a moderated form of class warfare.

At all levels of government, those who demand services that benefit only a narrow group and want others to pay for those benefits have to be strategic. They may form a coalition with others who also want narrow benefits; they tolerate some projects that others want, in exchange for support on their favored projects. Still, there are expenditures in many budgets that benefit one group or interest that are not balanced by benefits to other groups or interests. Such expenditures can be politically contentious and may be disguised or obscured.

Sometimes whether there will be political stress depends on perception or presentation, not on the characteristics of the actual program. Taxpayers who earn regular incomes often bridle at paying for welfare for those who do not work, seeing it as an outlay from which they do not and will not benefit. Viewed differently, however, anyone could end up needing unemployment benefits, or even welfare, when the economy performs poorly or downsizing throws older workers out of their jobs. If taxpayers see themselves as possible future beneficiaries of a safety net, they may be willing to support it; to the extent that they see such expenditures as only for others and believe that they will never need such services, they are more likely to oppose them. The separation between taxpayer and budgetary decision maker highlights the importance of symbolic politics—that is, the way expenditures are presented and viewed. Expenditures that benefit some narrow group may survive if they are represented as being for the collective good, whether they are in fact or not.

Sometimes it is difficult to make a convincing argument that everyone benefits from an expenditure aimed at a few, or from a tax break that benefits a narrow group. Elected officials may try to obscure such costs or make them seem smaller than they are in order to avoid controversy or quiet opposition. Because some budgetary decisions will not be acceptable to everyone, budgets have not always been clear about the decisions that underlie them.

In a democracy, the budget document is an important means of public accountability, reporting to the payers what the deciders have done with tax money. The clarity and openness of the document is critical. Did the public’s representatives spend tax revenue as the majority of citizens wished or did they spend it on some project, program, or tax break demanded by a few who had political influence? Citizens do not typically watch the decision making, but they
and the press have access to the budget document and can look for the answers. They can see whether officials kept their promises if the budget is clear enough.

In recent years there has been progress in making budgets more readable, inclusive, and informative. To achieve more transparency, budgeters have tried grouping expenditures by program and establishing performance goals and measurements for each program. At the national level, the Government Performance and Results Act of 1993 (GPRA), updated in 2011 by the GPRA Modernization Act, required that all federal agencies create program plans and performance measures. The goal of performance budgeting at all levels of government has been to broaden the notion of accountability from a record of where the money was spent, to how well the money was spent, and to hold public officials accountable for program outcomes and impacts. The movement toward improved accountability, better reporting, and more readable budgets suggests that public officials should be free from prior constraints, and should be allowed to use their training and best judgment, but should be held accountable for their choices after the fact. Accurate reporting of what they have done and the consequences of those decisions is absolutely necessary for this model to work. But if elected officials have made choices that some members of the public disapprove of, officials may be reluctant to report the details of their decisions, lest they open themselves to attack. Political opponents can use performance data to attack an agency or program or administration, and that threat contributes to a desire to not collect possibly damaging data or to not make such information public. If public officials have made mistakes, they may be reluctant to reveal them (see the minicase “Doctoring Audit Reports” on page 22).

Every budget is selective to some degree about what it will present and how. The art of selective revelation is part of public budgeting. The amount of secrecy in budgets goes up and down with different administrations and requires constant monitoring.

Openness to the Environment

The need for accountability means that the budget passed in public should be the budget actually implemented and that the budget should reasonably reflect public desires and the deals that were struck between actors with different goals. But public budgets are open to the environment, which means that they also have to be reasonably flexible and adaptive.

Openness to the environment includes a number of different factors, such as the overall level of resources available (changes in the amount of taxable wealth or in current economic conditions) and a variety of emergencies such as heavy snowfall, tornadoes, wars, bridge collapses, drought or floods, chemical explosions,
terrorist attacks, or water pollution. Public opinion is part of the budgetary environment, and the perception of change in public opinion may bring about changes in budget priorities.

The federal system and the resulting intergovernmental relations between national, state, and local governments are also a key part of the changing environment for budget actors. A state government can—as California has done—take over a local revenue source, leaving the local governments with shortfalls, or as New York State has done, put caps on local property taxes while keeping in place expensive state mandates on local governments. The federal government may offer state or local governments grants, the size of which may vary from year to year. The requirement that some grants be spent on particular items or that a recipient match grant amounts may result in a pattern of spending different from what the state or local government would have preferred.

Minicase: Doctoring Audit Reports

Audit reports are essential to after-the-fact accountability. They must be honest and open beyond question. But the temptation to hide wrongdoing or the suggestion of cronyism, ineptitude, laxness of supervision, or outright corruption sometimes leads to refusal to make audit reports public or, as in one recent case, editing out (called redacting) the suggestive portions.

In 2003, as the government was preparing for war in Iraq, the Department of Defense (DoD) entered into a multibillion dollar, noncompetitive contract with Kellogg, Brown and Root, a subsidiary of Halliburton, a company associated with the vice president. Its purpose was to rebuild Iraqi oil production facilities and to import gasoline.

Because the contract was noncompetitive and the company was associated with a high-ranking administration figure, it attracted considerable attention and charges of cronyism. The contract had a requirement for an audit, but when the audit was presented, it was given to the contractor to edit; the audit that was released eliminated text that the company thought might be embarrassing, as well as any portions with which it disagreed. The ranking minority member of the House Government Reform Committee, Henry Waxman, D-Calif., obtained a copy of the unedited version and made most of it public for comparison. Perhaps not surprisingly, it was discovered that the company had been overcharging the government for gasoline purchases by hundreds of millions of dollars. The DoD knew this and had refused to make the information public.¹

Budgeting is open to the environment not only in the sense of changing amounts of revenue, emergency demands on spending, and the changing intergovernmental system that frames responsibilities and revenue sources, but also in the sense that decision making itself is public. Committee hearings on the budget are public. Revenue and expenditure proposals are public; they are reported in the newspapers and debated in editorials, blogs, and letters to the editor. The budget as proposed and as adopted is available for public inspection, as are reported comparisons of plans and actual spending. The whole budget process takes place under public scrutiny. Potentially embarrassing mistakes are harder to hide than in the private sector, and that may lead to a kind of caution. Public officials adapt to working in a room with glass walls and no window blinds.

The openness of public budgets to the environment means that budgets have to be adaptable when unexpected events occur. At the national level, supplemental appropriations legislation may help the government deal with emergencies such as wars, hurricanes, or earthquakes. At the state and local levels, there may be contingency accounts to provide for unexpected events. Budget makers aim to build in enough flexibility to manage the problems that arise without changing the underlying policies that have emerged from complex, public negotiations among multiple actors with different points of view.

Constraints

Public budgeting is much more constrained than private sector or family budgeting. The federal government can mandate unrelated state expenditures as conditions of receiving grants; states can tell their local government what to do and how to do it. Some state governments tell local governments what format to use for a budget and what information has to be included. States may limit borrowing by local governments or even require that the state government approves all local borrowing. The reason for the current emphasis on after-the-fact reporting, rather than prior controls, is that there were so many prior controls that government managers had a difficult time getting anything done. Despite the recent emphasis on after-the-fact reporting, few prior constraints have actually been removed.

One of the constraints in the public sector is the fund structure. Public budgeting is based on “funds”—that is, separate accounts for separate purposes. Money can be spent only through those accounts and cannot be freely swapped among accounts. Such transfers normally require justification and explicit permission. Each account or fund must balance; that is, revenue must equal or exceed expenditures. The result is not one bottom line, as in a family or business, but multiple bottom lines. Creating some flexibility within these constraints requires continuing effort. Tax and
borrowing limits provide major constraints on budgeting (see the minicase on the federal debt limit below for an example of how this has worked). For state and local governments, revenue limits spending, because balance is required by law. If levels of borrowing and total accumulated debt are also limited, it is more difficult to circumvent the requirement for balance by borrowing. Tax limits are a common feature of state laws and constitutions. Procedural requirements for legislative supermajorities to pass tax increases have made it more difficult to raise taxes in some states, regardless of the actual spending level.

### Minicase: The Federal Debt Limit as a Constraint

Unlike the state and local governments, the federal government is not required to balance its budget every year; it may borrow to cover gaps between revenue and spending. Since 1917, the federal government has had a debt limit, which, historically, has been increased in sufficient time to permit required borrowing. Federal borrowing reflects spending commitments already made, so that a failure to raise the debt limit would result in failure to pay its bills on time, with major consequences to the perceived creditworthiness of the nation. In a highly controversial move in 2011, Republicans withheld their support for raising the debt limit unless the Democrats and the president accepted their terms for cutting future spending.

According to the Congressional Research Service, the situation was as follows:

Under current estimates, the federal government will have to issue an additional $738 billion in debt above the current statutory limit to finance obligations for the second half of FY2011. If the debt limit is reached and Treasury is no longer able to issue federal debt, federal spending would have to be decreased or federal revenues would have to be increased by a corresponding amount to cover the gap in what cannot be borrowed. To put this into context, the federal government would have to eliminate all spending on discretionary programs, cut nearly 70% of outlays for mandatory programs, increase revenue collection by nearly two-thirds, or take some combination of those actions in the second half of FY2011 (April through September 30, 2011) in order to avoid increasing the debt limit. Additional spending cuts and/or revenue increases would be required, under current policy, in FY2012 and beyond to avoid increasing the debt limit.
At the national level, much of the politics of constraints has been concerned with the level of borrowing. At the state level, the focus in recent years has been more on limiting taxes. One of the most drastic of the constraints on revenue is Colorado’s Taxpayers’ Bill of Rights (TABOR), a constitutional amendment passed in 1992. It has been seen as a model for other states, but its tight constraints have caused many problems in Colorado and eroded its popularity (see the minicase “Highly Constrained Budgeting—Colorado’s TABOR Amendment” on page 26).

A second source of constraints is a set of controls that result from perceived abuses of discretion. Once in place, these controls sometimes become rigid, remaining long after the cause has disappeared. For example, if the executive branch makes too many transfers between funds or accounts, in essence changing the budget that was agreed to in public sessions, the legislature may limit the amount of money that the executive can transfer without coming back to the legislature for approval of the changes.

A third reason for budget constraints is to facilitate supervision. States cannot easily monitor local budgeting and financial condition if each jurisdiction puts its budget in a different format or includes different information and uses a different definition of balance. Because the states are ultimately responsible for the finances of local governments, they have an interest in keeping local governments financially healthy and identifying those that might be headed for trouble.

Prior constraints in public budgeting include the fund or account structure and constraints on transfers, tax limits, borrowing limits, requirements that tax increases or general obligation bond issues be approved by the public in a referendum, uniform budget formats, and uniform accounting rules. There may be separate rules limiting the number of employees and their rank or requiring the comparative bidding of contracts or purchases over a given dollar amount.

Reforms in recent years have reduced some of these prior controls—such as separate limits on total spending and on the number of personnel. But each proposal for reducing constraints runs into the reason for the constraint in the first place. Changes may reduce the ability of the state to supervise or of the legislature...
Minicase: Highly Constrained Budgeting—
Colorado’s TABOR Amendment

The Colorado Taxpayers’ Bill of Rights (TABOR) limited the revenue the state could collect in any given year to the previous year’s level, plus a factor for population growth and inflation. In 2000, to protect education from the resulting cuts, opponents of TABOR successfully passed Amendment 23, which required the state to increase spending on K–12 education by the inflation rate plus 1 percent every year through 2010.

Beginning in 2001 an economic slowdown affected many states, including Colorado. However, Colorado’s problem was compounded by the combination of these two prior constraints, one holding down revenues, the other mandating increases in spending.

Rather than keeping the size of the government budget stable, TABOR had a notorious ratchet effect: the base on which maximum allowable tax revenue is calculated drops with recessions, and the provisions in the constitution make it impossible for the state either to recover former revenue levels or to provide a substantial rainy-day fund to buffer against recession revenue losses. The public must approve any new or increased taxes in a referendum, and such proposals have been routinely rejected.

With declining revenues and mandated increases in a major portion of the budget, state officials were forced to cut other areas of the budget deeply. What made this vise so difficult to escape is that TABOR had strong Republican support, and Amendment 23 had strong Democratic support, and neither party was willing to compromise.

As often happens when budget constraints in the public sector become extreme and the political process is stalemated with respect to reforming those constraints, the short-term solution was to exempt one of the major budget losers, public higher education, from the constraints. Thus the state university was made into an enterprise, allowing it to raise tuition and fees and exempting it from the TABOR limits. This result meant, however, that the state system was being privatized, with increased tuition and fees that would reduce access to higher education in the state.1

In November 2005, a new referendum was held. Referendum C eliminated the infamous downward ratcheting effect permanently, while TABOR’s spending limits were suspended for five years, with the constraint that revenues over the TABOR ceiling had to be spent on public K–12 education, higher education, health care, and transportation.2

The suspension of TABOR ended in 2010, but as a result of the recession and spending limits modified upward by Referendum C, revenues for the state were less than the ceiling in TABOR, and hence TABOR had no
immediate effect. Nevertheless, the battle against TABOR continued. In 2011, opponents brought a federal suit against TABOR, arguing that the amendment violated the federal constitution, because it removes the power to tax from the legislature. The results of this lawsuit were not yet known in early 2013. Douglas Bruce was the person who brought the amendment to Colorado; overriding the limitations in the law through local referenda is thus called de-Brucing. Cities and counties have made de-Brucing, or asking for overrides of the TABOR law from voters, commonplace in Colorado. Though overridden at times at the local level, TABOR has been difficult to change because it is a constitutional provision. It thus provides an ongoing, difficult, and often unpopular constraint on public budgeting.


to control policy. Increased discretion may shift power from the legislative to the executive branches, stimulating resistance. Weakening controls may remove some political or policy tool that is still cherished. Thus in 1993 and 1994 the Clinton administration urged greater discretion for executive branch officials, including discretion over staffing levels. Soon thereafter, the administration and Congress proceeded to pass the Workforce Restructuring Act, reducing federal employment levels by some 270,000. Despite the plea for more agency autonomy, each agency still had an assigned personnel ceiling.

**The Meaning of Politics in Public Budgeting**

Public budgets, unlike personal or family budgets, are necessarily political. The literature suggests at least five major ways of viewing politics in the budget: reformism, incrementalist bargaining, interest group determinism, process, and policymaking.

- The first is a reform orientation, which argues that politics and budgeting are or should be antithetical, that budgeting should be primarily or exclusively technical, and that comparisons among items should be based on efficiency and effectiveness. Politics—in the sense of the opinions and priorities of
The Politics of Public Budgeting

The Politics of Reform involves a clash of views between professional staff and elected officials over the boundary between technical budget decisions and properly political ones.

- The second perspective is the incrementalist view, which sees budgeting as negotiations among a group of routine actors—bureaucrats, budget officers, chief executives, and legislators—who meet each year (or biennium) and bargain to resolution. To the extent that interest groups are included at all in this view, they are conceived of in the pluralist model. The process is open, anyone can play and win, and the overall outcome is good; conflict is held down because everyone wins something and no one wins too much.

- The third view, determinism, is that interest groups are dominant in the budget process. In its extreme form this argument posits that richer and more powerful interest groups determine the budget. Some interests are represented by interest groups, and others either are not, or are represented by weaker interest groups; the outcome does not approximate democracy. There may be big winners and big losers in this model. Conflict is more extensive than in the incrementalist model. This view of politics in budgeting raises the question of whether the interest groups represent narrow or broad coalitions, or possibly even class interests. To what extent do these interest groups represent the oil or banking industries, or the homeless, and to what extent do they represent business and labor more broadly?

- The fourth view, the politics of process, is that the budget process itself is the center and focus of budget politics. Those with particular budget goals try to change the budget process to favor their goals. Branches of government struggle with one another over budgetary power through the budget process; the budget process becomes the means of achieving or denying separation and balance between the branches of government. The degree of examination of budget requests and the degree to which review is technical or political, cursory or detailed, are regulated by the budget process. The ability of interest groups to influence the budget, the role of the public in budget decisions, the openness of budget decision making—all these are part of the politics of process. In this view of politics, the individual actors and their strategies and goals may or may not be important, depending on the role assigned to individual actors in the budget process, and depending on whether the external environment allows any flexibility.

- The fifth view, policymaking, is that the politics of budgeting centers in policy debates, including debates about the role of the budget. Spending levels,
taxing policies, and willingness to borrow to sustain spending during recessions are all major policy issues that have to be resolved one way or another during budget deliberations. Budgets may reflect a policy of moderating economic cycles, or they may express a policy of allowing the economy to run its course. Similarly, budgets must allocate funding to particular programs and in the course of doing so decide priorities for federal, state, and local governments. This view of politics in the budget emphasizes trade-offs, especially those that occur between major areas of the budget, such as social services and defense or police. This view also emphasizes the role of the budget office in making policy and the format of the budget in encouraging comparisons between programs.

These five views of politics have been developed over time and often contradict each other. However, parts of each may be true, and one definition or another may describe different parts of budgetary decision making, or be true of budgetary decision making at different times or at different levels of government.

Budgetary Decision Making

This book explores the kind of politics that occurs in budgetary decision making. What is budgetary decision making like? We have already discovered that public budgeting is open to environmental changes and that it deals with policy conflicts. Policy conflicts can delay particular decisions or prevent them from being made at all; other budget decisions must be independent enough to be made without the missing pieces. They can be corrected later when missing pieces fall into place. Environmental emergencies can reorder priorities and alter targets that have already been determined. As a result, public budgeting must be segmentable and interruptible. The need for segmentation and interruptibility is satisfied by dividing budgeting into separate but linked decision clusters: revenues, process, expenditures, balance, and implementation.

Decision making in each cluster proceeds somewhat separately from, but with reference to, decisions made or anticipated in other decision streams. Decisions on spending are made with an eye on revenue totals, even though revenue estimates may not yet be firm. Decisions in different streams may be made iteratively, with tentative revenue estimates followed by tentative spending estimates, followed in turn by updated revenue estimates and fine-tuning of spending estimates. The order of decision making may vary from year to year. In one year, there may be no change in the definition of balance, so that prior years’ definitions frame the current year’s deliberations. In another year,
the definition of balance may change during the deliberations, requiring adjustments in spending or revenue plans. Sometimes the decision making moves faster in one cluster than in another, and decision makers in the cluster that is ahead may have to guess or anticipate what the decisions will be in other clusters and revise later if necessary.

Each cluster attracts a different characteristic set of actors and generates its own typical pattern of politics. Some clusters attract heavy interest group activity, while others have virtually none. Some clusters are marked by intense competition and negotiations and efforts to bind future decisions to restrict open competition. Some are marked by deep ideological splits, while others seem not to be ideological at all. In some a technical perspective prevails, while others are clearly determined by the priorities of elected officials and the public; and still others represent a blend of the two.

The Revenue Cluster

Revenue decisions include technical estimates of how much income will be available for the following year, assuming no change in tax structures, and policy decisions about changes in the level or type of taxation. Will taxes be raised or lowered? Will tax breaks be granted, and if so, to whom, and for what purpose? Which tax sources will be emphasized, and which deemphasized, with what effect on regions, economic classes, or age groups? How visible will the tax burden be? Interest groups are intensely involved in the revenue cluster. The revenue cluster emphasizes the scarcity of resources that is an essential element in budgeting and illustrates the tension between accountability and acceptability that is a characteristic of public budgets. Revenues are also extremely sensitive to the environment because changes in the economy influence revenue levels and because the perception of public opinion influences the public officials’ willingness to increase taxes.

The Budget Process

The process cluster concerns how to make budget decisions. Who should participate in the budget deliberations? Should the agency heads have power independent of the central budget office? How influential should interest groups be? How much power should the legislature or the chief executive have? How should the work be divided, and when should particular decisions be made? Interest groups play a minor role, if any at all. The politics of process may revolve around individuals or groups trying to maximize their power through rearranging the budget process. This jockeying for power rises to importance when the competing parties represent the executive and legislative branches and try to influence
the separation and balance between the branches of government. The politics of process may revolve around the policy issues of the level of spending and the ability of government to balance its budget.

The Expenditure Cluster

The expenditure cluster involves some technical estimates of likely expenditures, such as those for grants that are dependent on formulas and benefit programs whose costs depend on the level of unemployment. But many expenditure decisions are policy relevant—which programs will be funded at what level, who will benefit from public programs and who will not, where and how cuts will be made, and whose interests will be protected. Agency heads are more involved in these decisions than in taxation or process decisions, and interest groups are also often active. The expenditure portion of the budget emphasizes competition for limited resources and the resulting trade-offs—choices between specific sets of alternatives. If we want more money spent on streets, does that translate into less money spent on day care? Does more money spent on hurricane relief translate into less money for defense or housing for the poor?

The Balance Cluster

The balance cluster concerns the basic budgetary question of whether the budget has to be balanced each year with each year’s revenues or whether borrowing is allowed to balance the budget, and if so, how much, for how long, and for what purposes. The politics of balance deals with questions of whether balance should be achieved by increasing revenues, decreasing expenditures, or both, and hence it reflects policies about the desirable scope of government. Sometimes the politics of balance emphasizes definitions, as the group in power seeks to make its deficits look smaller by defining them away. The balance cluster also deals with questions of how deficits should be eliminated once they occur. At the national level, because deficits may be incurred during recessions in an effort to help the economy recover, the ability to run a deficit is linked to policies favoring or opposing use of the budget to control the economy, and in particular to moderate unemployment. These issues—whether budgets should balance, the proper scope of government and level of taxation, and the role of government in moderating unemployment—are issues that the general public cares about. Citizens care about which programs and services may be cut back as well as which taxes or fees may be raised. Businesses and investors care about which bills or bonds may not be repaid on time or in full. They may participate in this decision cluster through referendums and opinion polls. Further, broad groups of taxpayers and interest group coalitions representing broad
segments of society may lobby on this issue. Political parties may include their policies toward deficits in their election platforms.

**Budget Implementation**

Finally, there is a cluster of decisions around budget implementation. How close should actual expenditures be to the ones planned in the budget? How can one justify variation from the budget plan? Can the budget be remade after it is approved, during the budget year? The key issues here revolve around the need to implement decisions exactly as made and the need to make changes during the year because of changes in the environment. The potential conflict is usually resolved by treating implementation as technical rather than policy related. Executive branch staff play the major role in implementation, with much smaller and more occasional roles for the legislature. Interest groups play virtually no role in implementation. The allowance for technical changes does open the door to policy changes during the year, but these are normally carefully monitored and may cause open conflict when they occur.

**Microbudgeting and Macrobudgeting**

The five clusters of decision making outline the nature of the decisions being made, but they tell little about how and why they are made. On the one hand there are a number of budget actors, all of whom have individual motivations, who strategize to get what they want from the budget. The focus on the actors and their strategies is called *microbudgeting*. But the actors do not simply bargain with one another or with whomever they meet in the corridor. The actors are assigned budget roles by the budget process; the budget process also often regulates the issues they examine and the timing and coordination of their decisions. There are choices that they are not free to make because they are against the law, or because the courts have decreed it, or because previous decision makers have bound their hands. The total amount of revenue available is a kind of constraint, as are popular demands for some programs and popular dislike of others. Budgetary decision making has to account not just for budgetary actors and their strategies but also for budget processes and the environment. This more top-down and systemic perspective on budgeting is called *macrobudgeting*. Contemporary budgeting gives some attention to macrobudgeting, as well as microbudgeting.

One way of viewing the determinants of budgetary outcomes is as a causal model, depicted in Figure 1.4. In this schema, the environment, budget processes, and individuals’ strategies all affect outcomes. The environment influ-
FIGURE 1.4 Decision Making: Environment, Process, and Strategies

The environment influences budgetary outcomes both directly and indirectly through process and through individual strategies. It influences outcomes directly, without going through either budget process or individual strategies, when it imposes emergencies that reorder priorities. Thus a war or a natural disaster preempts normal budgetary decision making.

The environment influences the budget process in several ways. The level of resources available—both the actual level of wealth and the willingness of the citizens to pay their taxes—influences the degree of centralization of budgeting. When resources are especially scarce and there is apparent need either to cut back according to a given set of policies or to make each dollar count toward specific economic goals, there is no room for bottom-up demands that result in compromises and a little bit of gain for everyone regardless of need. When resources are abundant, a more decentralized model of process may hold, with less emphasis on comparing policies and less competition between supporters of different policies.

The environment may influence the format of the budget as well. When revenues are growing, there may be more emphasis on planning and on linking the budget to future community goals, to stimulate public demands for new spending. When there is little new money, planning may seem superfluous. Changing direction or setting new goals may seem impossible in the face of declining revenues that make current goals difficult to sustain.

Environment in the sense of the results of prior decisions may also influence process. If there is a huge accumulation of debt and little apparent way to control it, or if the budget has been growing very rapidly for reasons other than war, there may be attempts to change the budget process in an effort to control spending and debt. In contrast, if the environment suggests a need for additional spending, and the current budget process is delivering very slow growth, the process may be changed to make spending decisions quicker and easier.

The environment influences not only the budget process but also the strategies of the budget actors. Clearly, the level of resources available determines whether
actors press for new programs and expansion of existing ones, or strive to prevent cuts and protect their revenue sources from encroachment by other programs.

The certainty of funding influences strategies as well. If whatever an agency was promised may never arrive, agency heads are likely to engage in continuous lobbying for their money. Long-term or future agreements will be perceived as worthless; the possibility of toning down conflict by stretching out budget allocation times will disappear. Attention will focus on going after what is available now, whether it is what you want or not, inasmuch as what you really want may never show up and hence is not worth waiting for.

The intergovernmental grant structure is part of the environment that may influence strategies. Because some grant money may seem free, state and local governments may focus their energies on getting grants instead of raising local revenues. Or they may seek to decrease the amount of match required for a grant or increase their authority over how the money can be spent. Intergovernmental grants may make some expenditures relatively cheap, and some cutbacks relatively expensive, and hence frame constraints and choices for state and local budget officials.

The legal environment also influences strategies. For example, if public school teachers want tax raises to fund education and there is a provision in the state constitution forbidding income taxes, the teachers must either campaign for a constitutional revision (a time-consuming and difficult task) or support a tax they know to be more burdensome to the poor. Thus the environment can both frame choices and influence strategies.

In Figure 1.4, the budget process influences strategies, and to a lesser extent outcomes, directly. But there is a double-headed arrow on the link between budget processes and strategies, suggesting that individuals’ strategies also influence budget processes.

Budget processes influence strategies in some fairly obvious ways. If the budget structure allows for lengthy, detailed budget hearings, open to the public and interest groups, at which decisions are often made, then various actors are likely to concentrate their efforts on making a good impression at those hearings. If the chief executive prepares the budget, which is subject to only superficial scrutiny and pro forma hearings before being approved by the legislature, anyone who wants to influence the budget—including the legislators themselves—must make his or her opinions heard earlier in the process, before the final executive proposal is put together. Informal discussion with department heads, or even telephone calls to the budget office, may be the route to influence. If the budget is made two or three times, with only the last time being effective, then strategies may be to play out the first time or two with grandstanding—taking extreme positions to attract media attention—and to adopt
more detailed and moderate positions later when the final decisions are made. The budget process orders the decisions in such a way that some of them are critical; budget strategies naturally gravitate to those key decisions no matter where they are located.

When budget outcomes contradict some group’s preference, the group may try to change the budget process to help it obtain the outcomes it prefers. When coalitions of the dissatisfied can agree on particular changes, fairly substantial changes in process may result. A change in process will bring about a change in outcome if the change in process shifts power from one group of individuals who want to accomplish one goal to another group with different goals.

The final link in the figure is between the strategies of budget actors and outcomes. The effect of different strategies on the outcomes is hard to gauge. It seems obvious, however, that strategies ignoring the process or the environment are doomed to failure. Budget actors have to figure out where the flexibility is before they can influence how that flexibility will be used. Strategies that try to bypass superiors or fool legislators generally do not work; strategies that involve careful documentation of need and appear to save money are generally more successful.13

Summary and Conclusions

Public budgeting shares the characteristics of all budgeting. It makes choices between possible expenditures, it has to balance, and it includes a decision-making process. But public budgeting has a number of additional features peculiar to itself, such as its openness to the environment; the variety of actors involved, all of whom come to it with different goals; the separation of taxpayers from budget decision makers; the use of the budget document as a means of public accountability; and numerous constraints.

Public budgeting is both technical and political. “Politics” takes on some special meanings in the context of budgetary decision making. Budgetary decision making must be flexible, adaptive, and interruptible, which leads to a structure of five semi-independent strands of decision making: revenues, process, expenditures, balance, and implementation. Each strand generates its own political characteristics.

Budget outcomes are not solely the result of budget actors’ negotiating with one another in a free-for-all; outcomes depend on the environment and on the budget process, as well as individual strategies. Individual strategies have to be framed in a broader context than simply perceived self-interest.

Budgetary decision making changes over time: interest group power waxes and wanes, competition in the budget increases and decreases, and the budget process itself varies over time. Changes in process take place in response to
individuals, committees, and branches of government jockeying for power; in response to changes in the environment from rich to lean, or vice versa; in response to changes in the power of interest groups; and in response to scandals or excesses of various kinds.

Chapters 2 to 8 describe the patterns of politics associated with each of the decision streams and the sources and patterns of change over time. The final chapter integrates the decision streams into one model of budgetary decision making and points out the commonalities and differences among the decision streams.

**Useful Websites**

The Congressional Research Service is an agency of Congress that issues reports to members of Congress, helping members understand issues and past history of particular bills. While not issued to the general public, many of these studies are reprinted on various websites. For example, a *discussion of the 2013 Department of Defense budget request* is posted on the Department of State website (http://fpc.state.gov/documents/organization/189140.pdf). Also on that website is a *CRS report analyzing the constitutional issues with the Patient Protection and Affordable Health Care act* (P.L. 111-148, as amended), sometimes called Obamacare (http://fpc.state.gov/documents/organization/189134.pdf).

Open CRS (www.opencrs.com) is a wiki where individuals can post CRS studies they have obtained. These sometimes include budgeting topics, such as “Reducing the Budget Deficit: The President’s Fiscal Commission and Other Initiatives” (http://assets.opencrs.com/rpts/R41784_20110429.pdf).

The *University of North Texas digital library* (http://digital.library.unt.edu/explore/collections/CRSR/) makes an effort to find CRS studies posted by individuals in various websites. CRS has done studies explaining various aspects of the federal budget process. These are written for legislators generally in nontechnical language.

The *National Council of State Legislatures* (www.ncsl.org) is a good general source for information on state budgeting and policy issues.

For discussion of many budget issues including the impact of proposed legislation on economic classes, especially on the poor, see the *Center on Budget and Policy Priorities* (www.cbpp.org). The website includes material on state budgeting issues with a similar focus. The *Tax Foundation* (www.taxfoundation.org), with a somewhat different focus, tracks tax burdens and distributional effects of taxes, including those on businesses, at the federal and state level. Though each of these organizations has a point of view, both provide basic explanations of many key issues in clear language.
For data on earmarks, the Office of Management and Budget has posted a **list of earmarks from 2005 to 2010** on its website (http://earmarks.omb.gov/earmarks-public/). The White House does not include in its database executive based earmarks, that is, sole source or noncompetitive contracts. For a different perspective on earmarks, see Citizens Against Government Waste, and its famous **congressional PIG book** (www.cagw.org/reports/pig-book/#trends). This website documents the rise of what it derogatorily calls pork, and its recent decline.

**Ballotpedia** (http://ballotpedia.org/wiki/index.php/Main_Page) is a good source for explaining one technique for citizen input in taxation and budget issues. The website describes individual citizen referenda and initiative measures that have been proposed and their status.