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## The Changing Concept of a Federal Executive Budget: A Senior-Junior Exchange

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# The Executive Budget in the Federal Government: The First Century and Beyond

*This article reviews the history of executive budgeting in the United States a century after President William Howard Taft's Economy and Efficiency Commission proposed an executive budget. This history, the authors argue, does not suggest that giving more budget power to the president will improve budget outcomes. Instead, what is needed is more cooperation between the branches of government and a better-educated public—goals that were shared by budget reformers when the Taft report was published.*

Next year, 2012, will mark the centennial of a report commissioned by President William Howard Taft that called for an executive budget process in the federal government, a reform adopted in 1921. This reform fits the category of "transformational" defined by John Wanna in his review of budget reforms by Organisation for Economic Co-operation and Development (OECD) countries: "system-wide, comprehensive or programmatic reforms aimed at transforming the principles by which the system as a whole operates; these ambitious reforms are strategic recalibrations often formally expressed through fundamental laws and major change programmes" (2010, 6).

In the judgment of some of its advocates, executive budgeting was an incomplete transformational reform because Congress retained extensive influence in the process. They wanted the chief executive to have an almost exclusive power to budget because, then, the public could hold that single leader accountable for results. Supporters of more budget power for the president have continued to put forth proposals, especially when expenditures and deficits mounted and the budget seemed out of control.

At the centennial of the Taft Report, and in the midst of fiscal problems, it is a good time to consider what might be the effects of completing the unfinished reform of executive budgeting.

Projections now show that U.S. budgetary policies are unsustainable, and some experts believe that the nation's political system is incapable of putting the United States on a more prudent path. In response, various groups have issued recommendations for deficit reductions and changes to the budget process. At the centennial of the Taft Report, and in the midst of fiscal problems, it is a good time to consider what might be the effects of completing the unfinished reform of executive budgeting. This article describes the executive budget idea in the United States, how it was adopted into law, and how it evolved over the years. It then reviews modern research, similar to that produced for Taft, that

argues that centralization of budget power is likely to produce desirable budget outcomes. This argument is not very convincing; instead, budget reformers must identify incentives for the branches and parties to reach a compromise on budget targets rather than pin blame on each other. This approach necessarily requires increasing the public's understanding of budget issues—an idea that featured strongly in Progressive Era budget reform proposals but was rejected by President Taft.

### Taft's Approach of Strong Executive Budgeting

"Executive budgeting" in its simplest and strongest form means that the chief executive (an elected president, governor, mayor, or county executive) dominates the budget process. Executive budgeting centralizes the budget process within the executive branch. In this model, the chief executive commands a powerful central budget office that is technically skilled and devoted to promoting efficiency and effectiveness, as well as the

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priorities of the chief executive. The process of budget preparation is top-down: instructions are sent to agencies, agency requests must be reviewed and may be denied by budget office staff, and appeals of budget office denials of agency requests are made infrequently and less often are successful.

Executive budgeting promotes the chief executive's priorities over the legislature's. The chief executive sets the budgetary agenda with a comprehensive budget request. In the extreme form of executive budgeting, this agenda power is multiplied into something approaching "take it or leave it": the legislature has only a short time to review the executive's proposal, and it may not increase spending above that proposed in the executive budget or may only vote the entire proposal up or down.

Executive budgeting also gives the chief executive extensive control over budget execution. The central budget office releases approved funding to the agencies in partial amounts over the year, and often it has substantial influence over an agency's ability to hire new personnel and sign contracts. The chief executive may also make cuts to the enacted budget in response to fiscal emergencies.

In 1911, President Taft created the Commission on Economy and Efficiency and told members of the commission that he expected them to propose an executive budget. The commission was chaired by public administration expert Frederick A. Cleveland and included two other noted experts of the era: Frank Goodnow and William F. Willoughby. On June 27, 1912, President Taft transmitted to Congress his commission's report, *The Need for a National Budget*.

Agencies had long requested appropriations directly from Congress without prior presidential review or close control of agency expenditures. One problematic result was that agencies often overspent, and then requested deficiency appropriations to cover this overspending. To many observers, this was symptomatic of a general inability of existing institutions to manage the government's finances and the national economy. Following Woodrow Wilson's 1912 election victory against Taft and Theodore Roosevelt, in 1913, the government imposed an income tax on the upper class and created the Federal Reserve System. Yet it was not until 1921 that Congress passed the Budget and Accounting Act, which gave the president responsibility for proposing a budget and established the Bureau of the Budget and the General Accounting Office.

While the adoption of executive budgeting is often framed as a shift in power from legislature to executive, more importantly, it created budgeting, a process of annually developing a comprehensive plan for the use of financial resources. Prior to this act, there were precursors of a budget and of a budget process: the Book of Estimates, which combined agency estimates of spending, and the 1894 Dickey Act, which improved financial management. In comparison to other countries, the federal government came late to budgeting. Carolyn Webber and Aaron Wildavsky (1986, 327) document that at different times during the nineteenth century, most European countries developed central control of government finances, usually when they made other major changes in government and politics.

As part of their effort to sell executive budgeting, some advocates portrayed it as the only possible form of budgeting, as if without executive dominance, there would be no budget, no financial control, and no accountability—only a wasteful free-for-all at the federal trough. President Taft contributed to this conflation of ideas in his message to Congress requesting funding for the Commission on Economy and Efficiency, implying that if a country lacked an executive budget, it lacked a budget (reported in the *New York Times*, January 18, 1912). Similarly, Cleveland (1915) argued that budgets, by definition, had to be prepared and submitted by a responsible executive.

### Congress's Constitutional Defense

When the Taft report was released, most members of Congress thought that its logic was immensely threatening to the congressional "power of the purse" granted by Article I of the U.S. Constitution (Caiden 1987). This power was institutionalized very early in the republic's history, when Alexander Hamilton's and Albert Gallatin's attempts to review agency estimates were rebuffed strongly (Mosher 1984, 16). Not surprisingly, then, Congress did not surrender to Taft and his allies, but it did compromise. The 1921 act allowed the president a budget proposal but kept congressional authority to pass appropriations (though still subject to the veto). A House of Representatives committee described the form of the executive budget that it finally approved:

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The plan outlined does provide for an Executive initiation of the budget, but the President's responsibility ends when he has prepared the budget and transmitted it to Congress. To that extent and to that extent alone does the plan provide for an Executive budget, but the proposed law does not change in the slightest degree the duty of Congress to make the minutest examination of the budget and to adopt the budget only to the extent that it is found to be economical. . . . *The bill does not in the slightest degree give the Executive any greater power than he now has over the consideration of appropriations by Congress.* (66th Cong., 1st Sess., H. Rep. 362, 1919; quoted in Rudalevige 2004)

The result was either a constitutional stalemate or a shared-power agreement, depending on one's perspective. In his history of the managerial presidency, Peri E. Arnold describes how advocates of executive budgeting hoped the agreement would develop:

As Cleveland's and Willoughby's writings illustrate, the new field of public administration's major theorists saw administrative pathology caused by the structure of the American regime. Yet these students of administration were not outwardly dedicated to reforming the Constitution. They proposed mere administrative changes, rationalized by principles of efficiency and the value of good order . . .

But there was something of the Trojan Horse about public administration's ideas of efficient organization. Frederick Cleveland said of the administrative reform agenda within the national government that it was the instrument for creating

presidential leadership; he made it absolutely clear that he expected great ends to follow upon mechanical reforms. (1998, 17–18)

This image of the Trojan horse suggests that Cleveland hoped executive budgeting would be implemented in a far different way than Congress imagined. If Cleveland's "technical" agenda in fact ended up serving presidents' political purposes, the result would not be constitutional stalemate, as in Steven Skowronek's formulation (1982, 210), but a greatly enhanced presidential budget power. The opposite projection would be that Congress, unlike Troy, would not be tricked.

### **Adoption of a Moderate, Constitutionally Permissible Executive Budgeting**

States and localities were the first adopters of executive budgeting (histories can be found in Kahn 1997; Recchiuti 2007, chap. 4; Rubin 1993; Rubin 1998, chap. 3). The best-known advocates of executive budgeting were from the New York Bureau of Municipal Research. Within this group, though, the principals differed over principles: Cleveland emphasized executive accountability, whereas his colleague William H. Allen (1907) emphasized a very different approach that he called "efficient democracy," which encouraged public education and participation. Some academics have glossed over these differences, making a relatively straight line from the early Progressive Era to the Taft administration to the 1921 act, but each period represented different values.

From the end of the 1800s to 1910, the liberal Progressives' ideas dominated: government was good, efficiency would help fund needed public programs, and the public could be a force for good government if it was educated through transparent budgeting and accounting. They set up research bureaus, one of whose innovations was budget fairs, in which exhibits engaged the public and graphically explained how much money was spent on various programs and what the public got—or failed to get—for its tax dollars. So informed, the public would serve as watchdogs and help keep government honest.

Taft and his fellow conservatives were dismissive of Congress as an arena for participatory democracy. They emphasized after-the-fact financial reporting. They mistrusted the public, believing that government officials should be insulated from direct contact with them. Ideas for the budget would come up from the departments, judged only by the chief executive and his staff, all of whom presumably would come from the elite and do the right thing because of who they were.

The extent to which conservatives were willing to concentrate power in the executive is best revealed in Cleveland's writings. In 1913, after the release of the commission report, he suggested that if Congress overrode a veto, the chief executive should have the right to refuse to execute the mandate and go back to the people on the issue (1913, 458; see also Cleveland and Buck 1920; Willoughby 1918). How this was to be done was not clear, but Cleveland questioned Congress's right to override a veto.

His model was drawn from Europe. There, the executive was responsible for proposing a budget to the parliament, which had

the ability to question the executive but little power to change the proposal. If the parliament voted the budget down, the government would fall, forcing a new election. Executives got to budget their way, and if the results were not acceptable, they alone were responsible and would be voted out of power. The executive had the maximum of discretion, but also clear and full accountability.

Because the United States does not have a parliamentary system, the European model could not be adopted without a major constitutional change. Conservatives relied instead on arguments that they hoped would sustain acceptance of executive budgeting. They claimed that executive budgeting would increase efficiency and effectiveness because the chief executive, since he was responsible for budget implementation, would know more about the needs of the agencies and could cut back irresponsible requests before they got to Congress. They also claimed that executive budgeting would achieve balanced budgets because the president would cut budget requests until they were at or below expected revenues. Finally, they argued that it would improve prioritization of spending because proposals from different agencies would be looked at together and weighed by the president before submission to Congress. Proponents of executive budgeting observed that the president was more representative of the nation than Congress because he was elected by the entire voting population, whereas each member of Congress represented only a district. They claimed Congress was incapable of making hard decisions, and hence could not effectively prioritize expenditures.

Others, including Allen, disagreed, arguing that it was in the interest of the executive to pass along the inflated requests of the departments, keeping the departments and their advocates happy and creating a margin of safety during implementation. Edward Fitzpatrick (1918, 47), a well-known opponent of the executive budget, pointed out that in order to be compatible to democracy in the United States, there needed to be popular control, but that was lacking in the Taft approach.

Cleveland's model of legislative disempowerment directly influenced the states of Illinois, New York, and Maryland as they revised their constitutions, but ultimately was not accepted at the federal level. (Limited space prevents us from reviewing state experiences, but see Lynch and Lauth 2006.) The House was in no mood to endorse centralized leadership, having recently revolted against Speaker Joseph Cannon, and the Democratic takeover of the House in 1911 also made it unreceptive to a Republican president's proposals. Congress eventually defunded the Taft Commission and wrote a limitation preventing submission of a budget in a form other than the traditional agency estimates (Stewart 1989, 187).

World War I led to a massive expansion of government spending and widespread questioning of government management. These factors enabled the adoption of executive budgeting, as did the negotiation of a compromise that was more balanced with respect to executive and legislative powers than the Taft conservatives had wished. It limited the power of the executive by placing the General Accounting Office outside the executive branch and by housing the Bureau of the Budget in the Treasury Department rather than in the White House. Congress also reconsolidated spending power in the appropriations committees, partially reversing the 1885 distribution of that power to various authorizing committees; Stewart (1989)

observes that the logic of the national budget system required Congress to match the president in institutional centralization.

### The Evolution of Executive Budgeting in Practice

Nine decades of executive budgeting later, the federal budget process still would be somewhat familiar to the protagonists of a century ago (useful historical sources are Fisher 1975; James 2008; Milkis 1993; Mosher 1984; Nathan 1975; Posner 2007; Schick 1966; Scott 2008; Tomkin 1998). Over this time, government expanded, and budgeting changed from a process that emphasized control of spending to a broader one that encompassed policy, administration, and macroeconomics. Throughout this time, the budgetary responsibilities of presidents and the capacities of the central budget office increased. Yet Congress retained its power of the purse, and with the 1974 Congressional Budget Act, it reasserted a central role in budgeting. Responsibility for budget results thus was shared by the branches, but also contested by them.

The first budget director, Charles Dawes, was in office for only a year, but he set the tone by holding mass meetings of administration officials to dictate budget savings goals in the name of the president, bypassing his nominal boss, the treasury secretary. The budget for 1923 dramatically reduced spending by almost \$2 billion from actual spending in 1921 of about \$5 billion. The culmination of this period of emphasizing control came in 1933, when the Bureau of the Budget developed a more effective apportionment process for periodically releasing money to agencies.

During the Great Depression, revenues plunged, and spending expanded to fund relief and other efforts to deal with the crisis. Concerns about the resulting deficits were strong enough by 1937 to force significant spending cuts, which threw the economy back into recession. President Franklin D. Roosevelt appointed the Committee on Administrative Management, which concluded that “the president needs help” in leading the executive branch; one outcome was moving the Bureau of the Budget from the Treasury Department to the new Executive Office of the President.

Massive spending increases during World War II piled up huge deficits. Staffing of the Bureau of the Budget rose from 40 to 600, and its functions expanded to include economic analysis and setting staffing levels for each agency. Postwar demobilization fostered concerns about a weak economy, and the government responded by passing the Employment Act of 1946. It increased presidential responsibility for management of the economy, creating the Council of Economic Advisers and supplementing the budget with an annual *Economic Report of the President*. During this period, the transparency of budgets increased markedly, though recommendations from the Hoover Commissions to adopt accrual accounting and performance budgeting reforms were not implemented.

Expansions of the federal government continued with the Cold War’s maintenance of a large military, the creation of the interstate

highway system, and the Great Society’s new entitlement programs. While President Lyndon B. Johnson was instrumental in creating those entitlements, this spending presented a later challenge to executive budgeting power, in that their design does not allow a president to control their costs by using proposal and veto powers, as is the case with regular appropriations (White 1999).

Over this period of expansion, legislative concerns about presidential powers grew, and then came to a head during the Richard M. Nixon administration’s “imperial presidency” (Schlesinger 1973; Sundquist 1981). In 1970, the Bureau of the Budget became the Office of Management and Budget (OMB), but a related call for reorganization of the executive branch into superdepartments failed.

After a landslide reelection victory, Nixon claimed broad power to impound (withhold) congressionally approved spending, a power that was close to what early supporters of executive budgeting had envisioned. In response, Congress adopted the Congressional Budget and Impoundment Control Act (Schick 1980). It rejected Nixon’s claims of impoundment power, a position that it has maintained, except when it gave President Bill Clinton a statutory line-item veto, which was quickly declared unconstitutional.

Congress has been less successful at reasserting its role in setting budgetary totals and priorities. The new budget committees were not powerful enough to use the budget process to establish priorities that ran counter to those

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held by the most powerful committees: Appropriations, House Ways and Means, and Senate Finance. Congress has also failed to pass concurrent budget resolutions five times since 1998. On the other hand, the work of the Congressional Budget Office, which was established in 1974, has been an effective counter to the OMB’s sometimes deliberate falsification in executive budgets (Joyce 2011). However, budget baselines prepared by both branches using statutorily mandated but unrealistic assumptions have made the budget less transparent.

The 1974 reassertion of congressional powers continued the balance of powers, but under more complicated procedures. Under this shared-power arrangement, presidents sometimes were fiscally irresponsible—exactly what supporters of executive budgeting accused Congress of doing (White 2009). Some catered to the public’s desire for a free lunch. For example, Schick says that “Ronald Reagan was not an exemplar of fiscal responsibility in 1981 when he used faulty projections to cajole Congress into hiking defense spending while slashing taxes” (1995, 203). Though some argued that the resulting deficits would force cuts in other expenditures, that did not happen, and deficits grew rapidly.

In 1985, congressional dismay about rising deficits increased when President Reagan joined the Democratic Speaker of the House in rejecting cuts to entitlement spending. Congress responded with a bizarre budget process改革 popularly known as Gramm-Rudman-Hollings. It set targets for deficit reduction and mandated automatic cuts in case Congress and the president did not meet

those targets through legislative action—but the threatened cuts were unrealistic because Congress exempted much spending, leaving the remaining portions of the budget to take reductions far too deep to be politically acceptable.

The failure of Gramm-Rudman-Hollings created pressure for additional changes to the budget process, culminating in the 1990 Budget Enforcement Act agreement between President George H. W. Bush and Congress. This approach was radically different from that envisioned by the Taft Commission because it was developed through a summit negotiation between the branches and relied on legislative enforcement rules rather than executive examination of requests from agencies. Another significant deficit reduction was adopted in 1993 with only Democratic support, which then contributed to the Democrats' loss of Congress—not a promising indicator of the rewards for budget accountability. It was followed by the 1995–96 impasse between the branches and the resulting government shutdown, another budget summit in 1997, and the surprising development of budget surpluses.

If the Taft Commission was correct, after all this drama, a president presented with the gift of a surplus would protect it. Because the opposite happened, the administration of President George W. Bush may represent the strongest case against further increasing presidential budgetary power. Bush considerably expanded presidential budgetary prerogatives and limited those of Congress, for example, through the extensive use of signing statements (Mayer 2008; Rubin 2009; Rudalevige 2005). He also cut taxes deeply, advocated a new unfunded entitlement program for Medicare prescriptions, and greatly expanded defense spending, funding two wars through emergency supplemental appropriations rather than through the regular budget. All were approved by Congress, and large deficits returned quickly. His successor, President Barack Obama, added to these deficits in responding to the “Great Recession” brought on by a bust in housing prices and failed regulation of the financial system. That stimulus spending apparently contributed to growing public concern about the inability of the government to control deficits.

### Evaluating the Practice of Moderate Executive Budgeting

This short history suggests some tentative conclusions about the effects of the moderate form of executive budgeting adopted in 1921. One of the concerns of its sponsors—agency deficiency spending—has been controlled by better budget estimates and apportionment controls, although Congress assisted through its oversight and investigations, General Accounting Office audits, and rules for reprogramming and transfers. Neither the president nor Congress ended the practice of passing supplemental appropriations that should have been made in regular bills; “emergency” supplementals have received less scrutiny than they deserved.

Executive budgeting also increased the transparency of the government's finances—it is easier to find and trust the details of government budgets, especially with the aid of the Internet, although, again, Congress contributed to this progress, in part through its competition with the executive branch. The ability of the Congressional Budget Office to question executive branch budget projections has provided a corrective to the executive branch's sometimes exaggerated claims. However, transparency does not guarantee

understanding. Even during the terms of so-called great communicator presidents, many citizens still were confused about the basic realities of the government's finances.

Certainly the impressive technical expertise resident in the OMB has made large positive contributions to budget outcomes by incorporating presidential campaign promises and other political priorities into budget requests, recommending cuts in lower priority areas, and improving government management in general. Yet the extent to which specific presidential proposals have been based on cost-effectiveness or partisan gain is open to dispute—in part because there has been surprisingly little research on what is still a relatively closed budget preparation process. (An exception is recent work on the OMB's Program Assessment Rating Tool, or PART; see Gilmour and Lewis 2006.)

Because presidents are viewed as party leaders, presidential budget leadership has often meant taking highly partisan positions. Yet even during periods of unified government, presidents have used the process to push executive policy preferences over congressional ones, as when the executive opposed legislative earmarks while funding presidential earmarks. The battle of budgetary powers between Congress and the president has often been more about political advantage than developing effective budget policies. While some presidents have reduced deficits at appropriate times, others have claimed more budget power but then run up deficits while making the budget less transparent. Only rarely have presidents used the bully pulpit to educate citizens about budget problems and propose solutions.

That is, executive budgeting has not guaranteed that presidents will make prudent budget decisions. Indeed, one might argue that some presidents, through their advocacy of tax cuts and/or spending expansions, have been a greater cause of unsustainable budget policies than has Congress.

On the other hand, research shows that most laws are the joint product of the executive and legislative branches, both in times of unified government and in times of divided government (Mayhew 1991; Peterson 1993). Such diffusion of power, when combined with rampant politics of blame generation and avoidance, makes pinning the tail of budget responsibility on the presidential donkey, or elephant, extraordinarily difficult. For this reason, if the Taft Commission members were alive today, they might complain that executive budgeting has not been granted a fair test because of this continued congressional influence in the process—that is, Cleveland's Trojan horse did not work.

### Modern Budget Process Reforms

Over the past century, beliefs about desirable deficit levels have changed frequently, and there has never been a practical consensus on deficit policy. Neither presidents nor Congress have shown much interest in budget process reform in recent years, but the deterioration of the budget situation in the past decade has pushed the issue to the forefront once more (Meyers 2009; Rubin 2007). By the time this article is printed, the debt ceiling must be raised; on occasion, this legislation has served as a vehicle for budget process changes, including poorly designed ones such as Gramm-Rudman-Hollings (Kowalczyk and LeLoup 1993). The policy window for transforming the federal budget process may be open.

Some budget experts oppose making this effort—for example, Paul Van de Water (2010) writes that “[d]ebating budget process is a distraction . . . as long as the focus was on process rather than substance, Members of Congress could continue to deflect responsibility for their inability to make tough budgetary choices.” On the other hand, while addressing substance is necessary, avoiding process reform probably will maintain conditions that help create unsustainable budgets.

During 2010, numerous groups of Washington elites met to consider budgetary options, but also to discuss budget process reforms. Some of their recommendations would give presidents more power and responsibility over the budget, though none would finish the incomplete transformation of 1921. Other recommendations emphasized the provision of better budget information and new fiscal rules.

In June 2010, a committee established by the National Academy of Public Administration and the National Research Council, with more members than served on the Taft Commission but of equal professional stature, released the report *Choosing the Nation's Fiscal Future*. It suggested that the country set a target for the public debt of no more than 60 percent of gross domestic product in a decade and described a range of policy alternatives for attaining this goal. It also recommended changes to the budget process, including distributing better information about long-term budget prospects, formally adopting fiscal targets, reinstating lapsed congressional budget process rules, and creating procedural “triggers” that would automatically cut spending or raise taxes if these targets were not met.

They also suggested a way to increase the public’s ability to hold presidents accountable for the budget. Presidents, they observe,

often initiate policies and programs to try to ensure good economic outcomes in time for their own reelection campaigns, for their party’s midterm elections, and for their legacies. Enhancing presidential ownership of the long-term fiscal challenge ultimately depends on whether the public holds the president accountable for long-term fiscal outcomes. One way to shape those expectations is to require presidents to account for the nation’s future fiscal outcomes annually in a highly visible forum. The president could report on the long-term fiscal outlook, based on outcomes through the most recently completed fiscal year and the proposed or enacted budget for the current year. Until fiscal sustainability is assured, this report might take the form of an address in the fall to a joint session of Congress. (Committee on the Fiscal Future of the United States 2010, 200–201)

Another group, the Committee for a Responsible Federal Budget, composed mostly of former OMB and Congressional Budget Office directors, comptroller generals, and budget committee leaders, released two reports. The group recast itself as a “commission,” though it lacked the government imprimatur, in the name of its joint funders, the Peterson Foundation and the Pew Charitable Trusts. It recommended the same 60 percent target ratio of public debt to gross domestic product (Peterson-Pew 2009). It proposed that the budget committees be reconstituted as leadership committees, that

Congress and the president set medium-term budget targets through a law, and that the president must submit a budget that would meet those targets. The president could propose enhanced rescissions—Congress would be required to vote on his suggestions—should an annual deficit target consistent with the debt target not be met by legislative action. If the deficit target was not met, there would be automatic savings, half from a broad-based surtax, and half by cuts to all spending rather than a subset, as was the case with Gramm-Rudman-Hollings (Peterson-Pew 2010). These proposals, other than rescission powers, depend less on enhancing the executive and more on providing better information to the public and committing the branches jointly to action through the backstop of fiscal rules.

Several other groups, such as the Bipartisan Policy Center (Debt Reduction Task Force 2010) and Our Fiscal Security (2010), also produced reports. They proposed many groundbreaking policy changes, such as a value-added tax, but generally restricted budget process reform proposals to a return to previous enforcement procedures, more review of tax expenditures, and conversion to biennial budgeting; they did not address presidential powers. Their efforts were meant to address the actions of a presidential commission. Support for the creation of this commission was drawn in part from those who believed that the budget process was broken, and in part from those who, as Van de Water suggests, wanted to delay action on tough choices. It was created by executive order after legislation proposed by Senators Kent Conrad and Judd Gregg to establish a statutory commission failed.

President Obama’s National Commission on Fiscal Responsibility and Reform differed from that legislation in that its proposals were not guaranteed votes in the House and Senate, but it had a similar composition: 18 members, nine each from the two parties and six each appointed by the president, the House, and the Senate. A supermajority—14 of 18—would have to agree on any proposals to be recommended. It, too, suggested policy changes that would reduce the deficit, but only 11 members supported them; seven were opposed. The commission also suggested the reform of budget concepts, but its major process reform recommendation was to create a “debt stabilization process.” After the adoption of targets for the debt ratio and for primary balance (revenues minus spending excluding debt service), the president’s budget and the congressional budget resolution would be expected to include provisions to meet these targets. If they did not, legislation could be considered under fast-track procedures to meet the targets. This suggestion was substantially weaker than the trigger proposals described earlier.

### **Taft's Modern Followers: The Solution Is More Centralization**

Some modern research, much like the Taft Commission, has placed more emphasis on executive accountability and influenced the redesign of budget institutions within Europe, Latin America, and East Asia (for important examples, see Alesina and Perotti 1996; Persson and Tabellini 2005; Poterba and Von Hagen 1999; Roubini and Sachs 1989). For convenience, this article accepts the approach’s self-identification as “political economy,” though this term has also been used by researchers with very different approaches.

Political economy theory typically starts from the assumption that legislators face strong incentives to overdraw from the government’s

common-pool resources (its revenue base and debt capacity) by promoting programs that benefit narrow sets of supporters. These incentives include elections that shorten the time horizon of elected officials, in part because voters downplay the long-term costs of running deficits compared to current benefits. Voters are myopic, or the victims of fiscal illusion, which can happen when partisan competition reduces fiscal transparency. Such information asymmetries are emphasized by political economy, as they were in William Niskanen's classic principal–agent model of excessive bureaucratic supply. So is distrust of legislatures—the larger they become, the greater the opportunity for individual legislators to escape responsibility for the benefits they generate for their constituents.

Political economy proposes several solutions to the problems that it identifies in its theorizing. Centralization of budget powers is the most frequent one. Mark Hallerberg, Rolf Rainer Strauch, and Jürgen von Hagen have done the most impressive work: their *Fiscal Governance in Europe* (2009) uses sophisticated indices of budget institutions to demonstrate through cross-sectional and time-series analysis that electoral system–appropriate centralizing budget institutions promote more prudent budget outcomes (see also Hallerberg 2004). Delegation to a strong finance minister is preferred for first-past-the-post election systems that tend to generate majority governments. Proportional representation systems instead tend to produce minority parties, necessitating coalition formation and making it undesirable to delegate veto power to a finance minister who would favor his or her party of origin. In this situation, centralization takes the form of ex ante contracts between coalition partners on the fine details of the budget for the term of government.

The utility of political economy research for U.S. budgeting has been questioned in two respects. First, while it often shows admirable effort and sophistication in data set construction and statistical analysis, the cross-sectional method is unavoidably reductionist, as described by Allen Schick in his evaluation of studies of political regimes and fiscal rules:

Most of them assign weights to different elements of political regimes or fiscal rules, aggregate the weights for all the elements, and correlate the score with fiscal outcomes. This method reduces politics and finance to a few elements and ignores much of the inherent complexity of political regimes and fiscal rules, slighting informal or behavioral characteristics. (2004, 85; see Andrews 2008, 2010 for extended critiques relating to institutional development; and Wehner 2010 for an impressive study that seeks to avoid the problems that Schick identifies.)

In his study of the “logic of discipline,” Alasdair Roberts reports on what happened when countries applied the recommendations of such academic studies:

Economists had jumped from an empirical observation (that concentrated power led to fiscal discipline) to a simple rule for governmental design (that power should therefore be concentrated). There were no

caveats: for example, that one might be wary about further concentration of power in systems that were already prone to executive dominance. There was no tactical sense at all: for example, no consideration of how one dealt with resistance from opponents of treasury power. And there was equal indifference to questions of political philosophy: for example, why it should be right for the claims of legislators or citizens to be suppressed in the name of fiscal discipline. When moments of crisis were past, it was questions such as these that determined whether treasury power (and therefore fiscal discipline) could be maintained. The logic of discipline could not answer them. (2009, 56–57)

Also problematic is that there are large structural differences between the United States and European countries. The delegation model is clearly unsuited to a constitutional system that requires the branches to share powers. The contracting approach, in contrast, is more suitable because it requires some cooperation between differing parties. In European countries, budgetary cooperation between minority parties is necessary to form a government, but in the United States, there is no regular impetus for similar cooperation between the branches. It is important to recall, though, that when fiscal stress has placed reducing the deficit high on the agenda, the branches have sometimes negotiated seriously. In two iterations of this “summit” approach (1990 and 1997), large deficit reductions followed (Hilley 2008).

Though fiscal stress has again elevated concerns about deficits and debt, the Obama commission was not a case of effective bargaining between Congress and the president. In the week when the majority of that commission supported deficit reduction policies, the two branches and the two parties played a high-stakes game of chicken over how to extend the Bush-era tax cuts, the effect of which would be to offset the commission’s deficit reduction proposals. The political environment in which these proposals were made was one of hyperpartisanship and extensive voter discontent. Politicians who proposed specific tax increases or spending cuts could expect heavy criticism. While supporters of Obama’s commission hoped that the president would use his commission’s recommendations as the basis of his fiscal year 2012 budget, many political analysts would consider that political suicide.

### Fiscal Rules as a Substitute for Presidential Leadership

That presidents are expected to avoid the consequences of taking risky positions has provided new support for fiscal rules. Alternative rules include the old standby of a constitutional balanced budget amendment and newer ones such as supermajority requirements for tax increases and hard triggers to force automatic cuts in entitlement programs. The International Monetary Fund’s most recent study used a data set of 80 countries to conclude that “the use of fiscal rules is on average associated with improved fiscal performance” (2009, 3). It defined rules as numerical limits on budgetary

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aggregates (balance, debt, expenditure, or revenue) that can be simply communicated. Compared to some earlier research on fiscal rules, which resembled cheerleading, this study presented a nuanced analysis that acknowledged that rules must be flexible to deal with macroeconomic shocks (a point underemphasized in the U.S. debate over a constitutional amendment) and that they are more likely to maintain commitments to adopt prudent policies than to stimulate adoption of those policies.

Experience in the United States with fiscal rules provides many examples of poor design: the state and local spending limits adopted during Great Depression, Colorado's recent Taxpayer Bill of Rights, and Gramm-Rudman-Hollings. It is difficult to correctly project future conditions when designing rules. When designers are not prescient, rules can be overly restrictive and prone to evasion or, perhaps worse, can be obeyed regardless of the consequences. Another problem with fiscal rules is that the rhetoric about them implies they would be imposed by a powerful external authority; however, most fiscal rules are written by those who must then decide whether to follow the rules. The Peterson-Pew proposed enforcement procedure for its fiscal rule would ask Congress and the president to accept automatic across-the-board tax increases and spending cuts should they not agree on deficit reductions sufficient to meet debt reduction targets. Yet it is very ambitious to think that these policies would be viewed by the public as fair and sensible, and that elected officials would be able to escape blame for these policies by claiming that they were mandated by the fiscal rule.

### A Better Alternative: A Joint Budget Resolution Process

What is needed instead is a process through which the constitutional branches could hope to receive joint credit for negotiating intelligent solutions to the budget problem. This approach would regularize the summit process by converting the congressional budget resolution, now a concurrent resolution that is merely a rulemaking exercise of Congress, into a joint resolution, which would have the force of law (Meyers 1990). While recent presidents have quietly supported this approach, it has been opposed within Congress as a cession of power, and by Washington veterans as unrealistic. The latter is undoubtedly true as long as leaders believe that it is politically advantageous to cast blame on opponents rather than negotiate compromises.

On the other hand, many citizens say they expect leaders to work together. If the time comes when citizens expect annual budget negotiations and resolution on budget totals, then defecting from a joint budget resolution negotiation would violate a norm of the budget process. The developmental challenge, then, is to convince Congress to commit to a joint resolution or summit process for long enough for this norm to develop. That would require convincing Congress that using a joint budget resolution would not cede power to the executive. The logic of this argument is similar to that which led Congress to pass the 1921 Budget and Accounting Act—Congress needs help in order to best exercise its own powers. Because of the veto power, the president is a roughly equal partner in budgeting. Because the president can veto individual spending and tax bills if they violate his preferences regarding budget totals, it makes sense to start negotiations on these totals earlier rather than later. A similar signaling logic supports the president's transmission of Statements of Administration Policy at important stages of the legislative

process. An earlier agreement on totals would allow Congress to focus more on details, an activity to which Congress is more suited. And while findings are mixed about whether the two-step approach leads to lower debt levels, evidence from U.S. states and other countries points in that direction (see Molander 2001; Wehner 2010, chap. 6).

Centralization within Congress would help it negotiate successfully with the president. The House has been governed by stronger leaders since 1995. Centralization in the Senate will be more difficult because the minority has learned to use filibusters to prevent simple majoritarianism. The overuse of the filibuster has generated considerable pressure for reform. Accomplishing that reform is probably a necessary precondition for successful bargaining and compromise between the branches.

### Educating the Public about Budgets Is Also Necessary

When the Progressives forecast that an educated public would oversee and demand accountability from government, thus reducing the influence of corrupt political machines, they underestimated the future impact of mobilized interests. Today, interest groups, aided by an inequitable and nontransparent campaign financing system, support presidents and legislators who simultaneously advocate low tax rates, generous universal transfer spending, targeted subsidies conveyed through regular spending or the tax code, and a massive military. The resulting deficits might upset many in the electorate—but only until they are asked to give up specific benefits. Then the situation becomes that drawn by Mark Alan Stamaty in a 1992 cartoon, in which voters chant, “Do it! Do it! Do what we don’t want you to do!! We want what we don’t want! . . . Confront us with our contradictions that we might blame you for them!” Under the banner “Political Will,” a politician says, “I’ll have to write mine before doing what has to be done.” This is why the trigger proposals suggested by the commissions described here are no panacea—elected officials who follow rules that they wrote will likely be blamed for following those rules if their impacts are unacceptable to the public.

Political scientists have long shown that voters focus myopically on very recent economic performance, are highly receptive to simplistic campaign messages funded by interest groups, and have a shallow and confused knowledge of spending and tax issues (Bartels 2008). Most candidates and most polls portray choices as being for or against spending on a specific program or a tax, rarely informing voters about the aggregate effects of these “preferences” about such naively framed choices.

Improving public knowledge of budget realities was a main goal of Cleveland’s counterpart, William Allen, who argued that the success of executive budgeting depended on increasing the extent of informed public participation in the process. One of his innovations was the famous budget exhibit in New York City, which showed citizens the fruits of competent government; attendance was terrific. Daniel Williams and Mordecai Lee (2008) argue there are modern-day counterparts in this age of Internet-assisted transparency. The OMB has contributed through its publication of PART analyses—though this approach was discontinued by President Obama—and its earmark and stimulus databases. The latter effort, though, was a low-reliability “data dump.”

In recent years, deficit hawks have taken up that cause in well-funded and broad social marketing campaigns, such as the Concord Coalition’s “Fiscal Wake-Up Tour” and Public Agenda’s “Facing Up to the Nation’s Finances.” They probably have improved public understanding somewhat, though they have also sometimes used biased frames that mistakenly blame entitlements as the sole cause of budget difficulties, causing a partial loss of credibility (Skidmore 2010). Related efforts have built budget simulators and run deliberative events in which citizens can emulate the expert groups described above in seeking policy solutions to the deficit (Tanaka 2007 provides a survey of these experiments; see also Delli Carpini, Cook, and Jacobs 2004; Ebdon and Franklin 2006; Shah 2007).

One goal of public education about budgets should be clear: reducing voters’ tolerance of candidates who promise something for nothing. The public has to learn not to ask for unreasonable things, and to recognize as snake oil unreasonable offers such as tax cuts that “pay for themselves.” Another goal should be for voters to learn more about what government actually does, and what it does well, in response to the real situation in the country.

Voters need information that is cogently presented, time to think through their interpretations, and opportunities to act on them (Yankelovich 1991). That seems unlikely under the House Republicans’ proposal to have weekly votes on individual spending cuts selected by the public through a “YouCut” website, which instead could promote an ill-informed and merely reactive populism. So what might be the preferable alternatives?

The OMB could again publish a citizen’s budget report, as it did in the 1990s, and the *Fiscal Future* recommendation for an annual fiscal report could also be adopted. Yet our historical review suggests that it is unrealistic to expect presidents to play the dominant role in educating the public about budgets. The OMB has a culture of secrecy and the daunting mission of helping the president meet his policy goals and manage the government. In contrast, the nonpartisan and highly credible Congressional Budget Office has attempted to translate its work into more accessible forms, but its mission is not public education; it must focus instead on the complexities of the legislative process.

This may suggest that a government agency should not take on this public education role directly. One alternative worth considering is the creation of a small and independent Office of Budget Transparency, which would provide competitive multiyear grants to several nonprofit institutions that would develop innovative methods of explaining the budget. Their goal would be to generate intriguing news stories for print, broadcast, and new media. In this day of shrinking news bureaus, news media might welcome such stories, as is the case now with creative commons publishers such as ProPublica.

There are undoubtedly other alternative approaches to public education about budgets that could be productive. The International Budget Partnership has collected numerous case studies of how public education has helped citizens in many other countries to

better participate in budgeting (see <http://www.internationalbudget.org/>). Exploring how these approaches could be modified for the U.S. context is a worthy area for research.

## Conclusion

A century ago, the Taft report argued that only the president could budget effectively. This was a bold but misguided assertion. Giving the president exclusive power over budget proposal and implementation would not be wise, as legislatures can contribute valuable ideas and provide the impetus for fiscal responsibility. The advocates of strong executive budgeting were also incorrect when they said that making the president solely responsible for budgeting would ensure budget accountability. Because the United States does not have a parliamentary system, congressional rejection of the president’s budget would not cause the government to fall. If executive budgeting must be the strong version preferred by Taft, it is a dead end for the U.S. constitutional system. Article I of the Constitution grants Congress the “power of the purse,” and history suggests that such a dramatic shift in constitutional powers will never be adopted.

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on what was spent. In contrast to the strong form of executive budgeting, it does not prevent Congress from specifying how money should be spent. Also implicit in this type of executive budgeting is the idea that the president is responsible for initiating and carrying to successful conclusion negotiations with Congress on the budget.

The record of this moderate form of executive budgeting has been mixed. On the positive side, budgeting has often benefited from the policy leadership of the president’s budget proposal and the professionalism of the OMB’s budget review and oversight of budget execution. On the other hand, as shown by the budget difficulties now facing the country, the moderate form of executive budgeting adopted in 1921 has not prevented serious fiscal problems. These problems could trigger another transformation of the budget system.

What form should any transformation take? A return to the Taft approach seems unlikely—modern-day heirs of Taft are not easily found among practicing politicians. That is because political economy’s “centralization through delegation” approach to budgeting is widely recognized to be inconsistent with the U.S. system. Of currently proposed reforms that emphasize the president’s role, the one that is most consistent with the Taft approach would require the president to report regularly on the fiscal sustainability of the nation. This could be a beneficial reform, but it will be insufficient.

Given the serious budget sustainability challenges faced by the country, some hope that the president and Congress, having jointly decided that crisis is near, will soon bind themselves through

adoption of a fiscal rule to a specified debt reduction path over multiple years. This could convince the public that tax increases and spending cuts necessary to follow the path should be accepted without punishing incumbents who support those policies. To prefer this alternative, one must be very sanguine about the potential of such a commitment—or one must be very desperate.

Perhaps ironically, our review of executive budgeting suggests that the most desirable and long-lasting reforms would improve how Congress and the president relate to each other and jointly to the people. In fact, “executive budgeting” has always been somewhat of a misnomer for our country. Absent a constitutional amendment, U.S. budgeting must be “Madisonian”—a mixture of “the power of the purse” with “moderate executive budgeting.”

Madisonian budgeting expects big differences over policy and politics between the president and Congress, and between the House and Senate. For government to work, the branches must not only dispute each other, but also listen seriously to each other and compromise when doing so is necessary for the government to function—even when the country is relatively polarized, as it is now. This could be enabled by annual negotiations over politically feasible steps for deficit reductions. Using the joint budget resolution mechanism would implement the “contracting” approach from political economy, suitably modified for the U.S. system. For consensus to be possible and to reduce the motivation for holdouts and obstruction, the public must better understand and reward good budgeting. A lesson suggested by the efforts of the liberal Progressives is that it takes careful work to engage the public. As challenging as that may be, the government and other institutions must help educate the public about budget realities and promote responsible public engagement.

Adopting the moderate form of executive budgeting was a desirable experiment in institutional development nearly a century ago. Embracing the principles of Madisonian budgeting is now an imperative.

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