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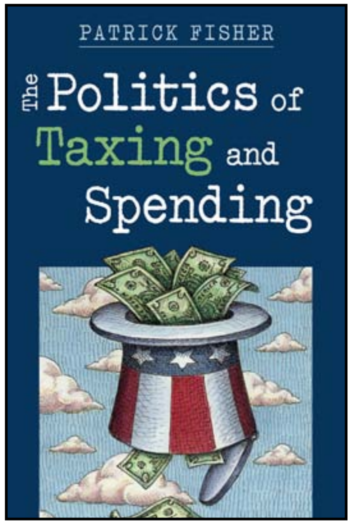
The Politics of Taxing and Spending

Patrick Fisher



ISBNs: 978-1-58826-644-6 hc
978-1-58826-619-4 pb

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Boulder, CO 80301
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The Discrepancy Between Taxing and Spending

THE SUBSTANTIAL BUDGET DEFICITS THAT THE US GOVERNMENT produces are in large part due to the disconnection between taxing and spending decisions. While people often think of fiscal policy along the lines of traditional budgetary balance or deficits, budgeting is better recognized as consisting of two distinct and separate issues: government expenditures and revenue policy.[1] The relationship between taxing and spending varies considerably across functions. Indeed, whether one focuses on expenditures or revenues can lead one to completely different interpretations about the politics of public budgeting.[2]

Yet even though taxing and spending decisions are largely made separately, they inevitably affect each other. For example, if taxes are cut but spending is not, the result is a generational tax shift. Large deficits will lead to larger future payments on interest to the national debt. Thus, by definition, tax cuts that produce large deficits will lead to an increase of future government spending.

The tax side of the budget therefore needs to be considered equal to the spending side of the budget in its political and economic importance. Most critics of the federal budget process place the blame for skyrocketing deficits on the inability of policymakers to curtail spending.[3] One can just as easily argue, however, that it is the inability of policymakers to tax enough that makes it so difficult for the government to balance the budget.

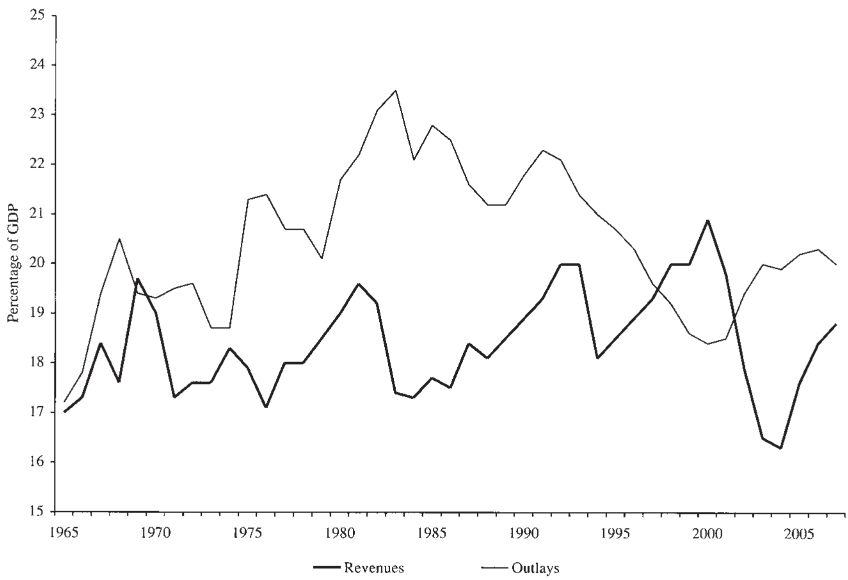
Despite ups and downs, overall federal revenues and outlays as a percentage of gross domestic product (GDP) have been relatively stable since the 1960s (see Figure 1.1). Revenues in particular have been remarkably steady. From 1965 to 2005, federal tax collections averaged 18.2 percent of GDP, with a high of 20.9 percent in 2000 and a low of 16.3 percent in 2004.[4] Outlays were a bit more volatile. As a share of national income, expenditures averaged 20.1 percent, reaching a high of 23.5 percent in 1983 and a low of 17.2 percent in 1965. This level of expenditures is projected to remain roughly the same over the next decade; for 2007 to 2016, outlays are projected to be between 19 and 20 percent of GDP.[5]

This book examines taxing and spending like policymakers largely do: by treating them separately. By examining taxing and spending independently, the goal is to establish that the decisionmaking process for each side of the budget is distinctive. The politics of taxing, simply put, is considerably different from the politics of spending.

The Political Context of Taxing and Spending

It is critical to study policymakers' taxing and spending decisions for reasons of democratic accountability.[6] Government budgets reflect

Figure 1.1 Total Revenues and Outlays as a Percentage of GDP, 1965–2007



Source: Congressional Budget Office.

values and influence the environment in which we work just as household budgets reflect our values and shape our personal lives. By debating how to tax and spend scarce resources, policymakers must define what they stand for and what they stand against.[7] Certainly, taxing and spending decisions are as significant as ever. The degree by which the budget now dominates the federal policy process can be seen in an analysis of news coverage of Congress and the budget. A recent study found that the number of *New York Times* stories on Congress and the budget has increased dramatically since the 1970s, from about 5 percent in the early years of that decade to about 20 percent today.[8]

The federal budget process does not make balancing revenues with expenditures easy. As dictated by the Budget and Accounting Act of 1921, the president initiates the process by submitting a budget to Congress within fifteen days of the start of the legislative session. Congress then follows the procedures set forth by the Congressional Budget Act of 1974. After the president submits the budget to Congress, congressional committees hear testimony from the various executive departments. After the hearings, Congress passes a budget resolution that lays out its taxing and spending priorities for the next fiscal year. The targets of the budget resolution become guidelines for the various authorizing and appropriating committees that write specific taxing and spending bills. The congressional budget resolution, however, has only limited utility as a mechanism for balancing the budget. The resolution is only a congressional declaration of budgetary goals, not a statute. As a result, it cannot make or change laws. The resolution sets forth spending totals and broad priorities, but does not identify specific programs.[9] Thus it can reduce overall spending levels, but cannot actually cut programs from the budget.

The budget reconciliation process, on the other hand, is designed for Congress to make specific program cuts. Reconciliation is the process by which Congress tries to bring revenue and spending, under existing laws, into conformity with levels set in the budget resolution. Enactment of a reconciliation bill changes revenues or spending laws. Reconciliation is an optional process that is not activated every year. It is most likely to be used if the president's budget recommends spending cutbacks and if Congress wants to take active steps to reduce spending.[10] Major budget shifts today tend to take place through the reconciliation process, which has evolved into the principal means for Congress to enact deficit reduction legislation. The major budget shifts of 1981, 1990, 1993, and 2001 were all enacted through the reconciliation process.

The reconciliation process has generally made the budget process much more complicated. In one area, however, the reconciliation process has brought about a significant change that has made budgetary politics easier: a reconciliation bill cannot be filibustered in the Senate.[11] However, since the president still has veto power over the budget, this rule has worked to enhance his budgetary powers. While the president only needs to muster a majority of Congress to support his budget proposals, Congress would have to muster a two-thirds majority in both houses to pass the budget without presidential approval.

Traditionally the budget process was seen as being a rather sedate process of incremental bargaining among political actors, and attracted little political attention. The rise of large budget deficits, the increase in ideological distance between Democrats and Republicans in Congress, and budget reforms enacted by the Congressional Budget Act of 1974 have created an entirely different process. Today the budget is at the heart of the political process; it is the means by which policymakers attempt to implement most of their agenda.[12] For example, after the Republicans won control of Congress in 1994, they relied heavily on the budget process in attempting to implement their agenda of cutting taxes, balancing the budget, reforming welfare, cutting Medicare and Medicaid, terminating programs, and sending power back to the states.[13] For the Democrats, after winning back control of Congress in 2006, it was through the congressional power of the purse that they tried to establish a timetable for withdrawing troops from Iraq, by threatening to cut off funding for the war unless US involvement ended by a certain date.

From the end of World War II until the early 1970s, congressional tax committees were able to keep revenues roughly equal to expenditures by virtue of the strong growth of the US economy. This system of spending and taxing worked well as long as revenues were increasing due to economic expansion. The arrival of large deficits in the 1970s, however, significantly impacted Congress's ability to enact major legislation. Without the ability to offer targeted tax cuts and district spending benefits, it has become more difficult for Congress to secure the votes necessary for passage of budgetary as well as nonbudgetary issues.[14]

Public accountability requires that public money be spent as agreed, and that the government report accurately to the public on how money is spent. Public acceptability, on the other hand, means that policymakers who make budget decisions are constrained by what the public wants.[15] Raw, policy-specific facts, such as the size of the federal budget deficit, have a significant influence on the public's political judgments. Rather than diluting the influence of new information, general knowledge appears to facilitate the incorporation of new policy-specific information into political judgments.[16]

Yet the inconsistencies of taxing and spending policies are clearly related to public opinion. Counterintuitively, people who want the government to spend more money on specific programs are more likely to support tax cuts than those who do not. At the same time, those who feel that the government is wasteful in spending taxpayer money are markedly less supportive of tax cuts than those who hold more optimistic views of government efficiency.[17]

Ironically, taxing and spending lends itself to compromise much more than other areas of public policy. For example, if one faction suggests an income tax rate of 30 percent and another of 40 percent, a rate of 35 percent is a logical and relatively easy-to-achieve compromise. Other issues do not readily lend themselves to such compromise. With the war in Iraq, for example, one could legitimately argue that a compromise position was the worst possible, because it achieved no one's goals yet put American lives at risk. The problem from a balanced budget perspective is that taxing and spending compromises are largely made separate from one another.

The Partisanship of Taxing and Spending

Since the Great Depression, Democrats and Republicans have generally favored different fiscal, monetary, regulatory, and macroeconomic policies.[18] This polarization has accentuated since the 1960s, and the parties are now ideologically further apart on economic issues than they have been at any time since World War I.[19] The intensifying nature of budgetary partisanship is in part due to institutional factors, such as the evolution of macrobudgeting.[20] More important, however, are the growing partisan differences on economic issues.[21] The changes in congressional voting patterns over the past century can be traced to corresponding changes in the economic interests of their constituents.[22] From a budgetary perspective, this is potentially problematic because countries with higher levels of party polarization have higher deficits in election years, while the opposite is true for low-polarization countries; as a result, more polarized countries experience larger electoral cycles in fiscal policy.[23] Partisanship, however, is not an infallible predictor for budgetary decisions. Congressional budget votes, for example, often split one or both of the parties, in part because legislators have to defend parochial interests.[24] Government taxing and spending decisions, therefore, are never wholly ideologically consistent on all points.[25]

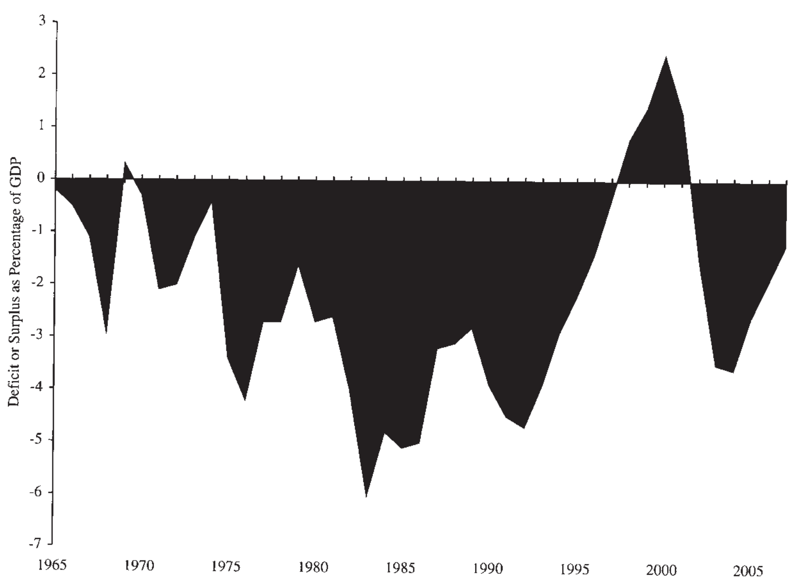
High-income voters have consistently been more prone to identify with and vote with the Republican Party than have low-income Americans, who disproportionately support the Democrats. Though this has been the case since the Great Depression, as the parties have become more differentiated in fiscal and economic policies, they have cued the voters to vote more on the basis of income. Economic issues such as measures to balance the budget, therefore, may now be viewed as a defining ideological difference between the parties. But just because partisan elites have become more polarized does not mean that mass partisans have necessarily followed suit.[26]

As the parties have moved apart ideologically, they have also become more homogeneous internally.[27] Democrats, in particular, are much more unified on economic issues today than they were in the 1960s and 1970s, when the party was split among northern liberal and southern conservative camps.[28] This is in large part due to a switch of partisan allegiances in the southern United States. As the region has moved from a one-party system dominated by the Democrats to a two-party system, it has seen a dramatic increase in the income effect on vote choice. Outside the South, however, the income effect has leveled off since the 1990s.[29]

The modern conventional justification for public debt emerged with John Maynard Keynes. Government, he believed, must take an active role in promoting full employment through both fiscal and monetary policy. To Keynes, classical economics failed to recognize that the market cannot by itself adequately maintain consumption demands and coordinate investment decisions.[30] Thus, Keynesian economics justified deficit spending in the short term. In fact, many leading economists saw the balanced budget norm as the main obstacle of rational economic policy making.[31] Over the long term, however, Keynesian economics held that government should reduce the public debt in times of economic prosperity by increasing taxes, cutting government spending, or both.

Keynesianism was embraced by New Dealers during the Great Depression as a means of stimulating an economy in dire straits. Once Franklin Roosevelt endorsed the concept of short-term deficit spending in order to stimulate the economy after he was elected president in 1932, the Democrats became the party associated with Keynesian economic principles and the Republicans largely remained unfettered from their historical belief in balanced budgets. By criticizing the large deficits of New Deal policies, the Republican Party began to be seen as the party that put a higher emphasis on balanced budgets, and this belief was reinforced by the election of Dwight Eisenhower as president in 1952 on a platform stressing the importance of balancing the budget. After World War II, however, federal budget deficits were relatively small under both Republican and Democratic presidents. Democrats may have embraced Keynesian economic principles, but they still tended to support the balanced budget norm, which was overwhelmingly supported by the American public. Between 1950 and 1965, for example, the US government produced surpluses only four times—in 1951, 1956, 1957, and 1960—but deficits during this period tended to be small, only exceeding $7 billion (1.7 percent of GDP) once, in the recession year of 1959. From 1965 to 2005, however, the federal government produced surpluses only five times: 1969, 1998, 1999, 2000 (when the surplus reached a record $236 billion, or 2.4 percent of GDP), and 2001 (see Figure 1.2). In every other year during that period, the federal government produced deficits. Though the deficit levels of the 1960s and 1970s were relatively small by today's standards, many of the annual deficits since the 1980s have been staggeringly large. In 2004, for example, federal

Figure 1.2 Federal Deficit, 1965–2007



Source: Congressional Budget Office.

outlays were $2.29 trillion and revenues were $1.88 trillion, producing a deficit of 3.6 percent of GDP ($413 billion). As a percentage of GDP, the largest deficit of the past half century came in President Ronald Reagan's second budget year, 1983, when the deficit reached 6 percent of GDP ($208 billion).

From the New Deal era to the election of Reagan as president, it was widely held that Republicans put a higher premium on balancing the budget than Democrats. Republicans traditionally saw reducing the national debt as a means to reduce taxes in the long term. To be "conservative" on fiscal policy meant being averse to deficits. The large deficits of the 1980s, however, recast American politics, and the Republican Party's historical image as the antideficit party changed with the election of Reagan as president. Though conservatives and Republicans still tend to support budgetary balance in the abstract, they are less willing than previously to support the concept when presented with the specifics. Since Reagan's election, the emphasis for many in the party has moved toward cutting taxes rather than reducing the deficit. For numerous Republicans, supply-side economics promises short-term stabilization effects by promoting economic growth as well as the long-held goal of smaller government. In this way, Republicans can avoid the problem of limiting government and also supporting countercyclical spending.[32]

The Republicans' embracing of tax cuts as the foremost economic priority has changed the way that Democrats view deficits. Democrats increasingly support deficit reduction as an important means in itself—at least when it is defined in their terms.[33] Republican attempts to cut taxes and move toward budget deficit are seen by many Democrats as long-term means to reduce the spending that benefits Democratic constituencies. For many Democrats today, therefore, eliminating the deficit is simply a means to an end: protecting entitlement programs and restoring the government's credibility.

Balancing the budget has come to be seen as a means by which Democrats can maintain spending levels, while Republicans increasingly believe that large deficits will force spending cuts in the future. The Democrats first began trying to make large deficits an issue during the Reagan administration. Beginning with Walter Mondale's run for the presidency in 1984, the Democrats came to be more widely seen as the antideficit party, moving away from the Keynesian position that dominated the economic beliefs of the party in the postwar era. Since 1984, every major Democratic presidential candidate has condemned deficit spending.[34] Democrats' historical support for a countercyclical budget policy that makes redistribution an ongoing achievement of stabilization gave way to the perception that budget deficits were becoming unmanageable and needed to be curtailed. It is also possible that Republicans began to see budget deficits as less negative, because deficits tended to favor creditors, mainly Republicans, over debtors, mainly Democrats. Thus, by the 1980s, Democratic concern about deficits could have been a reflection of the belief that Democratic constituencies wre losers in deficit spending.[35]

This trend can be seen worldwide. Prior to the 1970s, parties of the political left were more likely to produce larger deficits than parties of the right. Since the 1970s, however, many parties on the right have pursued policies that have led to large deficits.[36] The supply-side economic policies of some governments on the right have produced very large deficits, while socialist and social democratic governments increasingly have adopted rather conservative fiscal policies. Overall, the political persuasion of a government appears to have little relationship to deficits, with several conservative governments producing large deficits and several social democratic governments producing relatively small deficits.[37]

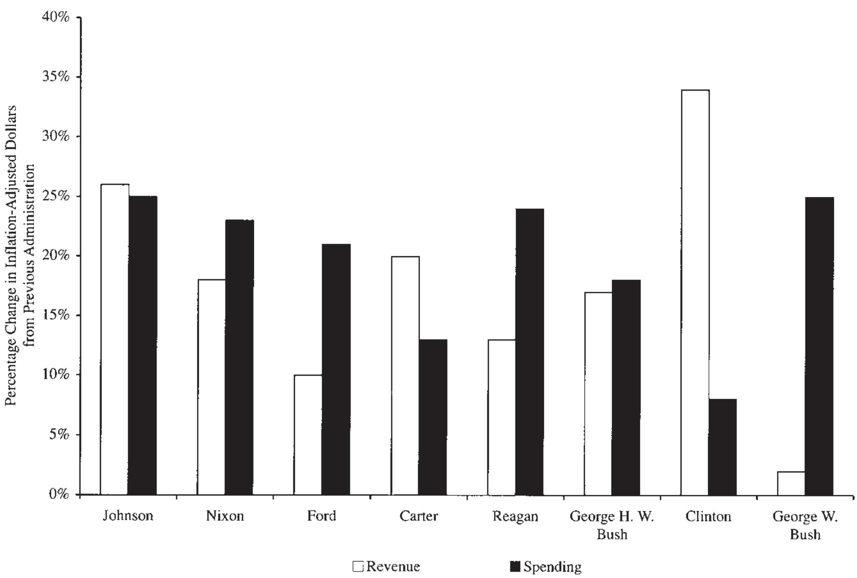
In the United States, constituent Republicans and Democrats react differently to societal and individual economic concerns. Republicans tend to be more supportive of budgetary balance than Democrats, and this belief intensifies as perceptions of the national economy worsen. Democrats, on the other hand, support budgetary restraint when they believe the economy is strong, but tolerate deficits during periods of perceived economic recession—the classic Keynesian approach. Republicans, however, are more driven by personal pocketbook concerns than Democrats: when times get tough economically at the individual level, Republicans become much less committed to government frugality.[38]

The fact that congressional Republicans are relatively supportive of deficit reduction suggests that many might prioritize deficit reduction if the White House were to support balanced budget legislation. On the other side of the aisle, congressional Democrats might be less likely to support deficit reduction if not prodded to do so by the White House, as during the Bill Clinton administration. Thus, partisans in Congress appear to be following the lead of the executive branch in determining the priority of deficit reduction. As a result, the White House leadership appears to be more important than ever in regard to balancing the budget.

This can be seen in the considerable partisan relationship in the different taxing and spending priorities of presidents—and the deficits that resulted from these priorities. Since the Lyndon Johnson administration, there has been a discernible pattern of revenue and expenditure changes by presidential party (see Figure 1.3). For all Democratic presidents since Johnson (Johnson, Carter, and Clinton), the growth in revenue was greater than the growth in spending compared to the previous administration. On the other hand, for every Republican administration (Nixon, Ford, Reagan, and the two Bush presidents), the growth in spending was greater than the growth in revenue. The relationship between Bill Clinton and George W. Bush is especially noteworthy: while revenue increased 26 percent more than did spending during the Clinton administration, spending increased 23 percent more than did revenue during the Bush administration (through 2007).

The different budgetary approaches of Democratic and Republican presidents in recent years may be a result of the fact that Democrats and Republicans tend to follow the wishes of those partisans who elected them to office. Policymakers may simply be responding to different portions of their constituencies.[39] This can be seen in the partisan budgetary preferences of voters in the 2000 presidential

Figure 1.3 Change in Average Revenue and Spending by Presidential Administration



Sources: Heritage Foundation, Budget of the United States Government, Fiscal Year 2005, tabs. 2.1 and 7.1.

Note: Data for G. W. Bush administration through fiscal year 2007.

election, during which significant partisan differences regarding taxing and spending proposals played a major role. An exit poll found noticeably different priorities between those who voted for Al Gore and those who voted for George W. Bush. Gore supporters argued that tax cuts should be a low priority for the next president, while Bush supporters strongly supported tax cuts.

Of those who claimed that tax cuts should be the top priority for the next president, 70 percent voted for Bush. Of those who claimed that prescription drugs, education, and Social Security should be the top priority, most cast their votes for Gore.[40] This may explain why Bush made tax cuts the major focus of his new administration despite opinion polls showing that the American public overall tended to be ambivalent toward the necessity of reducing taxes. Bush may have simply been responding to his political base, who strongly supported tax cuts.

The evidence indicates that Democratic presidents have been more successful at balancing the budget than Republican presidents, but does this partisan relationship also exist within Congress? The evidence is mixed, depending on the measures analyzed.

Congressional Support for Deficit Reduction

There is no consensus regarding how to measure congressional support for deficit reduction. Looking at Congress as an institution, it is easy to critique the US legislature as doing an exceedingly poor job of balancing the budget. At the same time, however, the vast majority of those in Congress claim to support balanced budget principles. Almost all members of Congress claim to be against budget deficits and in favor of balancing the federal budget, at least in the abstract. When it comes to supporting the actual policies that would lead to expenditures and revenues being in balance, however, federal legislators often abandon balanced budget principles. The explanation of policy position variation across members does not explain aggregate budget decisions by Congress. Yet, looking at individual members of Congress, it is clear that not all are equally responsible for large deficits. The problem then becomes how to measure individual support for deficit reduction.

A popular explanation for the inability of Congress to consistently produce balanced budgets is that its members are unwilling to make tough choices, thus undermining the budget process. If Congress were willing to cut spending or raise taxes, the deficit problem would abate and the process would stabilize.[41] Legislators, however, are expected to carry out those acts that gain the most votes and lose the fewest votes.[42] The problem is that American voters tend to favor lower taxes, greater government spending, and also a balanced budget.[43] That the American public tends to have contradictory opinions on the necessity of a balanced budget therefore complicates life for representatives. The difficulties that members of Congress face in budgeting are a direct result of the nature of a representative democracy; deficits may to a large degree simply be the result of the nation's representatives following the dictates of their constituencies.[44]

Members of Congress can avoid making politically difficult decisions by blaming the president, the bureaucracy, and interest groups as the real culprits for unbalanced federal budgets. For citizens, it is difficult to assess whom to blame for deficit spending. Accountability becomes a problem. One way to determine the degree to which members of Congress support balanced budget principles is to discriminate between legislative votes on taxing and spending. The analysis in this book utilizes congressional vote scores as provided by the Concord Coalition, an interest group that promotes deficit reduction.

The Concord Coalition is an antideficit group whose official mission is "to challenge national office holders to make the tough political choices required to balance the federal budget and keep it in balance."[45] It was founded in 1992—during which the deficit reached a record high (at the time) of $290 billion—by the late senator Paul Tsongas (D-MA), former senator Warren Rudman (R-NH), and former secretary of commerce Pete Peterson. Former senator Sam Nunn (D-GA) joined Rudman as a cochair of the coalition in 1997, and was replaced by former senator Robert Kerrey (D-NB) in 2001.

The Concord Coalition purports to champion the general interest by advocating fiscal responsibility and reform of entitlement programs, in order to ensure their viability and fairness for future generations. It was founded on the premise that when faced with the dilemma of balancing the budget, too few legislators summon the courage to make the necessary difficult decisions. As a result, the coalition's goal is to encourage politicians to change course through lobbying legislators and educating constituents.

In order to influence the political process, interest groups such as the Concord Coalition publish ratings of members of Congress. The Concord Coalition began publishing deficit reduction scores during the 104th Congress (1995–1996) and continued to do so through the

107th Congress (2001–2002). The coalition's "fiscal responsibility scorecard" rated each legislator on a scale of 0 to 100. Votes deemed to have significantly impacted deficit reduction were assigned various weights according to their relative importance. The Concord Coalition calculated the raw score by adding the weighted values of a legislator's "fiscally responsible" votes and dividing that number by the total weighted value of all votes cast by that legislator. Votes in which the legislator did not participate were excluded. "Fiscally responsible" votes were those that (1) reduced the deficit and protected the surplus, (2) supported actions that addressed long-term generational pressures on the federal budget, (3) kept budget enforcement procedures strong, (4) opposed enactment of new permanent claims on the federal budget that would be difficult to finance in the future, or (5) reduced or eliminated unnecessary or wasteful programs.

The fact that the Concord Coalition considers the tax side of the budget to be equal to the spending side of the budget in political and economic importance is a beneficial attribute of its scores—the coalition measures legislators' tendency to support deficit reduction in terms of both taxing and spending. To the Concord Coalition, "fiscal responsibility" is voting in favor of reduced spending or increased taxes, and voting against increased spending or reduced taxes. Thus the coalition's congressional vote scores can be seen as a means of measuring legislators' willingness to support the principles of balancing the budget from both the revenue side of the budget and the expenditure side of the budget.

Though the Concord Coalition's ratings will be utilized throughout this book, by no means should these ratings be viewed as irreproachable indicators of legislators' intentions. The imperfection of interest group ratings is partly due to the fact that they are based on a relatively small number of roll calls. Votes made on the floor of Congress may hide many important decisions made earlier in the legislative process, such as those made in committee. Many proposals do not make it out of committee, and of those that reach the floor, less than half are voted on in both the House and the Senate. Thus the estimates of influences on decisions generated from roll-call data will be much too large, because they do not account for the probability that a proposal receives committee approval and is subject to a roll call.[46] Interest group ratings are thus influenced by the distribution of the roll calls selected, which makes legislators appear to be more extreme than they actually are.[47] Furthermore, votes may be the result of pressures of party leadership and zealous constituents rather than the true positions of legislators.[48] Yet, though imperfect, interest group vote scores can provide a good indication of legislators' behavior in office over the long run.

In recent years, a number of constitutional amendments have been proposed to force the federal government to balance the budget. Since 1982, there have been five votes on balanced budget amendments in the House and seven in the Senate. Though the details of the amendments sometimes varied (usually with exceptions for time of war or a change in economic conditions), the overall goal of supporters of such amendments was to constitutionally require the federal government to produce a balanced budget. While four out of the five votes in the House (the exception being in 1982) achieved the required two-thirds majority to send the amendment to the states for ratification, only in 1982 did the Senate pass the amendment with a two-thirds majority.

In regard to the partisan divide on amendment votes, Republicans tended to overwhelmingly favor balanced budgets while Democrats generally opposed them. The amendment votes therefore tend to lend support to the argument that congressional Republicans are more supportive of balancing the budget than congressional Democrats. Thus the votes tend to reinforce the traditional stereotype of the Republican Party being the balanced budget party, and congressional Republicans have in the past used their voting record on balanced budget amendments as a wedge issue to differentiate themselves from Democrats.

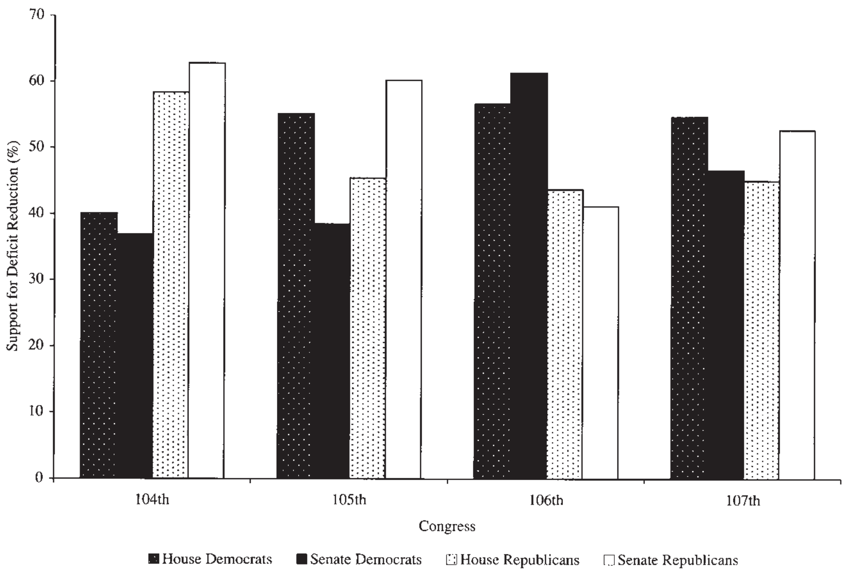
The actual merits of a balanced budget amendment, however, are hotly contested. For one, it is unclear what the practical effects of such an amendment would be. Balanced budget amendment votes have been criticized by many as being purely symbolic, since they deal with the process, not tangible outcomes. Many Democrats have argued that these are phony proposals that are simply used to win political points. It is certainly plausible for someone to support the concept of balancing the budget while opposing a change to the Constitution. Many supporters of deficit reduction through means other than amending the Constitution, for example, often argue that such an amendment would give the judiciary too much power over fiscal policy, weakening the ability of the legislative and executive branches to implement the type of deficit spending necessary to extricate a potential budgeting crisis.[49]

Furthermore, even if a balanced budget amendment were enacted, it would remain unlikely that the federal government could balance the budget every year, even if it wanted to. Producing a balanced budget requires accurate forecasting of revenues and expenditures. These forecasts depend upon accurate forecasting of economic conditions, which is an inexact science. Inaccurate forecasts can play an important role in increasing the deficit. Deficit estimates are almost inevitably subject to seemingly large swings, even when they are made only a month before the end of the fiscal year. The projections for the fiscal 1993 deficit, for example, ranged from $352 billion in January 1992, to $327 billion in January 1993, to $285 billion in September 1993; the actual deficit was $255 billion.[50] Deficit projections for 1993 decreased as the economy proved to be healthier than expected, and interest rates dropped to record lows. Conversely, the economy wreaked havoc with 1990 deficit figures; even though the 1990 budget summit produced a deal that generated huge budget savings, higher deficits resulted as the savings were overwhelmed by the recession.[51]

A better way to measure the parties' support for balanced budget legislation in Congress is to compare the partisan dynamics of the Concord Coalition's vote scores. Comparing the mean vote scores of the parties during the 104th to 107th Congresses (1995–2002), we find that Democrats and Republicans do indeed have noticeably different voting records on deficit reduction measures, in both houses of Congress (see Figure 1.4). An interesting characteristic of the effect of partisanship on the vote scores, however, is that the direction of partisan influence is not consistent. That is, in some years, Republican have higher deficit reduction scores; in other years, Democrats have higher deficit reduction scores. During the 104th Congress, for example, House and Senate Republicans scored about 60 in terms of "fiscal responsibility," while congressional Democrats scored close to 40. For the 106th Congress, however, the ratings were reversed, with congressional Democrats scoring close to 60 and congressional Republicans near 40. This suggests that both the Democrats and the Republicans can legitimately claim—at least—to be the party more likely to support balancing the budget.

The fact that the Concord Coalition's congressional roll-call vote ratings do not fit nicely on the standard left-right political spectrum is atypical of interest group ratings.[52] This suggests that the political dynamics of deficit reduction are different from those of other issues. Most interest groups that issue ratings tend toward the exterior—or the extreme—of legislators. This means that interest group ratings tend to polarize legislators, moving them away from moderate positions.[53] The Concord Coalition's scores, on the other hand, appear to

Figure 1.4 Congressional Support for Deficit Reduction by Party



Source: Compiled by author.
Notes: Figures represent the mean Concord Coalition vote score (%) for each Congress. Data for the 104th, 105th, and 106th Congresses are composites of individual-year vote scores.

work against more ideologically extreme legislators. This is consistent with another study that found that it was indeed the more moderate legislators who were more supportive of deficit reduction, suggesting a polarization of fiscal policy as it relates to ideology.[54] The highest scores given by the Concord Coalition, for example, included legislators from across the political spectrum, both Republicans and Democrats.[55] In the 107th Congress (2001–2002), for example, the senators who received the highest scores were Lincoln Chafee (R-RI), Russell Feingold (D-WI), Thomas Carper (D-DE), Judd Gregg (R-NH), Bob Graham (D-FL), and John McCain (R-AZ); the representatives who received the highest scores were Gene Taylor (D-MS), Jeff Flake (R-AZ), Charles Stenholm (D-TX), Ed Royce (R-CA), and John Shadegg (R-AZ).

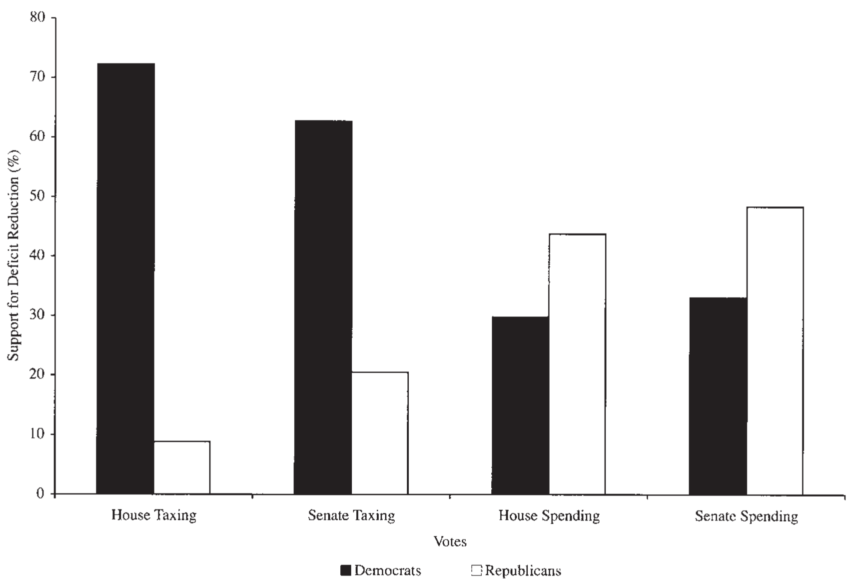
The Disconnection Between Taxing and Spending

Why does partisan support for deficit reduction vary so greatly from Congress to Congress according to the Concord Coalition's ratings?

The variance in partisan ratings may simply be a result of the number of votes on tax policy relative to the number of votes on spending policy in a particular Congress. Which party is seen by the Concord Coalition to be a better advocate of balanced budget policies may thus simply be a product of whether a spending or taxing issue is being debated.

As demonstrated in Figure 1.5, there is a clearly partisan pattern to taxing and spending votes. While House Democrats supported deficit reduction (as defined by votes on which the Concord Coalition took a position) on 72 percent of tax legislation votes during the 104th to 107th Congresses, House Republicans supported deficit reduction on only 9 percent of tax legislation votes. On legislation concerned with expenditures, however, House Republicans voted to support deficit reduction on 45 percent of votes, compared to 30 percent for House Democrats. In the Senate, the figures were similar: Democrats supported deficit reduction on 63 percent of tax votes but on only 33 percent of spending votes, while Republicans supported deficit reduction on only 21 percent of tax votes but on 48 percent of spending votes.

Figure 1.5 Partisan Support for Deficit Reduction: Taxing Versus Spending Votes



Source: Compiled by author.
Note: Data represent the average percentages supporting the Concord Coalition's positions on taxing and spending votes for the 104th–107th Congresses (1995–2002).

Thus, while the Concord Coalition's vote scores suggest that Democratic and Republican support for deficit reduction tends to vary from Congress to Congress, there is a consistently significant difference between the two parties in regard to taxing and spending votes that would reduce the deficit. Democrats are more supportive of reducing the budget deficit on taxing and spending votes. Overall, more than 70 percent of the votes the Concord Coalition chose for its rankings were for bills that dealt solely with spending. There was notable variation from Congress to Congress in the proportion of tax votes versus spending votes, with the proportion of spending votes ranging from 64 to 80 percent.

It may be that these changes in taxing and spending ratios from Congress to Congress represent a reaction of the Republican-controlled Congress to the surpluses from 1998 to 2000, and a reaction to changes in the White House's budget priorities. After the 1994 elections, in which the Republicans took control of Congress, annual deficits were still relatively high. Thus the Republicans, even though they publicly supported significant tax cuts, accorded higher legislative priority to cutting domestic spending. With a Democrat in the White House, congressional Republicans may have decided they would be more successful passing legislation that reduced spending than enacting tax cuts. Immediately after the Republicans took control of Congress, therefore, they received higher Concord Coalition vote scores, because they controlled the legislative agenda and supported a number of measures to reduce federal spending that Democrats opposed. The budget agenda changed, however, with the arrival of surpluses beginning in 1998. With the advent of federal budget surpluses, the Republicans made a more concentrated effort to reduce taxes, and the Democrats, playing defensively, voted against the tax cuts, arguing that the surplus would be better used for domestic programs and reducing the national debt. George W. Bush's election as president in 2000 may have reinforced this pattern. With a Republican in the White House, congressional Republicans saw an opportunity to accord tax cuts a greater priority, which lowered their vote scores, while Democrats' opposition to tax cuts garnered them higher scores.

To a significant degree, therefore, which party is the better advocate of balanced budget policies is determined by whether a spending or a taxing issue is being debated. While Republicans are consistently better supporters of balancing the budget on spending votes, Democrats are better on tax votes. An important difference in the levels of support on taxing and spending legislation between the parties in both the House and the Senate, however, is the degree by which they support the Concord Coalition's position. While the Democrats are overwhelmingly more likely to support the coalition's position on tax legislation, the Republicans are only somewhat more supportive on spending legislation. The data presented in Figure 1.5 emphasize the degree by which the Republicans have become an antitax party in Congress.

Consequently, the Republicans will generally be seen as the better advocates of a balanced budget when it comes to attempts to keep spending down, but the Democrats will be seen as the better defenders of a balanced budget when it comes to tax legislation. The Republicans' emphasis on tax cuts during the George W. Bush administration, for example, suggests that Democrats, perhaps by default, can be regarded as the stronger supporters of balancing the budget. Though the Democrats by no means dominate the Concord Coalition's ratings, the coalition's vote scores do lend some support to the Democrats' claims to be the party of fiscal responsibility. To a considerable degree, congressional Republicans now seem to have placed tax reduction ahead of balancing the budget.

For the population as a whole, as mentioned previously, constituent Republicans tend to put a higher priority on maintaining a balanced budget than do constituent Democrats.[56] Among federal policymakers, however, evidence lends credence to the Democrats' arguments that they are the better balanced budget party. The fact that spending votes outnumber tax votes by a good margin in the Concord Coalition's vote scores tends to work in favor of Republicans, but the Democrats more than hold their own in the rankings due to the Republicans' overwhelming lack of support for deficit reduction through increased taxes. Overall, however, the Concord Coalition's scores tend to be low for both parties; most of the votes on which the coalition advocates a position are defeated, sometimes by overwhelming margins.

The extremely partisan nature of taxing and spending votes has significant public policy implications. An advantage of a partisan budget process is that the parties can potentially produce comprehensive budgets. It might be that Democratic and Republican policymakers negotiate for what they hold most dear—for Republicans that would mean reduced taxes and for Democrats that would mean increased spending (especially on entitlements). But since balancing the budget is not a foremost priority for either party, it is abandoned.

To a surprising degree, taxing and spending decisions in the United States are disconnected from one another. Discussions of the federal budgeting process usually consider taxing and spending decisions in tandem. A problem with this approach is that it underestimates the degree to which the political dynamics of taxing are different from the political dynamics of spending. This book will therefore treat taxing and spending as separate entities. The decisionmaking process for taxes, simply put, is considerably different than that for spending. This analysis can further separate budget decisions by looking at how decisionmaking is different for increasing revenue and spending levels than it is for cutting revenue and spending totals. From a budgetary perspective, the political dynamics of adding are much different from those of subtracting. There is no consistent coalition of support for balancing the budget in terms of both taxing and spending.

The budget process in the United States is problematic and subject to many conflicting pressures. Budgeting, by its very nature, requires policymakers to think of the well-being of society as a whole in order to make macro-level decisions for a nation of more than 300 million people. The large budget deficits that currently plague the federal government suggest that there are overwhelming barriers to cutting spending and increasing taxes—and correspondingly balancing the budget. The disconnection between taxing and spending demonstrates that the budget is not as comprehensive as it should be.

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