CHAPTER 9

NEW DIRECTIONS IN PUBLIC BUDGETING

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Public budgeting in the distant past was mostly a technical activity in which estimates of the next year's spending were gathered from departments and presented directly to the legislative body. Budgeting was legislatively dominated and highly decentralized. The scope of government activities was relatively limited. A small amount of new revenue might be available each year, which would be divided among existing programs, more or less in accordance with their proportion of the existing budget. There was little reprioritization and hence limited conflict over resources. This model of budgeting comported well with the idea that politics and administration could be separated from each other, with major policy decisions made by elected officials outside the administrative process. Famously described by Aaron Wildavsky as incrementalism, this budget model underlies many of the norms and rules of public budgeting.[1]

Public budgeting has changed enormously over time, with implications for both practitioners and academics. This chapter describes major issues and trends that have occurred since the 1921 Budget and Accounting Act, and outlines budget reforms that must occur to keep pace with these changes.

BUDGETING AND POLICY DEVELOPMENT

Budgeting has become much more policy laden and conflictual in recent years.[2] Policy and partisan conflicts often hold up the budget, sometimes past the start of the budget year. In 2009 alone, on Tuesday, June 30, just before the beginning of the new fiscal year, fourteen states lacked a final budget. Half resolved their problems in some way before midnight, but seven states began the new fiscal year without a signed budget. Pennsylvania has missed its June 30 deadline every year since 2003.[3]

Especially during times when the economy grows slowly and revenues fall behind estimates, cutbacks pose the possibility—and need—to reprioritize. These problems occur at all levels of government. Even small cities may have to decide how much they can afford for streets and sanitation, police and fire protection, and education. Unions, nonprofits dependent on the public budget, and program advocates sometimes round up supporters to sit in at council meetings where the budget is being decided. These decisions are controversial, often political, and clearly policy laden.

Not only is policy made through the budget and the budget made through policy decisions—as when a new drug benefit was added to Medicare—but the processes of making decisions themselves have become more policy laden and therefore more contestable. At the national level, in recent years, the term *budget process* has become oxymoronic, because a process suggests a list of rules, followed in sequence, known by the participants, and repeated from year to year. But the reality has been that the budget process has often been invented on the fly, during the year.

Part of the trend toward greater politicization of budgeting has to do with the increased scope of government and the different tools and program designs that are now in frequent use. Since the Great Depression, there has been an expansion of the use of and size of entitlement programs, which grant money directly to individuals or other levels of government when they meet certain requirements. Programs such as Social Security benefit huge numbers of people who form not so much an interest group as an interest class or sector of society—in this case, the aged. The political difficulty of reducing benefits of this sort to those who are dependent on them is evident in the description of Social Security as the third rail of politics—touch it and you die politically. Thus, the old model, which downplayed the public as a major budgetary actor, has been replaced by a different model.

NEW BUDGETING MODEL

Government at the national level and to some extent at the state level as well has taken on a greater role in the economy and in doing so has added a variety of new tools, including insurance, loans, loan guarantees, and even (temporary.) equity purchases. (Figure 9.1 highlights major differences among federal, state, and local budgeting.) Tax breaks for businesses or industries add to the mix, along with economic development tools, such as tax increment financing, that allow cities to spend money from other overlapping governments on economic development projects. These tools generate not only supporters outside of government but also potential conflict between governments in the same geographic area.

Many more actors get into the budget process than envisioned in the early models. One consequence is that some portions of the budget are protected by powerful interests. Rather than across-the-board cuts that seem on the surface fair to all, reductions in spending conform to what is politically acceptable. Moreover, one set of interests may push for spending increases while another argues for limits on taxation. To the extent that both are accommodated, the result is structural budget gaps, making deficits and their elimination a common feature of budgetary politics. Since people fight hard to keep what they have, efforts to rebalance the budget often are fought intensely; they are not a set of technical decisions quietly addressed by professional public administrators.

With much more at stake, the issue of who controls the budget has taken on more urgency. During the early 1900s, legislative controls shifted more to the executive. In New York, Illinois, and Maryland, the governor got nearly complete power over the budget. The 1921 Budget and Accounting Act at the national level shifted some power to the executive from the legislative branch, with the result that budget power was more evenly distributed between the two branches. This balance has not been stable or without controversy, however. When delegated powers were abused in the 1970s, Congress took back some of that delegated power by enacting the 1974 Congressional Budget and Impoundment Control Act.

At the state level, in those states in which the governor was granted a disproportionate amount of budgetary power, legislatures have fought for years to regain some influence.[4] In other states that were more legislatively dominated, power has shifted slowly more to the governor.

The tension between the executive and legislative branches over budgeting power has shown up even at the local level. Several large cities (e.g., St. Petersburg, Florida; San Diego, California; and Rochester, New York) have in recent years changed from a council manager

Figure 9.1 **Budgeting Differences Among Federal, State, and Local Governments**

1. The federal government can borrow to balance its budget, and it need not balance its budget each year. State and local governments, while they may borrow to close gaps sometimes, generally are required to balance their budgets each year. They do not always succeed, but they often try mightily to do so.
2. The national government has a much greater role in the economy than do state governments, and both have a larger role than local governments, which generally are too small and have borders too permeable to have much effect on the economy.
3. The national government and the states, sometimes in partnership, offer entitlements, the local governments much less so or not at all. Thus, the policy implications of entitlements affect local governments much less than they do national or state governments.
4. The national government and the states both have independent functions, the states are not technically speaking subordinates of the national government, but the local governments are creatures of the states and hence have much less autonomy. The states are also more responsible for the finances of the local governments.
5. Separation of the executive and legislative branches is much more clearly institutionalized at the state and national levels than at the local level, where the chief executive may be picked by and fired by the legislative body.

form to a strong mayor form, with an accompanying increase in executive budget control and enhanced veto power.

BUDGETING AS A POLITICAL EXERCISE

Budgeting is inherently political because it allocates to some purposes and not to others and benefits some at the greater expense of others. In addition to this inherent political content, the long-term trend is toward greater politicization and greater policy content. As this has occurred, the amount of conflict also has increased. The traditional techniques for keeping the level of conflict in control seem insufficient for the modern budget, sometimes bringing budgets into deficit—to appear to satisfy all claimants—and sometimes bringing the budget process to a standstill. Budget processes need to be able to deal with this increased scope, increased politicization, and increased conflict. The norms of budgeting, and the ways we describe budgeting, the concepts, have not necessarily kept up with this new reality, which requires new ways of thinking about balance, prioritization, participation, transparency, and accountability.

Budgeting has come a long way since its origins, with many waves of reform proposed and actually implemented—though the scholarly community has often focused on the reforms that did not seem to take hold rather than the ones that did.[5] But we seemed to have run out of reform proposals, calling on the old ones again and again, such as performance budgeting, or balanced budget amendments. The Federal Budget Concepts, created by a presidential commission in 1967, presents requirements for making the budget easily interpretable, and able to address simultaneously the needs of the economists and those of administrators. Although there has been some important work since 1967 on how to present loans in the budget, the budget concepts themselves have not been subject to a comprehensive review. As budgeting has evolved to include many different types of programs, including entitlements, loans, loan guarantees, and investments such as the purchase of equity shares, the concepts have not kept up.

Budgeting has continued to change in major ways, generating a new set of problems. It is time for some major reforms. Some of the research that needs to underlie such reforms has already been done, while other pieces are still to be carried out.

EXPANDING BUDGETING BEYOND INCREMENTAL ANNUAL COSTS

One of the major changes in budgeting has been the addition of different kinds of programs that do not have the characteristics of traditional budgeting, including entitlements, tax expenditures, grants, loans, loan guarantees, insurance, and equity shares.[6] Those who continue to consider public budgeting incremental have to focus on an increasingly small share of the budget, particularly at the national and state levels.

At the national level, so-called mandatory spending, for entitlements and interest on the debt, is about 60 percent of federal outlays; the traditional programs that were "controllable" through votes each year, and that grew a little each year, now occupy less than 40 percent of the outlays. By contrast, in the early 1960s, mandatory spending was about 32 percent of outlays.

It is difficult to summarize the state experience, but as at the national level, entitlements are taking a larger percentage of the budget. In Maryland, for example, two thirds of the general fund appropriation is mandatory spending.[7] For Medicaid alone, the most important entitlement program at the state level, Maine, Missouri, and Pennsylvania spent more than 30 percent of their budgets in 2007. The national average was at that time 14 percent.[8]

Recent efforts by the national government to bail out companies and prop up a failing economy highlight both the expanded scope of the government and the variety of resources and program structures that are used. The variety of these resources challenges traditional budgeting norms and concepts, such as annuality, balance, and consolidation, and introduces more risk and uncertainty than public budgeting has been used to. Many are not structured for annual review and funding; they may not last a full year, or they may go on indefinitely. Entitlements may be perpetual, and government bailout loans may be for months, rather than years.

It is not only the duration of different programs that varies; different jurisdictions dependent on each other may have different fiscal years, so that some revenue sources may be determined during instead of before the beginning of the budget year. This adds to the level of uncertainty in the budget. For example, at the state and local levels, if the donor government and the recipient government have different fiscal years, grants may have different fiscal years than the rest of the budget. In Michigan, the state fiscal year begins in October, while nearly all the local governments begin their budgets in July, with the result that the local governments have to guess at the state allocation, and then wait three months to see what the state actually does. Schools hire teachers they may have to lay off at midyear, while cities may hire police officers or firefighters they later find they cannot afford.[9] The state of Illinois begins its fiscal year in July—though it sometimes doesn't complete the budget on time—while many of the local governments in Illinois begin their fiscal years in April or May, well before they know how much the state will give them.

Some spending, such as for loan guarantees and insurance, is contingent, rather than actual, meaning that some unknown portion of it will end up as a government outlay. Even expenditures that are not contingent may be known or understood only within a range. Loan dollars going out the door are known, but what proportion of those loans will default, and hence the real costs of the program, remain unknown until the end of those loans. These numbers are thus estimates, spongy, accurate only within a range.

The variety of characteristics of each of these resources means that they do not add to each other in a meaningful way. For example, numbers that are more spongy should not be added to those that are more precise; estimates for tax expenditures do not add to each other, let alone to other spending figures. While budgets have always been estimates, on both the revenue and expenditure sides, the numbers in different parts of the budget have generally been comparable, so that adding them up across accounts and programs makes a kind of sense. The more different the resources, the less sense this process makes. One cannot meaningfully add a total of tax expenditures, which is itself not meaningful, to loan guarantees or other forms of insurance that are not direct outlays, to spending for stock purchases, which are themselves a form of money, but which have value that varies from day to day. That these different resources do not add up meaningfully and occur for different periods of time, rather than a single fiscal year, brings into question what balance means and how to calculate it.

BUDGETING AND ENTITLEMENTS

One of the main changes in budgeting over the years has been the creation and expansion of entitlement programs. The entitlements occupy the majority of the federal and large portions of state budgets. The characteristics of mandated spending are therefore critical not only to understanding budgeting as it has become, but also to highlighting current problems in public budgeting.

Entitlements merge program design and budget approval into one step, because the costs of the program are inherent in its design. Once the program has been approved, the costs of the program, the dollar outlays, are determined not by the legislature or the executive on an annual basis, but by the number of recipients who are eligible and the costs of delivering the service. This feature has a number of consequences.

One consequence is that budgeting for entitlements is either multiyear or so-called no year, which means it keeps on going; it does not need or indeed allow annual spending approval. This feature has led to the concept of "uncontrollables," which refers to spending that cannot be directly determined each year the way operating expenses are determined in the appropriations process. Entitlements are not actually uncontrollable but are difficult to control. The legislative committees that design these programs, which are not the appropriations committees, can alter who is eligible to receive benefits from these programs and how generous the benefits will be. Such changes may take years to agree on and more years before they take effect. Because these benefits are taken for granted and integrated into people's lives, and because so many people receive these benefits, entitlement programs can be politically difficult to reduce. They may grow automatically as costs rise, unless there is legislative intervention.

The multiyear and ongoing nature of the entitlements and the difficulty of cutting them back mean that entitlements challenge the concept of the annual budget, in which revenues and expenditures are determined for the following year, and balance is more or less assured. This concept of annual or biennial budget has been central to public budgeting but is not conceptually applicable to entitlements.

A second feature of entitlements is that they are automatic; they take priority in the budget. Other needs in the budget come after the entitlements have been covered. It is as if there were a permanent judgment that entitlements were the most important priorities of government, and other expenditures, for clean air or water, for public health, for safety, or for education were automatically of lower priority. Since entitlements are growing more rapidly than revenue, nonentitlement programs are being squeezed. Prioritization in the nonentitlement portion of the budget is increasingly limited to what to cut back or eliminate, not what to add, or what to emphasize. Entitlements thus force an intensification of competition between nonentitlement programs and simultaneously structure the process of prioritization, hijacking it in a budgetary sense, and changing the ground rules.

Entitlements challenge the traditional notion of budgetary balance. Their multiyear nature, the inability to control them during the annual appropriations cycle, and the interest group, class, and age-group pressures for expansion of benefits exacerbate the difficulty of achieving budgetary balance. When entitlements are structured as trust funds, with earmarked revenues, there is a connection between revenues, or income, and expenditures over time, but it is relatively easy for projected revenues to fall behind projected expenditures, as has happened for Social Security and Medicare. Balance, which in this case is balance over time, is conceptually possible but politically difficult to realize and maintain, since the consequences of not putting in enough revenue to cover promised benefits do not occur for a decade or more.

It is not necessary for an entitlement to be structured as a trust fund, and there may be no earmarked money to pay for it. When entitlements are paid from general revenues they put particular pressure on the nonentitlement budget. It is possible to design and pass an entitlement without specifying how it will be paid for, further obscuring the link between revenue and spending.

The challenge of entitlements to the traditional way of doing budgeting, and to the basic concepts that underlie the field, raise a number of fundamental questions for budgeting. The long-term nature of entitlements, their tendency to grow over time—such as with the aging of the population—faster than revenue, raise the question of sustainability. What does it mean when budgeters say that at the present rate of growth, entitlements will consume all the budget resources and there will be nothing left for any other purpose? What does it mean when budgeters or decision makers say that the Social Security trust fund will run out of money in such and such a year? Is it appropriate for entitlement spending to outrun revenues for a time, with the idea that there will be lower costs later, or more revenue? What does *balance* mean in the entitlement programs, and what does this definition mean for the rest of the budget, which has had to make room for the entitlements?

COPING WITH ENTITLEMENTS

One approach to addressing these knotty problems is to make the entitlements go away, at least from a budgetary, if not from a policy point of view. If the nature of the entitlements could be changed from a requirement for unlimited spending depending on the number of eligibles to spending up to a given ceiling, then the amount of spending on an annual basis would be controllable and predictable and would interfere less with the nonentitlement portion of the budget. The burden of uncertainty would be shifted to the recipients, who would not know whether they would get benefits or how much they would receive, because their benefits would be dependent on the number of applicants, which for many programs would not be totally predictable. The effect of a cap on spending would be to limit benefits, which biases the outcomes in the policy direction of reduced services. Thus, this solution has been controversial politically. At the same time, spending caps do not directly control cost increases. Costs may continue to increase while benefits do not, making programs increasingly ineffective at providing medical care, purchasing medicines, or whatever the goal of the program.

Putting a stopper in the bottle or transforming entitlement programs into grant programs, however desirable, puts budgetary logic ahead of programmatic needs. It would make more sense to try to control the sources of costs increases, where possible. If the cause of cost increases is an increased life expectancy, as it is for Social Security, the solution is probably not to reduce that life expectancy, but to put aside more money, to invest more now, so it will be there for a longer period of time, and possibly to adjust the age at which people become eligible for Social Security. Restructuring or redesigning the programs is thus one approach.

A second approach is to pay more attention to the interrelationship between entitlement programs and nonentitlement programs. Increased spending in the nonentitlement portion of the budget might well reduce costs in the entitlement portion, or at least control growth. Spending on public health, on clean water and clean air, can reduce costs for Medicare and Medicaid, for example. Maybe drug costs can be controlled if the government assumes the costs of invention and development of new medicines, which is one of the reasons why drug companies charge so much for drugs. Spending on particular programs in the nonentitlement portion, including regulatory programs, can help slow down the growth of entitlements and make them more affordable, and in the process reduce the pressure on the rest of the budget. Programs for identifying and either weeding out or reeducating doctors who make frequent or serious mistakes may reduce insurance costs and lawsuits.

More research needs to be done on the budgetary interdependence among programs, so that the effects of cuts in one place on other programs and other governmental units will be clearer, as well as the impacts of increases in one portion of the budget on reductions elsewhere. If increases in entitlements routinely push out spending on nonentitlements, a long-term negative cycle may be put in place.

ACHIEVING BUDGETARY BALANCE

While entitlements clearly violate the idea of an annual budget because they are multiyear or no year, they may be viewed over a given number of years, such as forty years or seventy-five years. Projections are made for this time period, in terms of likely number of beneficiaries and likely costs for each beneficiary. The point at which revenues fall below expenditures may be dozens of years off, and even though balance may be easier to achieve if done further in advance, the sense of urgency may not be sufficient to warrant legislative action. This has created a cottage industry of policy analysts designing various triggers to force action short of a catastrophe.

The concept of balance needs to be altered somewhat to fit long-term programs. They need to be dealt with in two phases, the first a projection over a given period of time, of revenues and expenditures, and the second a rematching of revenues and expenditures over that time period. The second step may be invoked if any of the underlying assumptions behind the projections changes in a given direction a given amount. The rematching should be based insofar as possible on what has caused the estimates to change. So if people are living longer, then perhaps the retirement age for benefits should be increased; if the costs of medicine are rising, then perhaps the government needs to bargain with the drug companies for bulk purchases, or engage in more testing of medicines or use more studies from abroad on what medicines deliver the most benefit, with the fewest side effects, rather than purchase whatever is newer and more expensive. If it is the cost of doctors that is rising, then perhaps insurance reform is in order or more control over incompetent doctors, and better record keeping from state to state.

What is needed here at the least is a transparent system for underscoring the assumptions underlying budget projections, so it will be clear to all where the assumptions were wrong, or the situation is changing, and hence where to attack the problems. If there is going to be more policy in the budget, then we need more policy analysis in the budget as well.

Long-term budgeting is by nature imprecise; one cannot budget for forty years as if one were budgeting for one. This problem has to be recognized and incorporated into the budget process, by engaging in tentative projections, identifying the underlying assumptions, and updating and making corrections as changes are known. This will create a decision process closer to an annual budget and improve the sense of control without capping or changing the nature of the entitlements. It introduces the notion of continual correction.

The idea of continual correction, of permanent budgeting, as opposed to permanent budgets, is particularly relevant where uncertainty is high, as it is in some entitlement programs, and as it is in loan, loan guarantee, and insurance programs, and more recently in various forms of government bailout funds. The costs to the government of loan programs depends on the rate of interest, and hence the degree of subsidy or below-market interest, and the rate of default. While market rates of interest at the time of the loans is knowable, in theory, it is more problematic in fact because the government gets involved only when commercial loans are either scarce or impossible to find. Moreover, the default rate is speculative, especially in new programs. Past experience in similar programs may provide a rough guide, but actual numbers will depend on future experience. The result is that cost estimates are uncertain and can be specified only within a range, and can be modified—the brackets for the range can narrow—over time as experience dictates. This combination of reliance on history and continual correction and ranges, rather than points, is actually the way loans are recorded at the federal level, but these techniques can also be applied to loan guarantees and insurance as well, at least in broad outline.

It is difficult to understand and easy to manipulate an estimate that is not based on precisely known costs, because these estimates are not disprovable or obviously wrong. Working with spongy numbers introduces a huge difficulty in the idea of balance. What does it mean to balance a loan program when the costs are given only within a range? What is the point of control? When do you know the program is failing, or that additional revenue should be added? If revenue estimates are given in points and expenditures as ranges, does balance mean that the revenue estimate falls within the range of expenditures? Might that not leave some expenditures uncovered? What attention needs to be given to trends, and the direction thereof? If the number of loan defaults increases during a recession, does that mean the cost of the program is increasing? Is the program unbalanced? When should that determination be made? The program might need constant monitoring, and close attention to trends and reversibility of those trends, and to segregating cyclical and secular trends.

As for insurance costs, or for possible loan defaults, these costs may never occur. The insured catastrophe may not happen, or payout may be within the revenue provided by premiums paid by policyholders; loan defaults may fall within the range of revenue provided by interest payments on functioning loans. Should one put in the budget costs that may not occur, and if so, what do they mean? If insurance is paid for through premiums, how should those premiums show up in the budget? If the government is guaranteeing loans, should it collect taxes to pay for probabilities of payouts over time? There are some conceptual problems here that need to be worked out.

The conceptual murk is deeper still in various bailout devices, as some of these involve loans that are for unknown periods of time, possibly short, possibly longer, and with an unknown failure rate. How much money is the government putting at risk since it is not a traditional loan or insurance program in which the risk is shared across a large number and where probabilities are based on averages with some successes and some failures. How does one measure risk or budget for it, when there is no prior history? While these problems in budgeting have been highlighted by antirecession measures at the national level, budgeting for contingent liability is a problem for all levels of government.

It is tempting here, as in the entitlement programs, to change the nature of the programs, to simply not record the possible spending and the loan repayment, but only the actual, as opposed to the projected, gap between them. In other words, wait until you know how much has actually been spent after loans have been paid back before recording them. Budgeting would look backward, to see how much was spent, rather than forward, to estimate how much will be spent. While this approach has the virtue of accuracy, it is not clear what the point of control would be or how one might ensure balance in such a model.

Another approach is to record the full amount of outgoing money as expenditure, and then record it as income as it comes in. This approach provides for possible control points but is likely to exaggerate costs substantially and create political pressure to make programs much smaller, possibly too small to handle the problems they are designed to deal with. The high up-front costs might discourage governments from trying them at all. This procedure does not really avoid the problem of spongy numbers, and it might have the consequence of persuading decision makers to ignore the numbers because the estimates are undoubtedly too high. In that case, this approach might well lead to deficits or at least make balance more elusive.

The third approach is to express costs that are not fully known as a range rather than a point. The range of costs for a bailout program or economic stimulus package can run the whole gamut from the government getting none of its money back to the government getting it all back with interest. While such a huge range may be a necessary starting point, presumably that range can be fairly quickly narrowed with experience. The result, however, would have to be constant budgeting and rebudgeting based on running estimates. The budget would have to show such loans or investments in terms of tranches, money loaned under a given program at a given time, and then watched and what happens recorded as it happens.

BUDGETING AS A DYNAMIC PROCESS

Budgeting is no longer a fixed process that once done stays done; there is much more uncertainty, much more risk, much more projection and estimate. The focus therefore has to be more on specifying the underlying assumptions, on short-term or continuous monitoring, and adjustment, done in real time as events change. We need to think in terms more of ranges than of points, which complicates not only the arithmetic but also the notion of balance, and, critically, when and how to rebalance when risk and exposure result in lower revenues or higher costs.

All these program types and structures are different from one another, in terms of the degree of uncertainty, the sponginess of estimates, and the time frame or duration. They do not meaningfully add up. You cannot add loan guarantee amounts to purchases of equity in a failing company, nor do either of these meaningfully add to outlays for Social Security. Social Security is legally separated from the rest of the budget, and its surpluses are earmarked for future recipients of Social Security benefits, but that has not stopped the misleading process of adding the Social Security balances to budget totals to offset deficits elsewhere, with the intent and result of making the deficit look smaller than it is. The traditional notion of the consolidated budget needs to be amended. This has begun to happen already, at the federal level, as various types of programs are recorded and described, but not merged into the rest of the budget. *Comprehensive* is still the operant term, but consolidation is becoming less relevant.

INCREASED AND DYSFUNCTIONAL CONFLICT

As budgeting has become more political and policy laden, and as the public and interest groups have found the pressure points to express sometimes contradictory views in law, the level of conflict has risen, sometimes to the point of collapse and failure. While failure seems a subjective term, most analysts would agree that a budget that routinely produced deficits, that was unable to prioritize or accommodate new needs, that was undemocratic, and that was routinely late—past the beginning of the fiscal year—was problematic. Struggles over closing budget gaps are sometimes so rancorous that government itself is closed down.[10] Failure to make decisions in a timely way may lead to stopgap measures that do not handle the finances of the government, but continue the previous year's budget unchanged, or short-term budgets that change spending levels from one week or month to the next.

The consequences of such uncertainty and failures include spending much public money on debt repayment, on interest costs, and reduced resources to solve collective problems. They include the costs of failure to prioritize expenditures. They include massive uncertainty of resource levels for those dependent on public funding. As the level of uncertainty rises, some nonprofits and other businesses dependent on government funding may close down or shrink in anticipation of budget cuts that might come late or never come at all. Uncertainty may prevent them from hiring or retaining existing staff. Organizations may hire temporary staff so that they have resources they can cut quickly if budget reductions come their way. Program administrators do not know how much money they will get; they cannot plan and so have to spend their time and energy fighting for resources.

Budget processes may fall victim to excess conflict, as contesting parties struggle to get their way in the budget, using the budget process as a tool, trying to shape it to their immediate needs. Legislators may not be given time to read budget proposals before they are asked to vote on them, decision processes may be closed to minority parties, and continual changes in decision making may leave participants in the dark as to how to influence the outcomes. To the extent that democracy lies in the process of decision making, it suffers from excessive conflict.

SOURCES OF CONFLICT

This intensification of conflict has many sources. Structural imbalances result from powerfully expressed contradictory demands for increased programmatic spending and tax reductions. At the state and local levels, the need to balance the budget annually may result in frequent bruising battles over cutbacks and tax increases. There may seem to be little middle ground, which exaggerates the policy standoff. With many program recipients actively supporting their programs and beneficiaries of tax breaks tightly holding on to them, cutback is politically fraught and difficult. Since there seem to be few political winners in such battles, politicians may shy away from them, which also results in late budgets. The growth in costs of entitlements also forces cuts in nonentitlement programs, enhancing the competition among the nonentitlements.

The scope of conflict is expanded as political actors fight for control of the budget process in order to influence the outcomes toward more spending or less taxes. Once such process changes are made, they may in turn exacerbate conflict, as they create winner-take-all structures, disempower the party out of power, or otherwise discourage compromise and bargaining. Building into the process features that favor one or another policy outcome not only makes the process a bone of contention, but also enhances the level of conflict. In California, for example, the budget process was changed so that a supermajority was required to pass the budget. The result is that minorities who oppose the agreements necessary to get the budget to pass can—and do—hold up the budget.

MANAGING CONFLICT IN THE BUDGET PROCESS

It is unlikely that the causes of this greater level of conflict will somehow disappear, that the clock can be turned back to a simpler time, when budgeting was less political and less policy laden. But conflict can—possibly—be managed, and the budget process can be made more resilient to policy conflict.

Some structural elements enhance conflict, and these can be remedied, at least in theory. If they cannot be changed in the governmental units in which they are most obvious, at least they can serve as a warning to other governmental units not to adopt these "reforms." While California has had a very difficult time eliminating the requirement for a supermajority to pass the budget, it has had a clearly detrimental effect in California. The policy outcome it seems to serve is better served by other requirements, such as supermajority requirements for tax increases; there is no need from a policy perspective to require a supermajority to pass the budget as well. This feature of the budget process empowers the minority party, which is understandably reluctant to give up this power, even though it leads to late budgets nearly every year.

Including policy in the budget process makes the budget process itself the subject of the controversy, and in the extreme case may result in the abandonment of the process. Processes should be as neutral to policy outcomes as possible and should be the result of regular consensus. Thus, efforts to build into the budget process a bias toward either growth or cutback are wrongheaded and likely to exacerbate the level of conflict. To the extent that they work, they can have serious implications for democracy. For example, Indiana's local budget laws built in a bias toward small government and low taxation, even when local citizens wanted more active government and were willing to be taxed to pay for it. These laws have changed only very slowly.[11]

Radical disempowerment of the legislature over the budget leads to legislatures holding up the budget in the hope of embarrassing the executive and forcing him or her to include some legislative priorities. When holding up the budget is the only power of the legislature, it is likely to use that power, to the detriment of timely decision making. Lack of real decision-making responsibility is likely to force the legislature to focus on earmarks or small projects they can point to for credit claiming, rather than focus on the overall budget, on balance, and on public priorities and problem solving. Battles between legislatures and executives may focus on the executive's power to control these earmarks, rather than on more substantive policy issues. Strong executive budget control to the exclusion of the legislative body sometimes leads to executives working to remove this one power of the legislature to hold up the budget, rather than to work toward more evenly balanced powers and responsibilities. These efforts may reinvigorate legislative attempts to change constitutions or revise the process to give legislators more say. In states where the balance of power is overwhelmingly in the hands of the governor, such as New York and Illinois, both of which have radically disempowered legislatures, the quality of public budgeting has been poor.

Illinois, for example, has routinely run deficits, though they have sometimes been hidden, and the state has been riddled with corrupt governors, who have sometimes used public spending for their own purposes. In New York, the state has routinely missed budget deadlines, and revenue estimates are often unrealistic, creating a sort of shadow play, where the actors are going through the motions but not actually making real budgetary decisions. The budget process is widely viewed as opaque.

Good government reformers need to give up the idea that more executive budget power is some kind of panacea for budgeting. Giving the executive more budget power was probably an improvement in the past, but it is possible to go too far; more and more is not necessarily better and better.

The budget process can be made part of the solution rather than part of the problem not only if it is relatively neutral in terms of policy outcomes and the result of consensus decision making, but also if it adapts well to conflict. Because winner-take-all formulations tend to exacerbate conflict, they should be avoided. More effort should be made to put more on the table, to create credit-claiming opportunities for minorities as well as majorities. More equal power sharing is likely to reduce the spiraling partisanship that results in bouts of vengeance for old budgetary war wounds when majority parties shift.

Budget processes that can deal with interruptions or missing information as one portion or another of the process is delayed due to conflict will work better in a climate of conflict. The so-called watchmaker model of stable assemblies fits here; that is, decision making should proceed in pieces that are each complete and that are assembled at the end, so that any interruption in one part allows work to go ahead in the other parts and does not force the parties to go back to the beginning.

Coming to agreement on priorities and rules for cutbacks in advance of a fiscal crisis can be helpful, so that when revenue drops below expectations, the cuts are routine and need not be fought out at that time. When the government is not facing actual cuts, the energy with which interest groups fight is much lower, making it more possible to make decisions on technical grounds.

Triggers too are likely to work better in prospect than in the present. That is, if there are automatic triggers for action to reduce the deficit in an entitlement fund, and if those triggers actually kick in several years down the road, there may be a political disconnect between the decision makers who created the trigger and the revenue-raising or cost-reduction action they mandated. In that case, the elected officials are less likely to be blamed for those decisions, and hence they are freer to make the kinds of decisions they feel they should; they can insulate themselves a little from political controversy.

The articulation of interests from all parties, public acknowledgment of how that testimony influenced decisions, and discussion of how the decisions were made—what information was used and had force—are likely to damp down competition and make everyone feel heard, even when all their demands are not met. If stakeholders understand that they had a chance to talk, and that someone else whose need was greater won the day, but the process was fair and open, they are less likely to build up resentment. There will be less antigovernment sentiment of the sort that results in the kind of handcuffing and closing off of alternatives found in some states—such as Colorado—through the referendum process. People tend to take government in their own hands, through direct democracy, when they feel they are not being listened to. The widely shared conclusion that government was deaf to the public was part of the motivation behind Proposition 13 tax limits in California. While it may be hard work to listen, and to explain why people cannot have everything they want, it is a better process than allowing disgruntled groups with opposite agendas to build contradictory requirements into laws and constitutions.

The public and interest groups are a real and ongoing part of public budgeting, especially perhaps at the national and state levels, but even at the local level. Incorporating citizen goals into budget planning can be helpful in curtailing the level of conflict between citizen and government over budget issues. This is a different set of skills than traditionally found in budgeting, but as budgets incorporate more policy and politics, the budget process has to include articulating and managing political demands and reporting back to the public in an understandable way that links to their demands.

Some governments are more active in soliciting public and interest group input and responding to it than others. It remains for research to examine this variation to see how it impacts the level of conflict, and what features of the budget process work best, not to suppress conflict, but to manage it.

LOOKING AHEAD

Budgeting has changed enormously, but because the changes have accumulated slowly and are greater at the national and state levels than at the local level, many academics have not fully appreciated the extent of the changes, the degree of politicization, the integration of policy into the budget and budget processes, and the level of conflict that often ensues. New program types, including entitlements, loans, loan guarantees, insurance, and equity investments, have introduced longer and shorter time spans, more uncertainty, and more risk. Budgeting has to catch up, to segregate portions of the budget with similar time horizons and degrees of uncertainty, to formulate new and relevant ways of measuring and achieving balance, and to manage uncertainty through frequent updates or continuous monitoring and ranges rather than point estimates.

Budgeting also has to catch up with the level of controversy inherent in the new budgeting. While it is tempting to say that the solution to citizen participation and demands is more secrecy, when citizens get fed up with government, they pass referenda; the differences among them, rather than being resolved, may be simultaneously expressed in law, creating an unworkable structure, feeding structural deficits, and contributing to the famous "train wrecks" of budgets that do not arrive in time and actually shut down government, in part or in whole. We cannot take for granted that budgeting will always work, that technical aspects of it will go on no matter what happens in the political or policy sphere. Budget processes sometimes collapse into adhocracy, which looks a lot like chaos, and fails the basic test of budgeting, prioritization.

There is much that needs to be done. Budgeting is in need of a new wave of reform. In some cases that means finishing up the reforms of the past, such as incorporating citizen priorities into the budget; in other cases it means not pushing reforms of the past to extremes. We also need new or modified budget concepts and norms that apply to the newer program types with different budgeting characteristics. Rebudgeting or continuous budgeting should become a norm in some parts of the budget; annuality should become less important; consolidation should be de-emphasized in favor of grouping similar structures and resources together. The definition of *balance* and ways of achieving balance may need to be rethought, and triggers that take effect in the future may need to become routine. We may need to learn to think with fuzzy numbers, with ranges instead of points.

For academics, teachers of public administration, these changes underscore the need to back off from the politics-administration dichotomy; at this point it is neither descriptive nor prescriptive. Moreover, these changes mean backing away from incrementalism in the classroom and in the textbooks, with the possible exception of some local governments, and even there, rather than assuming what one will or must see, it would be better to observe the extent to which the model still applies.

The integration of policy and budgeting means that training new budgeters needs to include more policy analysis, more ability to project and to specify the assumptions underlying those projections, and more ability to work with fuzzy or spongy numbers. Students of budgeting should learn more about conflict management and more about how to solicit and use public opinion, without unbalancing the budget, and without letting the level of conflict get out of hand.

For reformers, both academics and practitioners, the changes in public budgeting outlined in this chapter mean there is an urgent need to rethink the norms of budgeting, and even the definitions of key terms. *Annuality, consolidation,* and *balance* need to be reworked, to fit the range of program types. Budget processes may need to be redesigned, to withstand conflict without falling apart, to be more neutral, and to gain consensus. Budgeting norms need to include routine consultation with relevant publics, rather than isolation in a room with computers and software that estimates bond payback schedules. Budgeting is no longer a purely technical activity, and has not been for some time.

For practitioners the challenges are enormous: to accommodate to higher risk, more uncertainty, more public input, more conflict, and more policy. Budgeting is likely to be a more continuous activity, with constant monitoring and frequent adjustment. Public budgeting is more complicated than it used to be, but it is also more challenging and absorbing.

NOTES

1. Aaron Wildavsky, *The Politics of the Budgetary Process* (Boston: Little, Brown, 1964 and subsequent editions.)

2. There is a large literature on these topics. For conflict, see Irene Rubin, "Understanding the Role of Conflict in Budgeting," in *Handbook of Government Budgeting,* ed. Roy Meyers (San Francisco: Jossey-Bass, 1999); for one example of policy that focuses on the relationship between the decision-making process and policy outcomes, see Irene Rubin, "Budgeting," in *Handbook of Public Policy,* ed. B. Guy Peters and Jon Pierre (London: Sage, 2006). For many years, the Brookings Institution published an annual volume on the policy priorities in the federal budget, *Setting National Priorities.* After the end of that series, Brookings continued to publish on various aspects of policy in the budget. See, for example, Henry Aaron and Robert Reischauer, eds., *Setting National Priorities: The 2000 Election and Beyond* (Washington, DC: Brookings Institution Press, 1999), which discusses such issues as Medicare, Social Security, tax reform, and foreign policy spending.

3. Nicholas Riccardi and P.J. Huffstutter, "Budget Deadline Ticks Down for States," *Los Angeles Times,* July 1, 2009, http://articles.latimes.com/2009/jul/01/nation/na-shutdowns1 (accessed July 2, 2009); Michael McDonald and Terrence Dopp, "California, Illinois Fail to Meet Budget Deadline," *Bloomberg Report,* July 1, 2009, www.bloomberg.com/apps/news?pid=20601087&sid=aUBPQyZcuxPM. (Only four states do not begin their fiscal year July 1. They are Michigan and Alabama, October 1; New York, April 1; and Texas, September 1) (accessed April 15, 2010).

4. For some of this history in Maryland, see Roy T. Meyers and Thomas S. Pilkerton, "How Can Maryland's Budget Process Be Improved?" Maryland Institute for Policy Analysis and Research, September 2003, http://userpages.umbc.edu/~meyers/improveMD.pdf (accessed April 15, 2010). For recent history of this contention between legislative and executive branches over budgetary power, see chapter 4, box 1, in Irene Rubin, *The Politics of Public Budgeting,* 6th ed. (Washington, DC: CQ Press, 2009).

5. See, for example, Richard Rose, "Implementation and Evaporation: The Record of MBO," *Public Administration Review* 37, no. 1 (1977): 64–71; Allen Schick, "A Death in the Bureaucracy: The Demise of Federal PPB," *Public Administration Review* 33, no. 2 (1973): 146–156.

6. On the differences between traditional budgeting and budgeting for entitlements, see Joseph White, "Entitlement Budgeting v. Bureau Budgeting," *Public Administration Review* 32, no. 2 (1998): 510–528.

7. "Mandated Appropriations in the Maryland State Budget," Department of Legislative Services, Office of Policy Analysis, Annapolis, Maryland, September 2008, http://mlis.state.md.us/2008RS/misc/Mandates-InBudget.pdf (accessed April 15, 2010).

8. Center on Budget and Policy Priorities, "Policy Basics: Where Do Our State Tax Dollars Go?" April 13, 2009, http://www.cbpp.org/cms/index.cfm?fa=view&id=2783 (accessed April 15, 2010).

9. Ron Dzwonkowski, "Oct. 1 Is Too Late to Start Michigan's Fiscal Year," Freep.com, September 20, 2009, www.freep.com/article/20090920/COL32/909200500/Oct.-1-is-too-late-to-start-Michigan%5C-s-fiscal-year (accessed April 15, 2010).

10. Kathy Barks Hoffman, "Michigan Creeps Closer to 2nd Government Shutdown in 3 Years as Budget Deadline Nears," Breaking News 24/7, September 26, 2009, http://blog.taragana.com/n/michigan-creeps-closer-to-2nd-government-shutdown-in-3-years-as-budget-deadline-nears-179747/; William Selway and Ryan Flinn, "California IOUs Spurned as Schwarzenegger State Shutdowns Begin," July 10, 2009, www.bloomberg.com/apps/news?pid=20601110&sid=a0ma8jeg5jso (accessed April 15, 2010).

11. For more on Indiana's budget laws, see Irene Rubin, *Class, Tax and Power: Municipal Budgeting in the United States* (Chatham, NJ: Chatham House, 1998), 199–200.