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Party Control and Budget Estimates: A Study of Politics in the Federal Budget Process

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## Introduction

A rosy and accurate scenario, or a rosy and false one? The United States Congress as well as the Reagan Administration found the answer to this question in a matter of months. David Stockman, Office of Management and Budget (OMB) director during the Reagan Administration, had put forth budget estimates and projections in early 1981. The annual budget analysis made by the Office of Management and Budget revealed estimates that painted a picture of a strong, growing United States' economy. They assumed a rapid increase in the nation's productivity and a booming economy that would finance tax cuts and defense spending increases. They predicted a decline not only in prices, but also in interest rates and the size of the federal deficit. When representing the OMB's projections to Congress, Stockman acted as though the United States economy was heading towards an economic "Never Never Land." Yet the economy never reached such utopian economic conditions. By November 1981, the economic outlook was not rosy at all. While Stockman had predicted that tax cuts would produce five percent growth, by 1982 the country was experiencing the lowest growth rate since World War II. Clearly Stockman's predictions were rosy, but false. In his book, *Triumph of Politics*, Stockman admits that political motivations played a role in the OMB's estimations. He acknowledges that his projections were biased in order to win congressional support for President Reagan's policies. Stockman's "rosy scenario" inspires investigation into whether or not economic projections reflect the agendas of their creators and subsequently, what political factors may influence such economic calculations.

Many scholars have implied that "politics is economics, and economics is politics." Adam Smith, David Ricardo, and Thomas Malthus all wrote about politics or economics, as well as the principle of political economy, which suggests that government and economy are not separate institutions. Indeed, history demonstrates that political and economic institutions interact in interesting ways. This paper is a case study that explores the interaction between these two arenas in the making of the United States federal budget.

This study attempts first to analyze how and why the federal budget process is a political process involving clashing interests and ideologies. The fundamental question that is then explored is whether or not party control in the federal government has a significant influence on the differences in the budget revenue estimates produced by the Congressional Budget Office and the Office of Management and Budget. If research results indicate that party control may have an effect, this may suggest that political and ideological differences may play key roles in budget estimations. Such a finding would support the conclusion that the budget process is significantly influenced by politics.

The supposition of this exploration is that the budget process is influenced by politics. Congress and the president have much at stake in the budget battle, which leads to a conflict of interests and ideology. It is hypothesized that the existence of either unified or divided party control in the federal government has an effect on the differences in baseline revenue estimates produced by the two federal agencies. Specifically, it is hypothesized that the existence of

divided party control has a positive effect on the size of estimate differences. A discussion of research methods and predictions about effects of two other variables, party polarization and homogeneity, will be presented at a later point in this paper.

To begin, an overview description of the budget process will be supplied, followed by a discussion of how the budget process is not only innately political but is political because of the struggle between Congress and the president to influence a process in which they have high stakes. Next, a historical development of the process will highlight how the relationship between Congress and the president has become more political over time. This study will then explore the institutional natures of the budget offices themselves, and analyze the extent to which Congress and the president have control over the offices. Conflicting interpretations regarding whether politics affects budget projections will be considered. In conclusion, research findings will be presented and analyzed.

Prior research findings and relevant literature will be cited throughout this study. It will be shown that various researchers support the hypothesis that the budget process is fundamentally political in nature. With respect to whether or not differences in budget estimates are due to political implications, opposing opinions will be highlighted.

### **Overview of the Federal Budget Process**

An overview of the federal budget process provides insight when analyzing the political implications that may be driving budget estimates. The United States' federal budget process consists of four major steps: executive preparation, congressional action, execution and control, and review. Congress legally grants the president budget authority, which is the right to enter a contract and incur financial obligations on behalf of the federal government. The president thus has statutory responsibility for preparation and submission of the annual budget to Congress. The formal process starts about fourteen months prior to the start of the fiscal year, which runs from October 1 to September 30.

The Office of Management and Budget, acting for the president, submits to Congress a "current services" budget in February that projects revenue and expenditure requirements under existing legislation. This budget also serves as an economic report, indicating the OMB's assumptions of current inflation, unemployment, and gross domestic product levels. The Congressional Budget Office (CBO) is different from the federal agency that creates a current services budget for congressional review. A key aspect of this document is the Budget and Economic Outlook, which states the CBO's assumptions about current inflation, unemployment, and gross domestic product levels.

After the submission of the first budget, the president works with the OMB to create a second budget that suggests his or her planned changes in policy. This budget proposal reflects the president's priorities in taxing and spending, and indicates his or her proposed methods to achieving economic stability and growth. The OMB is responsible for weighing budget requests

from agencies across the whole range of federal activity. Individual agencies are in contact with the Office throughout the process to discuss program development and resulting budgetary needs for the next year. After calculations of projections are made, this second budget is submitted to Congress for debate and review. The CBO examines and evaluates this second budget and puts forth an analysis of the president's budgetary proposals in April. Programs are analyzed to allow the House and Senate Budget committees to judge the merits of the president's budget. The House and Senate budget committees begin creating appropriations legislation by evaluating the president's budget and reviewing CBO's analysis. By the end of June, Congress sends budget appropriations bills to the president who must sign in order for the budget to become law. It is key to note that if the president does not sign the legislation by the start of the fiscal year, the federal government may shut down.

### **Political Implications in Federal Budget Making**

First and foremost, the federal budget process is inherently political because economic allocation cannot be separated from political considerations. The budget classifies the resources that a state needs to function and thus, determines how to allocate society's scarce resources to competing groups and interests. The budget is therefore controversial and political because it inevitably involves the clash of different political ideologies and interests about state spending. After all is said and done, the budget will establish winners and losers in current policy debates, for funding gives life to legislation. As Aaron Wildavsky states,

Presidents, political parties, administrators, congressmen, interest groups all vie with one another to have their preferences recorded in the budget. The victories and defeats, the compromises and bargains, the realms of agreement and spheres of conflict in regard to the role of national government in our society all appear in the budget. (1984, 5)

Various political scientists who have researched the budgetary process and its development conclude that the budget process is indeed influenced significantly by politics. Allen Schick (2000), a lead scholar in budgetary research, argues in *The Federal Budget* that politics is the main factor driving the budgetary process. He further asserts that the budget process has become even more prominent in political life over the past few decades. Similarly, in his work, *Uncertain Legacies: Federal Budget Policy from Roosevelt to Reagan*, Dennis Ippolito (1990) states that "politics and the budget are inseparable" (252). He argues that the budget allocates how much the government spends and how it should finance its activities, and that these choices are fundamentally political decisions. David Ott and Attiat Ott further indicate in their analysis of the budget that the "budget making process is and will always be a political process" (1977, 31). In *Ideological Budgeting*, Steven Koven (1988) argues that the budget process must be political because it is innately driven by ideology. He claims, "Budgeting defines our priorities; it reflects out inner beliefs and guides our behavior. Political ideology affects budgeting because ideology shapes values and these values in turn shape spending priorities" (Koven 1988, 9).

A key aspect of this politicization of the budget process is that it revolves around a conflict of interest between Congress and the president, who both have high stakes in budgetary outcomes. As Schick says, “The evolution of federal budgeting has been a long test between two political branches for control of the purse” (2000, 8). Due to the limited focus of this paper, this study will not discuss the detailed reasons for this vested interest. However, a discussion of this issue is included in Appendix A for those readers interested in learning more. A discussion of the historical development of the budget making process will highlight how this political dynamic of conflict between Congress and the president originated.

### **Historical Development of the Budget Process**

Before 1921, the United States government did not produce any documents similar to a federal budget. Federal agencies would simply negotiate with congressional committees to obtain funding, and the president had no significant involvement or budgetary responsibilities. Congress essentially controlled the finances of the federal government. In 1921, the passage of the Budget and Accounting Act began the trend toward executive involvement. The Bureau of the Budget was established in the Department of Treasury with the duty to create an executive budget. The Bureau exercised a monopoly over central review of the budget, and this represented a major shift in budget control to president. In 1939, President Franklin Delano Roosevelt transferred the Bureau from the Department of Treasury to his newly created Executive Office of the President. This move played a key role in allowing for the development of an executive budget in line with the president’s legislative priorities. Interestingly, the fact that FDR’s actions began the trend toward large executive influence in the budget, aligns with Skowronek’s theory that FDR was the instigator of the modern presidency, a presidency that characterizes the president as a leader with much more influence and power (Skowronek, 1997).<sup>1</sup>

As the president gained more executive control over the budget making process, President Nixon solidified and consolidated this power in 1970, by creating the Office of Management and Budget. Consequently, during Nixon’s presidency, the neutrality of the OMB was brought into question. Many began to view it as simply a political tool for the president. Frenreis and Tatalovich argue that “Nixon politicized the operations of the OMB” (1994, 52). Nixon made many controversial decisions to impound funds allocated by Congress, and the resulting political battles between Nixon and Congress further accentuated the politicization of the budget. By the middle of the 1970s, the struggle for control of the budget had become the central battleground in executive-legislative relations.

In response to increased frustration over their lack of power in the process, Congress passed the Congressional Budget and Impoundment Control Act of 1974 to increase congressional influence on budget policy. This Act highlighted the struggle between Congress and the president, as a direct action to increase congressional control while limiting executive

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<sup>1</sup> In Skowronek’s view, the modern presidency has been constrained by the fact that the president has not been given the tools needed to govern.

influence. Indeed, the Act states: “The Congress declares it is essential to assure effective congressional control over the budgetary process.” Before the legislation, Congress had no comprehensive budget review or means to devise credible alternatives to the presidential budget. The Act created the Congressional Budget Office for these specific purposes. The CBO was to create independent economic forecasts and budgetary projections with expert staff to provide assistance to Congress in the way that OMB assisted the president. The Act also created the House and Senate Budget committees to create congressional budget resolutions that would serve as alternatives to the president’s budget. The Act further provided Congress with the means to limit presidential impoundments. While the 1921 creation of the Bureau of the Budget and Nixon’s creation of the OMB were both attempts to increase presidential control over the budget, the Control Act of 1974 was an attempt to boost congressional control.

As the historical development illustrates, the history of budget making has been “centered around the struggle between Congress and the president for budget control” (Marini 1992, 16). The dynamic has been a political battle. Such a conclusion has implications for this study. If both branches try to influence the budget process, how is this influence manifested in the estimates produced by the CBO and OMB? This investigation inspires two questions that must first be explored. First, to what extent do Congress and the president have control or influence over the two budget offices? Second, are budget estimations indeed influenced by political considerations? This study will now attempt to address both of these key questions.

### **Institutional Implications: Political Control over Office of Management and Budget**

In exploring the first question, it is important to examine the nature of the two budget offices. The basic function of the OMB is to assist the president in preparing and executing the federal budget. The OMB advises the president on preliminary agency plans and budget requests, and gives the president the basis for budget policy decisions on total spending and programs. Essentially, the office creates the president’s budget that will be submitted to Congress.

Frendreis and Tatalovich state that “the president is in command of many bureaucratic offices with significant responsibilities for formulating and implementing economic policy” (1994, 49). The OMB is one of these agencies. Although the Senate must confirm presidential appointments of both the director and deputy director of the Office, the objective professionalism of the OMB staff has been criticized. As Wildavsky indicates, “The OMB is hard put to play the role of guardian consistently. The OMB basically acts for the president, and is a source of his power” (1984, 3). Executive control over the Office has developed through time. Before 1939, the Bureau of the Budget was in the Department of Treasury. Today, the OMB is located within the Executive Office of the President. Prior to the 1970s, the Budget Bureau largely succeeded in maintaining its status as a nonpolitical accounting agency. Political considerations began to play a role during the Eisenhower administration when the “Bureau, instead of just reviewing agency estimates, determined if new program requests fit into president’s legislative program” (Frendreis and Tatalovich 1994, 82). During the Nixon

administration, people began seriously questioning the objectivity of his newly created Office of Management and Budget.

Presidential control over the OMB is evident in that the OMB traditionally defends the president's budget and does not openly take positions contrary to White House policies. Schick states that the "economic advice given by the OMB generally reinforces the policy agenda of the White House" (2000, 56). The director of the OMB is the chief spokesperson for the administration before Congress, and he or she is "tied intimately in discussion with the president through the pre-submission process" (Ott and Ott 1977, 37). It is the responsibility of the OMB director to actively build public and congressional support for the president's policies. Schick elaborates, "The director has acquired a political face, appearing on television and using media to battle Congress on budget matters" (2000, 88). These institutional functions of the OMB have allowed it to gain a very partisan reputation. Frendreis and Tatalovich note,

Politics continues to overwhelm professionalism at the OMB and it seems unlikely that this development will be reversed by the White House anytime soon. Current and future presidents, regardless of their party or ideology, must have a loyalist as head of the OMB in order to shape the budget according to their priorities. (1994, 60)

But why does the OMB act as a presidential tool? An institutional reason lies in that OMB officials are appointed by the president, who makes sure that officials align with him politically and are willing to support his ideas. Frendreis and Tatalovich state that "every president recruits staff members and agency heads who share his general priorities and philosophy" (1994, 50). Richard Skinner, in his piece "The Partisan Presidency," argues that "presidents have sought to put strong partisan imprints on the executive branch by centralizing personnel decisions and favoring ideological loyalists over career civil servants or nonpartisan experts" (2006, 336). Indeed, many presidents have chosen key advisors whose thinking was as much influenced by ideology as by economics. Some examples include Kennedy and Keynesian economists, Nixon and monetarist economists, and Reagan and supply side economists.

The fact that this phenomenon occurs in the OMB may be illustrated by a case study of the Nixon administration. Koven states that "President Nixon tried to appoint individuals to the bureaucracy who were in line with his own ideological thinking" (1988, 151). Nixon's creation of the OMB made the review agency, as opposed to the Bureau, more responsive to the president's political interests. Schick notes that "professionals were replaced with political operatives who had been White House political appointees. These appointees, rather than career staff, now handled major policy chores" (2000, 87). Three OMB directors who served under Nixon became presidential spokesmen. Because of their activities, the OMB became identified as "more of a member of the president's own political family and less a broker supplying independent analytic service to every president" (Frendreis and Tatalovich 1994, 60).

Frendreis and Tatalovich argue that the “way in which each president makes use of the OMB depends upon his mode of decision-making, organizational preferences, and political ideology” (1994, 255). For example, some like to exert greater control and maintain more involvement in the process. Frendreis and Tatalovich (1994) discuss how President Clinton met with OMB department heads for fifteen hours at a time in order to discuss budget estimates. Clearly, his interaction did influence estimates, as Schick (2000) mentions that Clinton broke his promise to use CBO estimates in 1993 because the OMB’s were more responsive to his policies. Regardless of how involved any given president is in OMB’s activities, it is clear that the president has some control over the office. As Wildavsky describes it, the OMB is a “presidential servant with cutting bias” (1984, 18).

### **Institutional Implications: Political Control over Congressional Budget Office**

In comparison to the OMB, the CBO has the reputation of being a more non-partisan agency. It is fundamentally the informational and analytical arm of Congress with regards to economic and budgetary matters. It has the authority to obtain data from executive agencies, study budget options, and issue its own budget projections to be used by Congress in making budget resolutions.

Terry Moe’s assessment of the collective action problem in Congress may provide a strong case for Congress’ inability to influence the CBO, or any agency for that matter. Wildavsky also indicates that “there is no sense in treating Congress as if it were or could be led by a small cohesive group easily able to agree or to impose its will on others” (1984, 224). Yet although it appears as though possible avenues for control are limited, there is evidence that congressional party leadership may have influence in the CBO’s decisions.

The CBO works closely with the House and Senate budget committees, which are responsible for studying budgetary effects of existing and proposed legislation. They also have the duty to oversee the operations of CBO. Lance LeLoup argues in *Parties, Rules and the Evolution of Congressional Budgeting* that the existence of strong party leadership may influence the budgeting process. He claims, “In the House, the Budget and Rules Committees have become important tools of majority party leaders. Leaders influence the selection of members to these key committees. House leaders dominate the budget process, manipulating the floor agenda and the rules to their advantage” (LeLoup 2005, 210). His argument suggests that members of Congress on the budget committees may be influential in dealing with the CBO because they have been placed on the committee for specific political reasons, such as the fulfillment of the majority party’s particular political and budgetary goals. Interestingly, the Control Act of 1974 allows CBO to sponsor or endorse certain pieces of legislation. This suggests the intrusion of politics into the CBO’s analysis of the costs and effects of alternative budgetary choices. The CBO may give budget committees a biased policy analysis and recommendation that reflects the majority party’s desired fiscal goals.



Furthermore, Kernell and Engstrom indicate that “congressional leaders pick advisors who are in accord with their fiscal policy objectives” (1999, 824). The director of the CBO is appointed by the Speaker of the House and the President Pro Tempore of the Senate. These majority leaders may select economic analysts who are in line with the political and fiscal policy goals of the majority party. As Krause and Douglas note, the “CBO is not void of politicization since the majority party leadership in each chamber play a decisive role in appointing the CBO director to serve a four-year term” (2005, 286).

There is some evidence that the majority party believes it may exert control over the CBO. There have been instances when the majority party, wanting its programs supported by CBO analysis, has criticized CBO estimates that they considered unfavorable. Stan Collender describes how in 1998, House Republicans “threatened the CBO with a reduction in its own budget unless it adjusted its ‘unduly’ conservative revenue estimates. The House Republican leadership heavy-handedly and very publicly criticized CBO for projecting budget surpluses that were far too low, thereby preventing Congress from adopting the tax cuts Republicans want to put in place” (Collender 1998, 1). Such actions taken by the majority party suggest that congressional majorities expect the CBO analysis to align with party policy goals.

Ultimately, as Kernell and Engstrom state, “although both the CBO and OMB voice allegiance to professional creed that has them staying out of political fray and providing politicians with objective advice, these dependent agencies might also be tempted to yield to their principal’s pressure” (1999, 828). These research findings indicate that both offices are indeed influenced to at least some extent by Congress or the president.

### **Political Influences in Budget Projections**

A second key question is whether or not actual budget estimates are influenced by politics. If they are, this may suggest that differences in estimates of the CBO and OMB are due to political considerations, such as the existence of unified or divided party control. Various theories have been developed concerning the influence politics has on the creation of budget projections.

Schick believes that politics play a key role in influencing estimates. He states that “current services baselines have been anything but neutral” (2000, 41). He argues that the baselines’ underlying economic assumptions, which are not studied in this paper, are where “political opportunism and manipulation thrive” (Schick 2000, 8). Although the staffs of the CBO and the OMB have strong interest in upholding the integrity of the budget process, Schick argues that neither “can avoid some entanglement in politics of budgeting” (2000, 41). Different methods of baseline calculations result in different budgetary decisions and therefore political outcomes. Schick boldly concludes that “each side is armed with numbers that make its case; the number disagree because the political combatants disagree” (2000, 73).

In contrast to Schick's perspective, Professor Alan Auerbach at the University of California Berkeley believes that CBO and OMB forecasts do not contain much bias. After evaluating forecast differences, he concludes that the offices' budget projections overall have not differed significantly from that of a private forecaster, Data Resources, Incorporated (Auerbach 1999, 765). Similarly, Krause and Douglas argue that there are only trivial degrees of bias contained in fiscal projections. Their research leads them to suggest that "reputational considerations outweigh political pressures that these agencies confront due to the institutional structure they operate under" (Krause and Douglas 2005, 281). Professor Ron Lee in the Economic and Demography Department at the University of California Berkeley and Professor John Ellwood at the Goldman School of Public Policy both agree with this perspective. In personal interviews, they stated that they believe there are limits to political influence because bureaucrats are mostly civil servants who care about the system and are therefore unbiased and professional in their work (Lee, Ellwood 2007).

With respect to the effects of party control on budget estimates, LeLoup argues that "partisanship in congressional budgeting has made divided or unified control of government exceptionally important in determining direction of budgetary policy. Under divided control, the president faces a capable opposition, requiring new strategies" (2005, 215). He cites examples from 2001 and 2003 in which Republicans were able to successfully implement significant tax cuts because the two branches were functioning under unified Republican control for first time since 1953. However, regardless of the ability to pass a budget due to unified party control, what must be evaluated is the effect of party control on actual differences in budget projections.

Kernell and Engstrom offer some preliminary findings on this topic. They argue that party control does indeed matter in economic forecasting. After evaluating budget estimates, they find that agency differences are associated with party control of Congress and the president. They conclude that "during periods of divided government, when their principles may be expected to disagree most sharply about policy priorities, these agencies' projections diverge" (Kernell and Engstrom 1999, 820). They reason that these agencies may want to compliment the fiscal policy goals of their principals, Congress and the president.

It is important to analyze why the findings of these particular scholars vary. To review, Schick believes that current services baselines are not neutral projections but are greatly influenced by politics. He suggests that political bias enters these calculations when projectors get to choose what numerical economic assumptions to use in their baseline estimations. His description in *The Federal Budget* does not indicate that he completed a regression analysis like the Krause and Douglas (2005) and Auerbach (1999) studies, implying that Schick's data is only descriptive. Krause and Douglas, on the other hand, state that bias in fiscal projections is relatively small and that political pressures do not influence calculations greatly. They actually measure the economic assumption variables of gross domestic product, consumer price index, and unemployment rate by both the CBO and OMB. After examining how these projections differ from actual figures and comparing forecast accuracy of both offices, they found that both offices had trivial degrees of bias, thus concluding that estimations are not affected by the

institutional design of the agencies. They state that there were “trivial cross-agency differences regarding bias and accuracy” (Krause and Douglas 2005, 281). Auerbach’s study similarly concludes that there is relatively little bias in budget baseline revenue forecasts, for the study found that the performance of the two offices were similar to that of a private forecaster, Data Resources, Inc.

Although it seems as though Schick’s theory conflicts with that of the Krause and Douglas and Auerbach studies, such a conclusion is difficult to make because Schick’s study is merely descriptive and while the others include regression analysis. However, Schick’s findings are similar to those of Kernell and Engstrom, whose regression analysis indicates that actual budget estimates do differ based on party control. Although this last study implies a political influence upon projections, while the Krause and Douglas and Auerbach do not, this variation may be due to the fact that the Kernell and Engstrom study measures actual budget estimates of outlays and deficits, not baselines or economic assumptions as do the studies of Krause and Douglas and Auerbach. Findings may also vary because the studies measure politics in differing ways. Krause and Douglas and Auerbach gauge politics by evaluating bias due to forecast error, while Kernell and Engstrom quantify politics by measuring if budget estimates differ according to party control. Therefore, results of the cited studies may diverge because of the different variables and data utilized.

Despite the existence of these differing views regarding the influence of politics on estimates, it is evident that politics does matter to some extent in the act of estimation. Recalling the answer to the first question explored, the CBO and OMB are influenced by the president and Congress at least to a certain extent. These two findings support this paper’s original hypothesis; divided party control may be associated with larger differences in estimates because the offices of the CBO and OMB are each influenced by actors with conflicting interests and political goals. The actual testing of this notion, described below, will seek to provide statistical support of the hypothesis.

### **Testing the Hypothesis**

*Methods.* In testing the hypothesis, the existence of neutral estimation will serve as the null hypothesis, predicting that party control does not have an effect on budget estimates. To reject the null hypothesis, the data must suggest that budget differences are indeed larger during divided party control.

The dependent variable is the absolute value of the difference between the OMB and CBO estimates of current services baseline revenues for each year since 1977.<sup>2</sup> Although ideally this study would compare the differences in actual budget projections, not baseline estimates, that comparison will be left to another study. Budget projections differ because they are based on different baseline estimates. Baselines also vary depending upon differing technical, economic

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<sup>2</sup> These estimates were obtained from the official websites of the CBO and OMB.

and policy assumptions. However, for the purpose of this study, these differences in assumptions will not be taken into account. The baseline revenue comparison will still answer the research question because it is used in policy discussions and political debates.<sup>3</sup> It will indicate if differences are due to political considerations because a larger or smaller revenue estimate may warrant greater or smaller authority to spend or tax.

The data set for each year examines several key variables. The independent variables are party control, party homogeneity in Congress, and party polarization in Congress. A regression analysis was run to test the effect that these three independent variables may have on differences in estimates.

There will be no discussion of how these estimates differed from actual revenues. The purpose of this research is comparative and does not seek to evaluate whether each office was accurate in estimation, although it may be argued that bias may lead to inaccurate estimations. The data set spans from 1977, three years after the CBO was created, to 2007. It is crucial to note that the regression analysis was run with only thirty data observations. Therefore, until assumptions are controlled and more observations are attained, the findings may only show a relation between the variables, and not causal relationships. For the purposes of this study, a descriptive relationship may suffice.

***Comparison to Other Scholars' Research Methods.*** In comparing the use of variables and data in this study with that of others, it is useful to note that the Krause and Douglas study, as well as that of Alan Auerbach, have different purposes than this one. They do not measure the influence of party control on budget estimates. Those studies focus on predicting bias in estimates by looking at how actual figures differ from budget estimates. Nonetheless, the Auerbach study also uses current services baseline revenues. The Krause and Douglas study uses macroeconomic projections, notably the consumer price index, unemployment rate, and gross domestic product, as its variables.

The Kernell and Engstrom study, on the other hand, has a similar set up as this one. Kernell and Engstrom measure the absolute value of the differences between the CBO and the OMB's budget estimates and look at the effect of party control on these differences. However, their study differs from this one in the particular data utilized. This study measures party control by labeling it as "divided" if one or both congressional houses are controlled by a party that is different from the president's party. Kernell and Engstrom measure divided party control in two ways, first, when both congressional houses are controlled by two different parties and second, when there is a unified congress and opposing party president. Another difference between this and the Kernell Engstrom study is that the latter measures actual budget estimates of outlays and

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<sup>3</sup> Revenue will be defined as the amount taken in by the federal government from the collection of personal, corporate, excise and payroll taxes and tariffs. The current services baseline that will be used is fundamentally a projection of what will happen to revenues assuming that current programs will be carried on at the same levels without changes in policy. This study could also have compared the baseline deficit, surplus, or outlays differences, but chose to focus on baseline revenues.

deficits, not baseline revenues. It is important to note that none of the three studies look at party polarization and homogeneity as this study does.

## Research Findings

***Party Control.*** The regression analysis indicates that unified party control has a negative effect on the differences in baseline estimates. Differences decrease with unified party control. This is indicated by the negative coefficient (-6.04) on the unified government dummy variable. The analysis inversely shows that divided party control has a positive effect on the differences in baseline estimates. Differences become larger with divided party control, as indicated by the positive coefficient (6.04) on the divided government dummy variable. Therefore, this study preliminarily rejects the null hypothesis, keeping in mind that only thirty data observations were regressed and that a relational description would be more appropriate than a causal description, given the limits of the study.<sup>4</sup>

If one assumes from earlier discussion that both agencies are subject to pressures from their political principals, the data suggests that the agencies produce different estimates when their principal's goals differ under divided party control. This research finding may indeed add more weight to the argument that budget making is political, and that different ideological interests do play key roles in the federal budget process.

***Party homogeneity and polarization in Congress.*** This paper hypothesized that increased party homogeneity and polarization would result in increased differences in baseline estimates. Differences in party means in each chamber were used as measure of party polarization. The standard deviation from the party mean in each party in each chamber was used as a measure of party homogeneity.<sup>5</sup>

This hypothesis was made under the assumption that CBO officials who produce the estimates represent the political preferences of the majority party of Congress. The previous conclusion that the CBO is influenced by congressional majority party control allows for this assumption. It is assumed that when there is not much party polarization and homogeneity, the preferences of Congress and the CBO will be similar. It is hypothesized that with greater polarization and homogeneity, the CBO will represent majority party interests, thus creating larger differences in estimates under divided party control.

The regression analysis indicated that party polarization in both the House and the Senate had a negative effect on differences in baselines. This suggests that when party polarization increases, the differences between estimates may get smaller, thus disproving the paper's hypothesis. With regards to party homogeneity, the regression analysis indicated that party homogeneity among House Democrats, House Republicans, and Senate Republicans positively

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<sup>4</sup> Please see Table 1 for regression results summary.

<sup>5</sup> This data was collected from the UCSD Voteview website by Poole and Rosenthal.

affected the differences in estimates. Party homogeneity among Senate Democrats had a negative effect, as indicated by the negative coefficient (- 0.058). Excluding the findings for Senate Democrats, the data seems to support the paper's hypothesis.

***Testing for Interaction between Party Polarization and Divided Party Control.*** Due to the possibility of overlap among variable effects, this study also attempted to test for interaction among certain key variables, notably party polarization and divided party control. It was assumed that party polarization only affects differences in budget estimates when there is divided party control. In order to test for the interaction between polarization in the House and Senate and divided party control, the following equation was used:  $a(\text{difference in budget estimates}) + b(\text{polarization}) + c(\text{party polarization} * \text{divided party control}) + \text{constant}$ . The test results indicated that when there is zero polarization in the House, divided party control leads to a 16.5 billion increase in the difference between the two budget estimates. This study hypothesized that there would be a positive interaction between polarization and divided party control, and that more polarization during divided party control would lead to larger budget differences. However, the coefficient for interaction was found to be negative (-14.8), going against the study's hypothesis. Therefore, although the study tested for an interaction between these two variables, the results indicated that there was no interaction. One must keep in mind, however, that the data proved to be statistically insignificant, and thus this study cannot definitively conclude if there is or is not an interaction. One must also note that the use of only thirty case study years may have a bearing on the results.

TABLE 1. Summary of Regression Analysis Findings.

Independent Variable	Regression Coefficient <sup>a</sup> : Effect of Independent Variable on Differences in Budget Estimates
Divided Party Control	6.04
Unified Party Control	- 6.04
Party Polarization in House	- 9.46
Party Polarization in Senate	- 8.52
Party homogeneity among House Republicans	0.028
Party homogeneity among House Democrats	0.129
Party homogeneity among Senate Republicans	0.062
Party homogeneity among Senate Democrats	-0.058

<sup>a</sup>A negative coefficient indicates that the variable has a negative effect on budget estimate differences. A positive coefficient indicates that the variable has a positive effect on budget estimate differences.

**Comparison to Other Scholars' Findings.** The data from this study seems to indicate that divided party control and party homogeneity increase differences in budget estimates, while party polarization decreases differences. Setting the findings for party polarization aside, the data supports Schick's theory that baselines are not neutral projections and are indeed influenced by politics. The study also supports the findings from the Kernell and Engstrom study, which concluded that divided party control increases the differences in actual budget estimates of outlays and deficits. However, the study does have different implications than the studies of Alan Auerbach and Krause and Douglas. Both those studies suggested a relative lack of political influence in projections, for they found that projections do not contain much bias. Further research, as suggested later in this paper, will solidify this study's findings and come to more definitive conclusions as to why this study's findings differ from those in the Auerbach and Krause and Douglas projects.

**Descriptive Observation.** It is interesting to note, after a descriptive analysis of the data, that the OMB estimates have been consistently higher than CBO estimates since 1977, with the exception of a few years. This may suggest that the OMB has an incentive to predict higher revenues in order to justify either more spending on presidential programs or more

implementation of tax cuts, depending on the goals of the current presidential administration. Please see Table 2 for comparison of estimates.

TABLE 2. Comparison of Budget Estimates.

<u>Year<sup>a</sup></u>	<u>OMB Estimate</u>	<u>CBO Estimate</u>
<b>1977</b>	322.6	322
1978	395.0	397
<b>1979</b>	456.0	453
<b>1980</b>	502.6	502
<b>1981</b>	605.6	605
<b>1982</b>	657.8	631
<b>1983</b>	613.2	600
1984	674.8	677
1985	735.0	737
1986	764.0	767
<b>1987</b>	842.3	834
<b>1988</b>	910.4	900
<b>1989</b>	968.2	962
1990	1057.5	1069
<b>1991</b>	1156.3	1137
<b>1992</b>	1176.0	1170
1993	1146.9	1150
<b>1994</b>	1270.0	1265
1995	1354.0	1355
<b>1996</b>	1453.0	1450
<b>1997</b>	1585.0	1579
1998	1664.0	1665
<b>1999</b>	1743.0	1722
<b>2000</b>	2013.0	2008
<b>2001</b>	2013.0	2011
<b>2002</b>	1991.0	1983
2003	1756.0	1770
<b>2004</b>	1875.0	1871
2005	2140.0	2142
<b>2006</b>	2407.0	2403
2007	2574.0	2577

<sup>a</sup>Bolded Year = Higher OMB estimate

*Limits of the Study and Future Research.* As discussed earlier, the research findings may only suggest these relationships, for the data cannot provide concrete causal connections with only thirty observations. It is surprising to note that although the regression analysis indicates certain relationships, a correlation analysis indicated that the independent and dependent variables were mostly uncorrelated.<sup>6</sup> For example, the “R” for both party polarization

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<sup>6</sup> A correlation exists between two variables when one of them is related to the other. “R” is the linear correlation coefficient measuring the strength of relationship.



and homogeneity was far from one, indicating a lack of correlation. This could have been due to statistical error, or again, to the lack of more data observations. See Table 3 below.

TABLE 3. Summary of Correlation Analysis

<u>Independent Variable</u>	<u>Correlation Coefficient<sup>a</sup></u>
Divided Party Control	0.224
Unified Party Control	-0.224
Party Polarization in House	-0.021
Party homogeneity among House Republicans	-0.066
Party homogeneity among House Democrats	-0.045
Party homogeneity among Senate Republicans	-0.164
Party homogeneity among Senate Democrats	-0.160

<sup>a</sup> Related to Differences in Budget Estimates

Future research would involve solidifying these research findings. The study should proceed to control for differences in assumptions about future economic conditions. The OMB and the CBO usually do not create their baselines on the same assumptions, and this may be a cause for estimate differences that was not accounted for in this study. A study using baselines should also consider examining other baselines such as deficit or outlays. Another option for further research is to compare differences in actual budget estimates instead of budget baselines. Overall budget projection differences may highlight important political implications not evident in the baseline study framework.

## **Conclusion**

This study has suggested that differences in budget baselines may be a reflection of party control. Such a suggestion adds to the notion of the politicization of budget. Perhaps the existence of two opposing review agencies has contributed to the historically political dynamic between the president and Congress in budget relations.

This research topic sheds light on presidential politics, for it examines how the president may function within American political and economic structures. If the relation between

Congress and the president in economic issues is a political power struggle, the dynamic may be evident in other issue areas as well.

This study is pertinent to the general U.S. citizenry in that it explores the extent to which the budget process is political. Clearly, Congress has succeeded in challenging presidential control of budget since the Control Act of 1974, but the “price of this success has been an institutional inability to reach agreement on expenditures at higher levels” (Marini 1992, 12). The politicization of the budget has arguably led to lessened ability to control deficits, and has also introduced the possibility of government shut down when the president does not sign a budget by the start of the fiscal year.

This study also raises the question of whether or not it is desirable that politicians design agencies to be more sensitive to their own policy needs, as indicated by the appointment of political people in supposedly objective agencies such as the CBO. Perhaps democratic politics should allow for elected representatives to do this because they are elected to create policies that they favor and believe would help the public. However, public policy makers may not be aware of certain policy consequences, and this highlights the need for objective analysis where politicians may not have particular expertise. The possibility of biased budget projections is discouraging as the budget is arguably one of the most important documents produced by the federal government each year. The federal budget amounts to one-fifth of total national output, and the recent immense growth in federal spending indicates that changes in budget and spending priorities will have large impacts on aggregate demand and the economy. The possibility of inaccurate estimates therefore introduces the possibility that the budget and similar economic legislation may be passed on faulty assumptions.

Reforms could be instituted to encourage more objective estimations. As Koven states: “If we are to achieve greater objectivity, biases such as those attributed to political ideology must be identified and controlled” (1988, 176). However, such reforms would require major institutional changes in the two budget offices. To reduce political influence, the CBO could be made into a completely independent agency, with its own budget not dependent on annual congressional decisions and with a director appointed for a longer term. This may be a possibility, but reform may prove futile in the American democratic system where politics cannot be separated from economics. The politics of the budget process therefore shed light on the pros and cons of a system in which these two arenas are inevitably tied.

Regardless of the implications of this study, clearly future research in the budget process should focus on political as well as economic considerations. As Koven suggests, “If one accepts this political perspective, it is advisable for instructors of public budgeting to place less emphasis on disciplines such as economics and finance and focus to a great extent on public relations, opinion shaping, and other political factors concerning art of budgeting” (1988, 13).

In the most fundamental way, the budget lies at the heart of the political process. Ippolito states that “the federal budget has achieved the lofty status of political drama” (1978, 1). Who

knows what the next scene may bring? Who will perform better in next year's budget battle and attain the public's applause at curtain call? Congress or the president? Perhaps it is time that closing night arrive and end this kind of budgetary drama. Yet political scientists must find out what is required to strip the actors of their political nature. Perhaps the very notion of separating politics from economic policy may be nothing more than a flickering candle on a very short fuse.

### ***Appendix A: Budget Politics and Analysis of Stakes for Congress and the President***

The United States federal budget is important to many citizens, illustrated by the fact that budget policy is often one of the leading domestic issues in national elections. Consequently, Congress and the president have high stakes in the process, and when the interests of these two branches differ, this may lead to political conflict in the budgeting process.

For better or worse, the budget may be used as a political tool by both congressmen and presidents. In making budgetary decisions, congressmen must consider how choices will affect their popularity with their constituents and certain interest groups. As Koven states, "Legislators, when budgeting, ask whether or not programs are worth the cost in terms of votes gained" (1988, 135). Furthermore, spending level choices result in future budget surpluses and deficits that largely affect the country's overall economic activity. Congressmen have incentives to show the public that they are fighting for low deficits and better economic conditions. Therefore, public expression of how they are dealing with budgetary matters can be a political strategy. Kernell and Engstrom indicate that "a large, chronic deficit poses difficult challenges to politicians who seek to avoid blame for the deficit while providing both the programs and tax relief desired by their constituents" (1999, 826).

The budget represents an opportunity for the president to achieve his objectives, and he is therefore highly involved in the process. Schick states,

Through preparation of annual budget, exercise of influence within the legislative process, appointment of heads of regulatory bodies and executive agencies, and the statutory presidential responsibility for collecting economic statistics and describing the nation's economic health, the president plays some role in virtually every action relating to the management of the economy. (2000, 13)

Presidents have multiple incentives to shape economic conditions through their budget policy and therefore create a positive legacy in this arena. Multiple studies have shown that economic conditions directly affect presidential popularity, and this illustrates why presidents have so much at stake in the budget process. David Lanoue (1988) argues that the American public sees the United States economy as something that can be manipulated by government policy, and therefore expects government leaders to enact policies leading to the achievement of economic goals. As the chief economic policymaker, the president feels the need to influence the economy because the voting public expects him to do so. Lanoue shows how the president's popularity rises and falls with improvements and declines in the nation's economic performance. Lanoue

states, “Inflation, unemployment, and income are major factors in economic voting and presidential popularity. Presidential votes are related to an individual’s current economic situation” (1988, 58). He supports his argument by illustrating that downturns in the economy have been associated with losses in congressional elections by the president’s party rather than with losses by the party that actually controls Congress. John Fren dreis and Raymond Tatalovich further add that “much of the credit or blame concerning the performance of the economy goes to the president” (1994, 25). Clearly, the president has high stakes in the outcome of the budgetary process because it affect his or her legacy, reelection chances, and ability to prove to the public that he or she has significant power and influence in economic decision-making. It is important to note that a president desires control and involvement in the budget process because he or she assumes his proposed policies will spur economic growth. A president who loses the budget battle to Congress may still be praised by the public later on if Congress’ budget policies led to positive economic conditions.

Both branches therefore have high stakes in budgetary outcomes because of resulting political implications. When congressional and presidential interests conflict, political debate over budget allocation intensifies. Nixon’s interaction with Congress is one case study on how differing budgetary goals may play out very politically. While the Nixon administration desired to reduce the level of government activity and thus cap federal spending at 250 billion dollars, most congressional Democrats, who did not share his views, provided much opposition to Nixon’s budget proposals.

A crucial aspect of the politicization of the budget is the relationship between the president and Congress during their battle to influence the budget. As Fren dreis and Tatalovich put it, “A discussion of the development of the budgetary process is in reality an account of the battle for political control over taxing and spending between Congress and the president” (1994, 78).

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