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# The Politics of **PUBLIC BUDGETING**

Getting and Spending,  
Borrowing and Balancing

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# 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 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 rather than a chocolate rabbit, assuming she has money for only one. 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.

Budgeting is usually more complicated, with many possible options that are not always easily comparable. To simplify this complexity, budgeters usually group together similar things that can be reasonably compared. When I go to the supermarket, 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. Governmental budgeters also try to make comparisons within categories of similar things. For example, weapons are compared with weapons and computers with computers. They could be compared in terms of speed, reliability, and operating costs, 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, however, budgeting requires comparison of different, seemingly incomparable things. How do I compare the benefits of providing shelters for the homeless with buying more helicopters for the navy? I may move to more general comparisons, such as how clearly the need was described or 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 agreement on priorities. Such priorities may be highly controversial.

Not only does budgeting have to deal with a large number of sometimes incomparable possible expenditures, it also involves multiple resources, resulting in multiple and sometimes unrelated budgets. Budgeting often allocates money, but it can allocate any scarce resource—for example, time. A student may choose between studying for an exam or 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. Some programs offer tax breaks, while others offer direct payments and still others offer insurance that is unavailable or extraordinarily expensive in the private sector.

### **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.

A budget is not balanced if there is no plan for and reasonable expectation of paying back the loan over time. Similarly, a budget is not balanced if insufficient money is set aside each year to pay for future expenses. For example, a number of years ago, San Diego approved an increase in pension benefits for its employees but did not increase its annual contributions to the pension system to cover the increased costs, because pension board members hoped a strong stock market would reduce the need for city contributions. When the market faltered, the city was stuck with a huge deficit in the pension fund.

### **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.

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, 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 mandate some activity or expenditure or limit the amount or form of taxation. Past agreements may bind current decision makers. Courts may play a role in budgeting, sometimes telling jurisdictions that they must spend more money on education or prisons or that a proposed program is illegal or that officials cannot cut spending in some area because such reductions violate the constitution. Rather than one bottom line, which is the business model, government agencies may have multiple bottom lines, in each of several funds or accounts, each of which must balance.

The minicase concerning the DeKalb budget (see box on p. 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; 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 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, 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. 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 criticize the budget from their own point 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 issuance or increases in 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 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.

#### **Minicase: City Manager Replies to Scathing Budget Critique**

DeKalb, Illinois, has a council-manager form of government with an active, policy-oriented mayor. One mayor, who favored business development and expansion, was defeated by a candidate who advocated a different 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.

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.

### 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. At times, courts play a role in budgets. 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.<sup>1</sup> In the Office of Personnel Management survey of federal employee attitudes in 2014, 95.3 percent of executives responding to the survey indicated that they agreed or strongly agreed that the work they do is important. 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.<sup>2</sup> 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.<sup>3</sup> 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.<sup>4</sup>

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.

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.<sup>5</sup> At the state level, too, there has been an evolution of budget offices concerned primarily with technical goals toward more attention to 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 goal of the chief executive officer (the mayor or city manager, the governor, the president) 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. Whatever the policy preferences of the chief executives, they generally want more power to impose those preferences on the budget. In most states, the governor frames the budget proposal, has a powerful veto, and often has the ability to make cuts during the year to rebalance a budget if revenues fall short of projections. As the Missouri minicase, which follows, demonstrates, those powers can be used to override the legislature's preferences. Similarly, in Wisconsin in 2008, voters passed a constitutional amendment to curtail the governor's so called Frankenstein veto, which allowed the governor to cross out words and numbers from different sentences creating a new sentence that altered legislative decisions. Governor Doyle had been using that power to increase spending on schools and to allow local governments to increase property taxes more than the legislature wished. The Wisconsin governor's budget powers are still extremely strong, despite the amendment, as he or she can still eliminate words within a sentence of the budget, delete sentences, and omit digits from a number.

**Minicase: Missouri Constitutional  
Amendment Reduces Governor's Powers**

In Missouri in November 2014, voters passed a constitutional amendment permitting the legislature with a two-thirds majority to overturn the governor's decisions to withhold funds during the year. The amendment also prevents the governor from proposing a budget with revenues the legislature has not already approved.

According to some observers, the Democratic governor, Jay Nixon, was using budget holdbacks as leverage to prevent the legislature from passing additional tax breaks. The governor wanted the legislature to pass comprehensive tax credit reform; he also wanted the legislature to approve using federal dollars to improve and expand Medicaid. He vetoed or withheld spending additions to his budget request. He argued against legislative program spending increases that were likely to balloon in future years. The governor maintained that the finances of the state could not depend on vetoes that might be overridden, presumably his justification for cutting funds during the year in a way that the legislature could not overturn.

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Governor Nixon blocked billions of dollars in spending during his administration. In 2011, he cut funding for forty-five programs during the year. He claimed that much of the money was going to storm relief, but a later audit showed that of \$172 million withheld that year, only \$7.8 million was spent on disaster relief, giving rise to the belief that he was imposing his goals over the legislature's by remaking portions of the budget during the year. Through the constitutional amendment, the Republican-dominated legislature handcuffed the Democratic governor and gave considerable power over budget implementation back to the legislature.

*Sources:* Associated Press, "Voters Approve Amendment Limiting Governor's Budget Powers," November 4, 2014, <http://www.abc17news.com/news/voters-approve-amendment-limiting-governors-budget-powers/29540868>; Marshall Griffin, "Schweich Releases Audit Critical of Nixon's Withholding of Money from the Budget," St. Louis Public Radio, September 8, 2014, <http://news.stlpublicradio.org/post/schweich-releases-audit-critical-nixons-withholding-money-budget>. See also Jay Nixon, Office of the Governor, "Governor Nixon Restricts \$400 Million From Fiscal Year 2014 Budget, Citing Costs of House Bill 253, June 28, 2013," online at <https://governor.mo.gov/news/archive/gov-nixon-restricts-400-million-fiscal-year-2014-budget-citing-costs-house-bill-253>.

*Legislators.* Just as executives sometimes have been mischaracterized as always being fiscally conservative, legislators have sometimes been depicted as always trying to increase spending.<sup>6</sup> The argument runs that their success in getting reelected 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."<sup>7</sup>

While there is some truth to this picture, the budgetary importance of pork—more properly called legislative earmarks—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. At their peak, earmarks never accounted for more than 1 percent of the federal budget.

Earmarks came under fire at the national level, not because the dollar amounts were so huge, but because the number and costs were growing seemingly out of control and because some of them were embarrassingly wasteful. Even more important, they permit or even invite corruption: Some legislators have rewarded

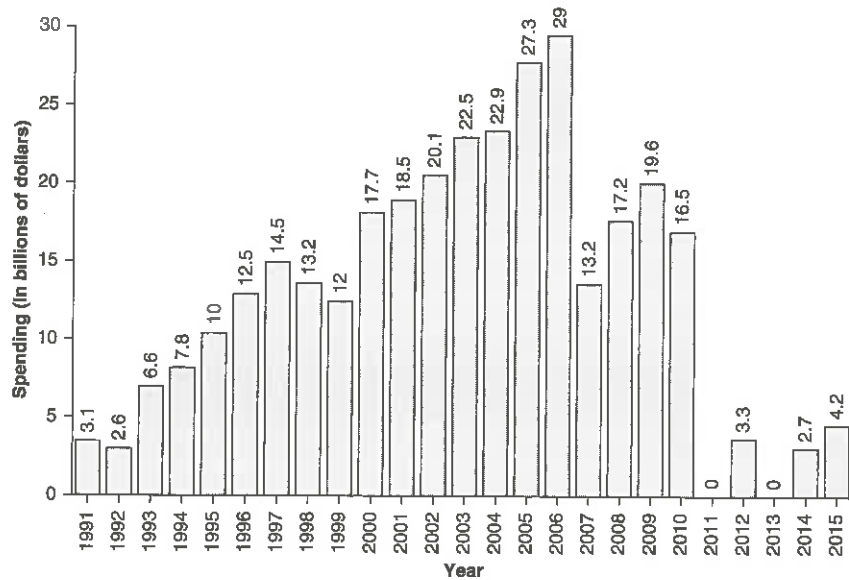
campaign contributions or other favors and gifts with earmarked contracts or tax breaks that benefit specific firms or individuals. The resulting scandals fueled a drive for reform that resulted initially in greater transparency and later in party-wide pledges to abstain from earmarks. In 2007, President 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, evidence suggests a dramatic drop in spending for legislative earmarks. This decline is illustrated in Figure 1.1. Figure 1.2 shows the decline in number of earmarks.

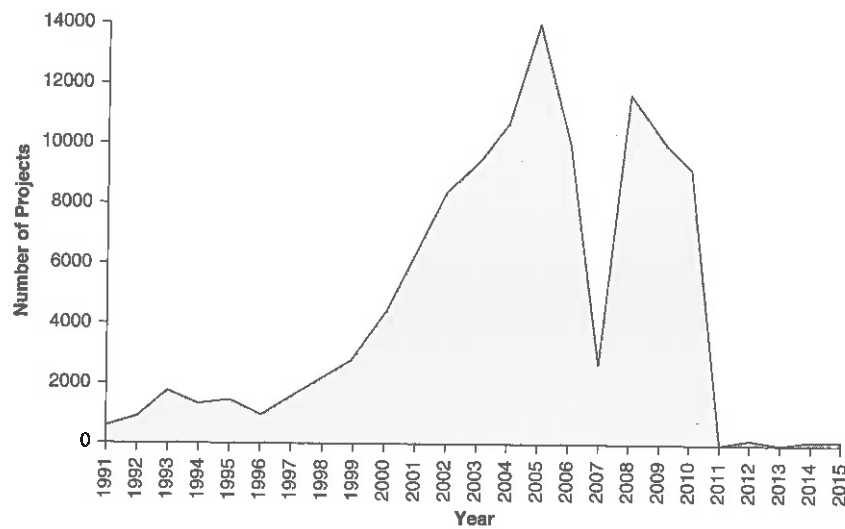
These days, legislators seem more likely to favor small government and tax reductions than expanded programs. Predicting the policy goals of legislators in general is as difficult as predicting the policy goals of executives. They have to be examined case by case.

**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

FIGURE 1.1 Pork-Barrel Spending, 1991 to 2015



Source: Reproduced with permission from Citizens Against Government Waste, 2015 Congressional Pig Book, online at [http://cagw.org/reporting/2015-pig-book#historical\\_trends](http://cagw.org/reporting/2015-pig-book#historical_trends)

**FIGURE 1.2** Number of Pork Projects, 1991 to 2015

Source: Reproduced with permission from Citizens Against Government Waste, 2015 *Congressional Pig Book*, online at [http://cagw.org/reporting/2015-pig-book#historical\\_trends](http://cagw.org/reporting/2015-pig-book#historical_trends)

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 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

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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 for which the unified group can lobby 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, require budgetary balance, or amend the constitution to limit executive budget power. 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 usually is not 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 offices of the Inspector General to oversee spending and uncover fraud and abuse.

In twenty-four states, citizens can put a proposal on the ballot. Many of these proposals have budgetary implications, sometimes mandating the expenditure of funds without any source of revenue or cutting taxes without any parallel cuts in spending or offsetting tax increases. In Washington state, for example, a citizens' initiative to increase class sizes was estimated to cost the state about \$2 billion for fiscal years 2016 and 2017; the cost was projected to increase to \$2.7 billion for the following two years. There was no mention of where this money was supposed to come from.<sup>8</sup>

**The Courts.** The courts play an intermittent role in budgeting.<sup>9</sup> They become involved when some budget 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.

Constitutional requirements to provide adequate funding for public schools or to avoid cruel and unusual punishments have often gotten courts involved in



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mandating spending. For example, after years of underfunding the public schools, the state supreme court in Washington fined the state \$100,000 per day for each day that it continued to defy the court mandate to provide adequate spending for education, reducing class sizes, and improving teacher pay. The court had mandated improvements in 2012, but according to the court, the state had done too little to comply. In September of 2015, the court ruled the state in contempt but agreed to wait until the end of the 2015 legislative session before imposing sanctions. When the governor and legislature failed to come up with a plan, the penalty was imposed. Other states have also had battles with courts over school funding that resulted in threatened sanctions. The New Jersey Supreme Court once shut down the schools for eight days, and in 2016, the supreme court in Kansas threatened to shut down the schools if adequate funding was not provided.<sup>10</sup>

Damage suits against governments can also affect expenditures. These are usually settled without regard to the government's 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 impose budget priorities. They introduce a kind of rigidity into the budget that says do this or pay this first.

The courts also may intervene in decisions about which 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 mandated expenditures by state and local governments, besides school funding, are prison overcrowding (declared cruel and unusual punishment) and the deinstitutionalization of mentally ill and mentally handicapped patients. From the perspective of the courts, the priority of rights outweighs immediate concerns over balanced budgets, autonomy of governmental units, and local priorities.

The courts have increasingly gotten involved in both bankruptcy cases and pension funding issues. In both these situations, one key concern is the circumstances under which a government can go back on prior legal and sometimes constitutionally protected commitments. (See the minicase of New Jersey on p. 17 for one example.)

### Minicase: The Courts and New Jersey Pension Reform

In New Jersey in 2011, the governor engineered a pension reform to begin to remedy years of state failure to contribute the annually required contributions to the state pension system. The agreement required additional contributions from both the workers and the state to make up for prior underfunding. The reform included a binding promise from the state to discontinue its practice of failing to make its whole payment. The workers were granted an enforceable contractual right to the increased contributions from the state.

Violating his own reform law, the governor then failed to put in the whole state share. The resulting lawsuits reached the state supreme court. The judges decided 5–2 that the governor and legislature could not legally require an increased payment to the pension system, because the state's constitution prohibits lawmakers from binding the state to financial obligations greater than 1 percent of the budget without citizen approval in a referendum. Under the reform law, the state payment would be closer to 7 percent of the budget.

The employee unions questioned whether the 2011 deal created any new debt or only required the payment of existing debt, but the judges argued that it didn't matter and invalidated the 2011 reform that prevented the state from shortchanging the pensions. The court argued that although the governor and legislature intended to create a contract, they did not have the legal authority to do so and hence could later violate that illegal contract.

Source: Andrew Seidman and Maddie Hanna, "N.J. Supreme Court Sides With Christie in Pension Case," *Inquirer Trenton Bureau*, June 9, 2015 online at [http://www.philly.com/philly/news/politics/20150610\\_N\\_J\\_\\_Supreme\\_Court\\_sides\\_with\\_Christie\\_in\\_pension\\_case.html#IUApA1tsFLpkJwfE.99](http://www.philly.com/philly/news/politics/20150610_N_J__Supreme_Court_sides_with_Christie_in_pension_case.html#IUApA1tsFLpkJwfE.99)

**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 and 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 budget actors have different and potentially clashing budgetary goals, they wield different levels of power at different times. The courts, the press, and the public are not routinely involved in decision-making, they episodically influence and sometimes determine budgetary decisions. For the routine actors, 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 lose on important issues during the creation or approval of budget proposals, 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 outcome next time. If some actors feel too powerless over the budget, they may cease to participate or become obstructionist. Why participate in negotiations if the decision will go against you regardless of what you do?

### 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.<sup>11</sup> Payer and decider were, if not the same individuals, then of 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, as more poor people moved into the cities and were permitted to vote without property ownership, a gap began to open between the wealthy people who were paying the bills and poorer people who benefited from government services and elected people who would provide them those benefits. 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 relatively 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 in some states, the tension between those who pay the taxes and those who benefit from them remains, because the graduated income tax 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, 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 it. 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, program, or administration. The vulnerability to attack contributes to ambivalence about collecting possibly damaging data and making it public. If officials have made mistakes, they may be reluctant to reveal them (see the minicase "Doctoring Audit Reports" on p. 21).

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.

### 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 to editing out (called *redacting*) the suggestive portions. In one recent case, the inspector general for USAID was accused by whistle-blowers of removing critical portions of reports from 2011 to 2013. He was only in an acting capacity and had applied for the permanent position; reportedly, as a result he tried to avoid controversy and downplayed criticism of the agency to win support for his application. The *Washington Post* noted that one report from his office was edited down from 20 pages to 9.

Source: Scott Higham and Steven Rich, "Whistleblowers say USAID's IG removed critical details from public reports," *Washington Post*, October 22, 2014. [http://www.washingtonpost.com/investigations/whistleblowers-say-usaids-ig-removed-critical-details-from-public-reports/2014/10/22/68fbc1a0-4031-11e4-b03f-de718edeb92f\\_story.html?hpid=z2](http://www.washingtonpost.com/investigations/whistleblowers-say-usaids-ig-removed-critical-details-from-public-reports/2014/10/22/68fbc1a0-4031-11e4-b03f-de718edeb92f_story.html?hpid=z2).

### 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. Changes 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.

Budgeting is open to the environment not only in the sense of changing amounts of revenue, emergency demands on spending, and the changing inter-governmental 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 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, which 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 between 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. 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.

At the national level, much of the politics of constraint has been concerned with the level of borrowing. (See the minicase on the federal debt limit below for how this particular constraint has worked.) 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 p. 25.)

#### **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. Historically, the debt limit 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 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.

The consequences of failure to raise the debt limit and subsequent default were considered so severe that Democrats in Congress and the president yielded to Republican demands for billions of dollars of spending cuts as the price for Republican votes for an increased debt ceiling. In February of 2014, with the president adamant about not yielding to Republican threats a second

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time, Congress suspended the debt ceiling for a year. By March 2015, the country had again reached its debt limit, forcing the treasury department to take extraordinary measures to assure there was enough cash on hand to pay bills. By late fall of 2015, when these measures would have been exhausted, Congress agreed to suspend the debt ceiling until early 2017.

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*Sources:* Mindy R. Levit, Clinton T. Brass, Thomas J. Nicola, Dawn Nuschler, and Alison M. Shelton, *Reaching the Debt Limit: Background and Potential Effects on Government Operations*, Congressional Research Service, July 27, 2011. Peter Schroeder, "Debt Limit Deadline Now Seen at End of 2015," *The Hill*, May 18, 2015 <http://thehill.com/policy/finance/242404-debt-limit-deadline-now-seen-at-end-of-2015>. Chad Stone, "Four Things to Like in the Budget Deal," *U.S. News and World Report*, November 6, 2015, <http://www.usnews.com/opinion/economic-intelligence/2015/11/06/4-things-to-like-in-the-debt-ceiling-budget-deal>.

Efforts to control borrowing have resulted in one set of constraints. A second set results from efforts to stop perceived abuses of discretion. Once in place, these controls sometimes become rigid, even constitutional, remaining in place for years, sometimes long after the problem that generated the constraint has disappeared. A third reason for budget constraints is to facilitate supervision. States cannot easily monitor local budgeting and financial conditions 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. Proposals for reducing constraints sometimes run into the reason for the constraint in the first place. 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.

#### **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. 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 while Amendment 23 had strong Democratic support, and neither party was willing to compromise.

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.<sup>1</sup>

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 for years, so TABOR had no immediate effect. Nevertheless, the battle against TABOR continued. In 2011,

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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. In 2015, The Supreme Court of the United States kicked the case back to the circuit court, asking the lower court to reconsider its decision that legislators had standing to bring the suit. The court's decision regarding the TABOR challenge was related to a recent case in Arizona in which the court ruled that the people were the originating source of all governmental powers and defined legislative powers as belonging to the people. The people could thus pass laws, even when powers were explicitly granted to the legislature. It looks as if TABOR survived the constitutional challenge.

Coloradans have had to live with the law, but when its constraints became too tight, they voted to lift the limits. Douglas Bruce was the person who brought the TABOR 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. Out of a total of 543 municipal referenda for de-Brucing from 1993 to 2015, 86.4 percent passed.<sup>2</sup>

In 2012, Denver, experiencing fiscal stress, de-Bruced its sales tax permanently and also de-Bruced its property tax, so that the city could keep any growth in revenue that exceeded the narrow limits of TABOR. Recently at the state level, the governor proposed a workaround to TABOR that required treating some earmarked funds as something other than revenue, so the TABOR excess revenue trigger for tax rebates would not be reached. The Senate rejected the proposal.

The rules for what would happen to any excess revenue past the TABOR limits have changed over the years. In 2015, the first use of any excess would go to pay for an earned income tax credit (EITC), which helps poor working people. The amount of the rebate would be 10 percent of the federal EITC. Once triggered, it would become a permanent tax credit. If there was enough revenue left after that amount, it would be used for a temporary reduction in the income tax rate. If there was not enough money left over to pay for that reduction or if there was money left over after that reduction, it would go to tax payers according to their incomes, with richer people getting more money. In 2015, for the first time in fifteen years, the state was expecting enough revenue to trigger the rebate. However, the amount of rebate could shrink if the legislature passed and the governor signed other tax breaks that would reduce the amount of revenue.

In an ironic twist, the rebate was scheduled for 2016, despite a looming deficit, because the rebate is triggered by an increase in revenue that is greater

than the growth in population and inflation, not by the existence or size of a budgetary surplus. Revenue growth exceeded TABOR limits but was insufficient to pay the bills, creating a budget gap that would probably require spending cuts at the same time that citizens were getting a tax rebate. And since the state EITC will be funded, the tax rebate will create an ongoing obligation to keep up this tax break for the working poor.

1. Colorado Fiscal Policy Institute, Issue Brief, November 9, 2005.
2. Colorado Municipal League, "Municipal Elections, Revenue and Spending Changes," 1993–Fall 2014, pdf, online at [www.cml.org](http://www.cml.org).

*Other sources:* "Lawsuit Seeking to Overturn TABOR Faces Federal Ruling on Justiciability," *Huffington Post*, February 15, 2012, [www.huffingtonpost.com/2012/02/15/colorado-lawsuit-against-tabor\\_n\\_1279854.html](http://www.huffingtonpost.com/2012/02/15/colorado-lawsuit-against-tabor_n_1279854.html). Megan Verlee, "How TABOR works: Tracking the Fate of Your 2015 Refund," *Colorado Public Radio*, May 7, 2015, <http://www.cpr.org/news/story/how-tabor-works-tracking-fate-your-2015-refund>.

### *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 elected officials, interest groups, and voters—is an unwanted intrusion that reduces efficiency and makes decision-making less rational. 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 policy preferences. 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 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 influence 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 of public concern. 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

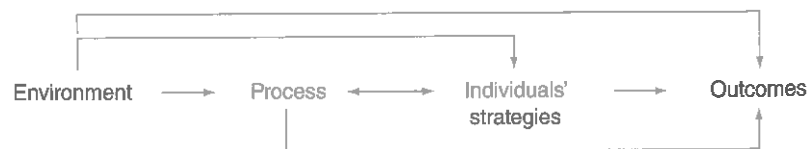
and more occasional roles for the legislature. Interest groups play virtually no role in implementation. The allowance for technical changes does open the door to policy changes during the year, but these are normally carefully monitored and may cause open conflict when they occur. The implementation cluster deals not only with how close actual spending is to planned spending, but also to how well, how honestly, and how transparently the money was spent.

### *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 attention to both macrobudgeting and microbudgeting.

One way of viewing the determinants of budgetary outcomes is as a causal model, depicted in Figure 1.3. In this schema, the environment, budget processes, and individuals' strategies all affect outcomes. The environment influences budgetary outcomes both directly and indirectly through process and through individual strategies. It influences outcomes directly, without going through either

**FIGURE 1.3 Decision-Making: Environment, Process, and Strategies**



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 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. 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.

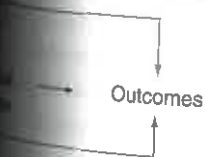
The intergovernmental grant structure is part of the environment that may influence strategies. Because some grant money may seem free, state and local

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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 choices for state and local budget officials.

The legal environment also influences strategies. For example, if public school teachers want tax rises 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 frame choices and influence strategies.

In Figure 1.3, 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 obvious ways. If the budget process includes detailed budget hearings that are open to the public and interest groups and that actually influence decisions, 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 actors may grandstand initially, taking extreme positions to attract media attention, and adopt more reasoned 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 actors focus their strategies on those key decisions no matter where they are located or when they occur.

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, but

strategies that ignore the process or the environment are likely to fail. 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.<sup>12</sup>

### *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. 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. Changes in process take place in response to individuals, committees, and branches of government jockeying for power; to changes in the environment from rich to lean or vice versa; to changes in the power of interest groups; and 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. A number of their studies deal with budget topics. 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 (Pub. L. no. 111-148, as amended), sometimes called Obamacare (<http://fpc.state.gov/documents/organization/189134.pdf>). **Open CRS** ([www.opencrs.com](http://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](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 on various websites.

The **National Council of State Legislatures** ([www.ncsl.org](http://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](http://www.cbpp.org)). The website includes material on state budgeting issues with a similar focus. The **Tax Foundation** ([www.taxfoundation.org](http://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 federal **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 congressional PIG book ([www.cagw.org/reports/pig-book/#trends](http://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](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.

The federal **Office of Personnel Management** does an annual survey of employee attitudes toward their work and workplace. The surveys are posted online from 2004 to 2014. Called the Federal employee viewpoint survey, it is available at <http://www.fedview.opm.gov/>.