1

Conflict and Resolution in Federal Budgeting

This book is about the politics and processes of federal budgeting and the policies that emerge from them. No discussion of budgeting can be complete unless it takes all three aspects into account. Many governmental activities combine process and politics, but budgeting differs because certain basic tasks must be completed each year. No matter how difficult the choices or how uncertain the outlook, the president must submit a budget and Congress must make appropriations. If the president or Congress decides that the time is not right to change tax policy or to act on a particular legislative proposal, either can defer action until an agreement is reached. But they cannot default on their responsibility to decide the budget. When they do, federal programs and agencies shut down for lack of funding, and the work of government comes to a halt. Yet even when shutdowns occur, most recently in 1995–96, there ultimately is an agreement between the president and Congress.

In budgeting, then, there is conflict and resolution. Politics and process have a dual role in igniting conflict and in prodding the protagonists to set aside their differences. How the conflict unfolds and how it is resolved varies from year to year, but one can distinguish two broad patterns in federal budgeting. In one, the procedures of budgeting predominate; in the other, political factors hold sway. Much of this book details the procedures by which budgetary decisions are made.

This world of budgeting is one of regularity and predictability, in which players know what is expected of them and behave accordingly, conflict is muted, budget decisions are made at the margins, and the status quo predominates.

There is, however, another world of budgeting that is not so strongly bound by procedure and is unpredictable and turbulent. It is a world where substantial policy changes occur, or at least big changes are sought—a world in which Democrats and Republicans, sometimes members within each party as well, war not only over incremental issues but over past decisions and commitments. It is a world clouded by threat of breakdown, and resolution often comes through summit negotiations between the president and Congress. Here, the combatants write the rules and script as they go along. But like the world of budgetary order and calm, it is also a world in which there ultimately is resolution.

CONFLICT

The federal budget is an enormously complex undertaking. It entails the active participation of the president, key advisers, and many members of Congress, the efforts of thousands of staff in the executive and legislative branches, and the attention of numerous interest groups. It consists of thousands of big and small decisions, complicated rules and procedures, and debate over the composition and amount of public revenue and spending. The process is often tense and contentious because so much is at stake and so many institutions and interests are affected when budget decisions are made. The government takes in and spends almost $2 trillion annually—an amount equal to approximately one-fifth of the nation's gross domestic product. The federal government is the largest source of income for millions of American households and the largest investor in physical and human capital. Managing the federal debt makes the federal government the largest participant in capital markets.

However, the budget is much more than a matter of dollars. It finances federal programs and agencies and is a vital means of establishing and pursuing national priorities. In a fundamental sense, the federal government is what it spends. Through the budget, the government assists millions of families in meeting basic expenses and provides a financial safety net for the sick, elderly, and other dependent persons. The budget invests in the country's future by paying for roads and other physical assets, as well as for education and other human improvements. It signals to allies and adversaries the role of the United States in the world, and it is a key instrument of steering economic policy and stabilizing household income.

With so much at stake, it is not surprising that budgeting is often a difficult, conflict-laden process. As big as the budget is, there is never enough money to satisfy all demands. To budget is to fight over money and the things that money buys. The conflict sprawls between the Democratic and Republican parties (and frequently within them as well) and between the legislative and executive branches. Budgeting creates strife between Congress's authorizing committees, which have jurisdiction over federal programs, and its appropriations committees, which control a large chunk of federal spending, and between the committees responsible for tax legislation and those responsible for spending decisions.

As the budget has grown and become more prominent in U.S. political and economic life, the scope for conflict has expanded. Thousands of budget makers and influencers work in Washington, many on the staffs of congressional committees and executive agencies. Many others representing national corporations, trade associations, states and localities, foreign governments, and other interests mobilize to protect or expand their share of the budget's largess. The news media closely cover budget fights and issues, reporting developments in both executive suites and legislative chambers. In some years the budget is the centerpiece of the president's agenda as well as the vehicle for enacting much of Congress's legislative output. In national politics, it is now the age of budgeting.

But as the budget has grown in size and scope, it has become less supple and more constraining. A new-millennium president who inherits a $2 trillion budget may have fewer genuine choices than did predecessors who worked with budgets that were less than $100 billion. A generation ago, in 1970, this writer collaborated on a Brookings Institution project, *Setting National Priorities*, that analyzed and explained the president's budget options and choices. The title and tone of that publication optimistically intimated that by means of the budget the government could set priorities and policies that would make significant differences in the well-being of the United States and its citizens. In those not-so-distant years, the budget was still regarded as a malleable, empowering process; it enhanced the capacity of the government to govern. Through sound decisions, the budget could bolster economic conditions, buy cost-effective defense, humanely and efficiently allocate costs and benefits, and create a more bountiful future. Nowadays the budget often appears to be a limiting process, imprisoned in old commitments that narrow the options available to the government. A twenty-first century president has fewer options for Social Security than President Franklin Roosevelt had when the program was established in 1935 and fewer options for health care than President Lyndon Johnson had when Medicare and Medicaid were enacted in 1965. In some years the budget appears to crowd out genuine choice and forces tomorrow's opportunities to give way to yesterday's decisions.

How can this be? How can the budget be both bigger but weaker? How can it have more resources but less choice, more programs but fewer options? A full consideration of these questions would require an inquiry into the condition of American democracy in the early twenty-first century. Budgeting is not the only process that has suffered a loss in capacity—as measured by the volume of public laws, legislating by Congress has also come upon hard times. Both have been weakened by a long spell of divided government, attrition in public trust and confidence, an imbalance between what Americans want from government and what they are willing to give it in political and financial support, protracted conflict over the role of government, social ills that seem irremediable through federal action, and more. Budgeting cannot be confident and efficacious when government is not.

To argue that the federal government and the machinery of budgeting are weaker than they once were is not to conclude that initiative and change are impossible. Ronald Reagan in 1981 and Bill Clinton in 1993 demonstrated that presidential leadership and budgetary resources are potent forces for redirecting national policies, changing tax laws, and reallocating federal money. They showed that the budget can be an instrument for change, that it need not be locked into old policies and priorities, that the opportunity to govern can be enlarged, and that the machinery of government can be deployed in pursuit of new political objectives. Both presidents exploited the rules and procedures of budgeting to alter established policies, even though the easier course would have been to accept the status quo. Each invested an enormous amount of scarce political capital in his first budget, and each stirred up vast amounts of budgetary conflict. In the end, each trimmed his objectives to get what he could, leaving other matters for future budget battles.

In budgeting, change and conflict go hand in hand. Without the latter, there would not likely be much of the former. Because 1981 and 1993 were inaugural years in which a president from one party succeeded a president from the other party, it is not surprising that change was the order of the day. In recent times, however, there have been quite a few other conflict-laden years: 1995–96, when a new Republican majority in Congress sought to revamp national priorities; 1997, when Congress and the president warred over and finally agreed on a measure to liquidate the deficit; and 1998 and 1999, when the president and Congress clashed over appropriations bills.

RESOLUTION

Regarding intense conflict as inevitable would miss the many years—rarer in the 1990s than in previous decades—when budget issues were resolved quietly, with little fanfare, and with little effort to significantly alter the course of government policy. The absence and mitigation of conflict are as indigenous to budgeting as are the flare-up and enlargement of conflict. Three of the ten years during the 1990s (1991, 1992, and 1994) had calm budget seasons in which the president called for, and Congress considered, few policy changes.

Budgeting has two inherent features—one that broadens the scope of conflict and the other that narrows it. Conflict is expanded by friction over who should pay and who should benefit, over how the tax burden should be distributed, and over which programs should grow and which should shrink. Budgeting is an allocative process in which there never is enough money to allocate. It is also a redistributive process in which some gain because others lose—some get back more from government than they pay in taxes and others get less. It is a process of choosing among the many claims on public resources, which even in good times do not suffice to cover all demands. It is a rationing process in which the budget is resolved by excluding some claimants from its bounty. It is a process in which, expressly or indirectly, the government decides on its role and sets priorities. All these broaden the potential for conflict, not only on the large stage of American politics—between Republicans and Democrats and between the president and Congress—but also on thousands of back stages, in the bowels of government agencies when initial budgets are drawn up, in interest groups and lobbying firms where plots are hatched to seize a larger share of the pie, and in state and local governments, which see the federal Treasury as a vast pool of money from which they are entitled to their just share.

But there is another feature of budgeting that pulls it in the opposite direction, which contains conflict and constrains ambition. This arises out of the characteristic mentioned in the opening paragraph, that budgets must be resolved. Containing conflict begins in the earliest stages of the process, when claimants ask for less than they want, and continues to the last stages, when combatants set aside remaining differences in order to reach agreement. Budgeting rarely is all-out war, for if it were, even the best efforts of the various disputants would not bring closure.

It is not only self-denial that enables budgeting to achieve resolution. The process itself brings order and routine to budgetary demands and decisions. Budgetary procedures regulate conflict by parceling out tasks and roles, establishing expectations and deadlines for action, and limiting the scope of issues that are considered. Conflict is dampened by the routines of budgeting, the repetitive tasks that are completed with little or no change year after year, and by the patterned behavior of participants. Budget makers normally display a willingness to compromise that is often lacking when other matters are in dispute. When this accommodating disposition is lacking, as it was in 1995–96, routines break down and the process collapses.

THE TWO WORLDS OF BUDGETING

It would be facile to conclude that there are two worlds of budgeting—the political world in which conflict is pervasive and policy change is substantial and ambitious, and the procedural world in which order prevails and is tempered and incremental.

In reality, politics is as much a part of the world of budget resolution as it is of budget dispute. Similarly, rules and procedures inhabit the world of budgetary conflict as well as the world of budgetary peace. Incrementalism, which is the premier strategy for containing conflict, is as much an aspect of the politics of budgeting as are the conflagrations that engulfed budgeting in the 1990s. And when there is vast conflict, the various parties must rely on the machinery of budgeting to reach agreement.

As box 1-1 details, there are indeed two worlds of budgeting—one of big ambitions and large conflict, the other of modest ambition and minor flare-ups. The first is the world of change, the other the world of status quo. In most years, there is a bit of each in federal budgeting; budgeting without incremental routines would be chaotic, and budgeting without change would be unacceptable.

BOX 1-1
Conflict and Calm in Budgeting: 1993 versus 1994

In 1993 President Clinton proposed major tax and spending changes, and the Democrat-controlled Congress reluctantly went along. The following year both sides opted for a status quo budget, as health care reform dominated the agenda. The budget resolution contained reconciliation instructions in 1993 but not in 1994. Continuing resolutions were necessary in 1993 to keep the government running, but in 1994 all regular appropriations cleared by the start of the fiscal year.

1993	1994
President Clinton's budget	
Inaugural budget, released on April 8, proposed major tax increases, changes in discretionary spending, and $500 billion in deficit reduction over five years	Status quo budget sought only minor adjustments in discretionary spending; Clinton's proposal to restructure the health care system occupied most of the congressional session
Congressional budget resolution	
Contained reconciliation instructions and was adopted before the statutory deadline for the first time since 1976	Made only minor adjustments to the president's request; adopted by the House on May 5; Senate adopted it one week later
Reconciliation bill	**Health care reform**
Conference report passed the House, 218-216, on August 5; Senate passed it the following day 51-50 by Vice President Al Gore's tie-breaking vote; signed by Clinton August 10	No reconciliation bill; Senate Majority Leader George Mitchell (D-Maine) announced on September 26 that health care reform was dead for the year
Appropriations	
Only two of thirteen regular appropriations bills completed by the start of the fiscal year; last one cleared the Senate November 10	All regular appropriations bills cleared Congress by October 1, the start of the fiscal year

In the 1992 election, Clinton talked about jobs, college education, the ability to own a home, affordable health care, and retirement with economic security. But when attention shifted to deficit reduction, Clinton, against the advice of close political advisers, altered his agenda and offered a massive package of tax increases, some spending cuts, and stimulus investments. He proposed $700 billion in gross deficit reduction over five years, slashing defense spending, making some cuts in domestic spending, imposing tax increases on high-income taxpayers and corporations, and seeking $200 billion in new spending and targeted tax relief. In the end Clinton got most of what he asked for, but he was forced to alter his energy tax and abandon his stimulus program.

continued

BOX 1-1
Continued

In 1994 Clinton's budget sought little more than to rearrange a small amount of discretionary spending. OMB Director Leon Panetta said, "The real purpose of this budget is to stay on track with what was done last year." Many in Congress shared similar sentiments. Senator Kent Conrad (D-N.Dak.) said, "The fact is [that] we had a significant package of deficit reduction last year. That tells me we ought to stay the course [this year]." A fuller explanation is that Clinton's 1993 plan barely survived, and he expended much of his political capital to get a modified version enacted. By 1994 he was weaker and did not want to engage in another round of budgetary conflict with members of his own party.

Furthermore, the budget receded to the periphery as attention centered on health care reform. Despite the pressures to release the health proposal at the beginning of his administration, Clinton waited until the reconciliation bill was enacted before unveiling the mammoth 1,342-page overhaul. The House and Senate were fixated on health care reform throughout the 1994 session, although neither chamber voted on the plan. As did the budget in 1993, Clinton's health care plan crowded out other initiatives; not a single piece of substantive legislation was enacted before the mid-term election, which cost Democrats control of Congress.

When Congress debated the reconciliation package in 1993, Republicans, opposed to the tax increases and defense cutbacks, united against it. Clinton had to shop among his own party to find enough votes for this major piece of legislation. While no Democrat wanted, as Senator Bob Kerrey (D-Nebr.) said, "to cast the vote that brings down [Clinton's] presidency," liberals wanted additional spending for social programs, and conservatives sought smaller tax increases and more spending cuts. It took the all-out personal lobbying efforts of Clinton, Vice President Al Gore, and other administration officials to secure a bare House majority; 41 Democrats and all Republicans voted against the package. In the Senate, Mitch McConnell (R-Ky.) argued that "the only promise Bill Clinton has fulfilled is his promise of change—he has changed all of the policies that got him elected while making the middle class pay more." Six Democrats sided with all of the Republicans voting against the measure, but Vice President Gore's tie-breaking vote secured its passage.

During the 1993 appropriations process, Congress delivered on the deficit-cutting promise, but conflict delayed the bills. Eleven of the thirteen regular appropriations were unfinished by the start of the fiscal year. Three continuing resolutions later and for the first time in twenty years, Congress held discretionary spending to roughly the same level as the previous year. At the same time, Democrats reallocated spending to fund most of Clinton's earlier-reduced investment programs.

The following year Congress cleared all of the annual appropriations bills before the start of the fiscal year—at the time, only the third such occurrence since 1948. There were numerous pressures to wrap up the bills quickly—most notably, the appropriations chairs' determination to finish on time and Clinton's desire for action on health care reform before the session ended.