

PUAD 662 – NATIONAL BUDGETING

Professor Paul L. Posner
703-993-3957 – office
703-371-1343 – cell
703-631-1445 – home
pposner@gmu.edu

Office hours: Thursday, 5-7 pm, Robinson Hall A 236

Course Description

This course will focus on how the national government raises revenue and spends it. That sounds simple enough, just like your family budget! Except unlike your family budget, the participants don't love each other. In fact, there are thousands of participants, each with differing interests and designs on scarce resources.

The question of how much of the economy to devote to government through taxes and how to allocate those revenues is the most important annual decision that political leaders at all levels of government must make. They can decide to avoid some tough choices – reforming immigration and social security are two recent major policy reforms that leaders ducked for fear of the political consequences. Unlike these other areas, decisionmakers must decide the size and distribution of the pie every year, whether they like it or not.

Budgetary choices have large economic and political stakes. From an economic perspective, the federal budget bottom line constitutes fiscal policy – a primary level for federal elected officials to manage the economy and deliver on campaign promises to create full employment with low inflation. The debates over the budget's bottom line – how much deficit or surplus should have both now and in the future – have important consequences for the growth of the economy and for the distribution of economic resources among various interests. Individual budgetary decisions also have important economic implications – the decision to invest public resources in a particular area can have profound effects on private investments. For instance, the decision to provide federally subsidized flood insurance has set in motion the settlement of beaches and other low lying flood plains throughout the country, as home owners, realtors and developers are indemnified from risk by federal insurance payouts.

While economically relevant, the budget is at its heart a political document. Whether officials try to hide it or not, the budget reveals their underlying priorities about two important values – how much government should extract from the economy and which claimants deserve more or less from the scarce resources that are raised. To make matters more tense, not only are resources limited for public programs, but needs are virtually infinite. Generals can testify about the woeful state of military armaments and readiness

with as much earnesty and drama as highway engineers can attest to the many bridges about to collapse – and both can cite figures denominated in trillions of dollars to make the necessary investments to mitigate the risks to the public and the republic. Making tradeoffs among competing claims for limited resources is an inherently political process. No one has figured out a magic analytic formula for deciding how to determine the relative merit of these competing claims and groups.

Thus, budgeting is at its heart a political process. But it is also a technical and managerial process. Managing the choice making requires seemingly mind numbing processes to create a common way to measure claims and ensure all the numbers add up. The technical jargon and cost accounting involved with budgeting at times seems to mask the underlying political stakes involved. But the manipulation of budget concepts, accounting and processes is as much a political process as the direct choices that are made. Savvy interest groups have their own litany of budget process reforms which, while always argued as saving the republic from imminent harm, have the fortunate side effect of just happening to benefit the interests of the group advocating that particular process reform. Thus, it is no surprise that highway lobby organizations advocate a capital budget – a budget structure designed to highlight and presumably more fully fund the vast inventory of unmet needs in this area.

Budget processes are not just about how we make choices, but also about how we track and implement those choices. Legislators and Presidents alike are held accountable not just for the choices they make but for the results of the programs and operations they fund. Budget execution phases of budgeting are important to understand since these are the processes that determine how agencies, the President and the Congress ensure that actual spending is effective, efficient and, above all else, legal.

This course will help you better understand how budget systems address these political, economic and managerial issues. We will work together to explore the following major areas:

- The conceptual basis for the government's role in the economy and the society
- The economic rationale and implications of national budgeting decisions
- The political processes shaping budgetary choices
- The role played by various institutions in federal budgeting
- The design and implementation of the budget formulation and execution process at the federal level
- The various reforms proposed for changing the budgetary process

Course Expectations

Students will be expected to gain a conceptual understanding of the budget process in general as well as a familiarity with key features of budget formulation and execution. Students will deal with these issues through a combination of readings, class discussion, group projects and exams. A series of short two page essays will be required periodically to test students' mastery of readings and concepts. A midterm and final take home exam will be administered. Two specific group based projects will also be undertaken:

--Budget process simulation – students will form teams to focus on the budget of a federal agency as it proceeds through the budget formulation process. Each team will play the role of one of the following actors: federal bureau; federal department; OMB examiners; congressional appropriators; and a key interest group. We will use actual budgetary materials from this selected agency as the basis for the simulation. Each team will develop their strategy and general proposals and will respond to the actions of the other actors in the process. Teams will present their strategies and proposals to the class

--Deficit reduction exercise – students will form teams to play the role of various actors in the U.S. Senate assigned with the task of reducing the federal budget deficit by \$500 billion over 5 years. Teams will use the CBO Budget Options report to develop their deficit reduction plans. Teams will play the following actors: President Bush, Senate Majority Leader Reid, Senate Minority Leader Lott, Senator Olympia Snowe as leader of Republican moderates and Senator Ben Nelson as leader of Democratic moderates.

Grading will follow these weights:

Final exam – 30%
Midterm exam – 20%
Two pagers – 15%
Budget process simulation – 15%
Deficit reduction exercise – 10%
General oral participation – 10%

Several basic text books will be assigned:

Allen Schick, Federal Budget: Policy, Politics and Process 3rd edition
(Washington, D.C.: Brookings, 2007)

Robert Lee, Ronald Johnson and Philip Joyce, Public Budgeting Systems, 8th
edition

Considerable reliance will be placed on budget documents and reports issued by the U.S. Office of Management and Budget, the Congressional Budget Office and the U.S.

Government Accountability Office which can be accessed on line at those agencies web sites (omb.gov; cbo.gov; gao.gov) In addition, various handouts will be provided through the University Library's e-reserve and a password will be announced in class for students to access these materials. Two particularly useful documents are

--The GAO's budget glossary that provides a handy definition of budgetary terms you may not be familiar with. (U.S. Government Accountability Office, [A Glossary of Terms Used in the Federal Budget Process \(GAO-05-734SP\)](#) www.gao.gov

--The CBO's annual [Budget and Economic Outlook, FY2008-2017](#), January, 2007 (www.cbo.gov)

--The OMB's budget documents, particularly the [Analytical Perspectives and the Historical Tables, FY2008 Budget](#)

In addition to the weekly class sessions, students will be asked to attend a special "budget day" to be held in downtown Washington. High level budget experts from the Administration, the Congress and interest groups will present their perspectives on the federal budget issues of the day. Other students throughout the MPA program will be invited as well.

Students should notify the instructor if they are unable to attend a particular class by email either before or immediately after class. Unexplained absences will be duly noted in determining the student's grade.

Students will be required to hand all assignments in on time. Should students be late, the grade will be lowered by one half of a grade in deference to those students who submitted work on time.

Plagiarism: You are expected to adhere to the honor code of George Mason University. This includes the university's policy on plagiarism. Using the words or ideas of anyone other than yourself, and pretending those words are your own, constitutes serious academic dishonesty and will not be tolerated. Any words or ideas presented in your paper which are not your own must be properly quoted and/or cited in your paper. To guard against plagiarism and to treat students equitably, written work may be checked against existing published materials or digital databases available through various plagiarism detection services. Accordingly electronic forms of submitted materials may be requested.

The Honor Code policy endorsed by the members of the Department of Public and International Affairs relative to the types of academic work indicated below is set out in the appropriate paragraphs:

1. Quizzes, tests and examinations. No help may be given or received by students when taking quizzes, tests, or examinations, whatever the type or wherever taken, unless the instructor specifically permits deviation from this standard.

2. Course Requirements: All work submitted to fulfill course requirements is to be solely the product of the individual(s) whose name(s) appears on it. Except with permission of the instructor, no recourse is to be had to projects, papers, lab reports or any other written work previously prepared by another student, and except with permission of the instructor no paper or work of any type submitted in partial fulfillment of the requirements of another course may be used a second time to satisfy a requirement of any course in the Department of Public and International Affairs. No assistance is to be obtained from commercial organizations which sell or lease research help or written papers. With respect to all written work as appropriate, proper footnotes and attribution are required.

WEEK 1 – Determining the role of the public sector in the economy

This session will discuss criteria for shaping the government's role in the national economy and society. Public finance and public choice literatures will be discussed as well as historical data comparing U.S. experience with other OECD nations.

Lee, et. A., Public Budgeting Systems, chapters 1 and 2

William C. Mitchell, Fiscal Behavior of the Modern Democratic State: Public Choice Perspectives and Contributions - handout

Anthony Downs, Why the Government Budget is Too Small in a Democracy – handout

John Mikesell, Fundamental principles of Public Finance - handout

ASSIGNMENT: Students will prepare a two page memo to one of the Presidential candidates using the readings to support one of the following two propositions: (1) the federal government's role has become overextended and threatens to undermine the efficiency of the private economy or (2) the federal government needs to extend its role to new areas of public policy not adequately addressed by the private sector. Frame your arguments using an example of your choosing, e.g. health care for uninsured, federal control over passenger rail.

WEEK 2 – The crucible of politics

Assessment of the political underpinnings for budgeting by exploring political trends in national government institutions, political parties, interest groups, media, cultural and social divisions. The results of these trends will be linked to pressures being brought to bear on the federal budget. Models will also be presented that seek to link dimensions of political debates and interests with policy outcomes.

Allen Schick, *The Federal Budget: Politics, Policy and Process* – Chapters 1 and 2.

Timothy Conlan, David Beam and Paul Posner, *The Pathways to Power* - handout

Hugh Hecla, *Hyperdemocracy* – handout

Anthony King, *Running Scared* – handout

Timothy Conlan, *Federalism, the Bush Administration, and the Transformation of American Conservatism*, *Publius: the Journal of Federalism*, 2007 special issue

WEEK 3 – Macrobudgeting: The Economic role of the federal budget

Discussion will place the economic role of the federal budget in perspective. Primer on macroeconomics and the role of fiscal policy in influencing macroeconomic trends. Recent historical experiences and projected long term models for future economic outcomes will also be discussed.

Van Doorn Ooms et. al., *The Federal Budget and Economic Management* – handout

Richard Kopcke, et. al., *Introduction: The Macroeconomics of Fiscal Policy* - handout

Benjamin Friedman, *Deficits and Debt in the Short and Long Run* – handout

Robert D Lee, *Public Budgeting Systems*, Chapter 15

Suggested reading:

Alan Auerbach, *American Fiscal History in the Post-War Era: An Interpretative History* – handout

ASSIGNMENT: Write a memo to a Presidential candidate addressing the following dilemma, assuming that the economy is operating at or above potential capacity. What fiscal policy would mainstream economists recommend that the President propose when he/she gets elected and what options might the President pursue to achieve this fiscal target, e.g. tax cuts/increases and spending cuts/increases? Using

the readings and class discussions so far, what are the political challenges associated with gaining support for this policy?

WEEK 4 – Microbudgeting: the structure of the federal budget process

Discussion will focus on the concepts underlying the preparation of the federal budget, including budget baselines, budget accounts, functions, character class codes and object classes. The basic fundamentals about tracking federal expenditures through the process will be covered. Various kinds of budget authorities will be covered, including discretionary, mandatory, contract. Trust funds and federal funds will also be covered.

U.S. GAO, A Glossary of Terms Used in the Federal Budget Process_(GAO-05-734SP) – read appendices

U.S. OMB, Analytical Perspectives, Chapters 26 and 25 (in that order)

U.S. CBO, Economic and Budget Outlook, FY 2008-2017, Chapters 1 and 3

Allen Schick, Federal Budget, Chapters 3 and 4.

ASSIGNMENT: Different students will be asked to interpret for the class trends in the following areas:

--Revenues over the past 50 years

--Defense spending over the past 50 years

--Health care spending over the past 50 years

--Highway spending over the past 50 years

Using the OMB Historical Tables, the students will explain for the class the trends in nominal and real numbers as well as provide other perspectives helping to explain reasons for the trends.

WEEKS 5 and 6 – The politics of budget formulation: The Executive Branch

These two weeks will focus on the process of budget formulation – from both agency and central budget office perspectives. Discussion will first center on the role and nature of the formal institutions involved with budget formulation, including processes, requirements and submissions. Students will become familiar with the OMB Circular A-11 – the basic guidance to agencies to formulate their requests. The discussion will then proceed to explore the politics behind the process – what are the incentives faced by the various players in the process and what are some of the strategies they pursue? Student

teams will report back on their work on budget formulation, with presentations on the FAA, DOT and OMB roles and actions.

Robert D. Lee, Public Budgeting Systems – Chapter 6 and 7

Allen Schick, Federal Budget – Chapter 5

Barry White, Examining Budgets for Chief Executives – handout

OMB Circular A-11 – handout excerpts

Charles Lindblom, The science of muddling through - handout

Aaron Wildavsky, The Politics of the Budgetary Process - handout

Roy Meyers, Strategic Budgeting - handout

James True, Frank Baumgartner and Bryan Jones, Policy Punctuations: U.S. Budget Authority, 1947-1995 – handout

Joseph White, Budgeting for Entitlements - handout

ASSIGNMENT: Students will be given three different assignments:

--You are the budget director of HHS and advising the Secretary. He asks you to discuss the prospects for gaining approval through OMB and Congress of three new budget proposals: (1) an increase in coverage of uninsured children under the SCHIP program, (2) a new office building for HHS in downtown Washington, and (3) an increase in numbers of inspectors for food imports for the Food and Drug Administration. For each of these proposals, tell him how to think about the prospects for each type of proposal and tell him how he might best frame his argument throughout the budget process.

--I will provide you with a handout on the defense of President Reagan's Defense Budget by his Defense Secretary. Identify the strategies he has engaged to sell members of Congress on his proposals.

--Take a bureau or sector of an agency and look at what models of decision best explain its growth or decline over past 3 years. Compare fy 2006, 2007 and proposed 2008 columns of agency's justification of estimates and use this as basis for your analysis.

WEEK 7 – The role of the Congress

Discussion will focus on the Congressional budget and appropriations processes. How does Congress formulate its own budget goals and how do the various institutions within Congress work to either support or undermine the process? The discussion will focus on appropriations committees and their roles in the process, as well as on authorization committees. Students will present results of the FAA case study for the appropriations process.

Allen Schick, Federal Budget, Chapters 6, 8 and 9

Robert D. Lee, Budget Systems, Chapters 8 and 9

Diana Evans, Congressional Appropriations –handout

Philip *Joyce*, Congressional budget reform: The unanticipated implications for federal policy making

Public Administration Review. Washington: Jul/Aug 1996. Vol. 56, Iss. 4;

Joseph Cooper, “The Twentieth Century Congress” – handout

Suggested Readings:

Paul Posner, Relationship Between the Legislature and the Executive in OECD Nations, 2007 – handout

James Saturno, Points of Order in the Congressional Budget Process - handout

WEEK 8 – The politics and process of taxation

Discussion will focus on the composition of revenues, the implications of tax policy for economic outcomes and for budgetary choices. Tax expenditures are among the issues that will be considered

Robert D. Lee, et. al., Public Budgeting Systems – Chapters 4 and 5

Allen Schick, Federal Budget – Chapter 7

U.S. GAO, Understanding the Tax Reform Debate (GAO-05-1009SP)

U.S. CBO, Economic and Budget Outlook, FY 2008-2017, Chapter 4

Suggested readings:

Sheldon Pollack, The Politics of Taxation – handout

U.S. GAO, Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal Commitment and Need to be Reexamined, (GAO-05-690)

WEEK 8 - MIDTERM EXAM

WEEK 9 – Budget execution and accountability

Discussion will focus on how agencies manage funds after appropriations are enacted. The process used by agencies to manage and monitor funds will be explored and the effects of budget controls on program implementation will be assessed. Oversight, audit and evaluation will also be addressed. The effects of agencies' management of scarce resources on program efficiency and effectiveness will also be covered.

Allen Schick, Federal Budget, Chapter 10

Robert D. Lee, Public Budget Systems, chapter 10 and 11

Irene Rubin, Balancing the Federal Budget – handout excerpt

Jeffrey Steinhoff, Financial Management Reforms – testimony handout

CBO, Comparing Budget and Accounting Measures of the Federal Government's Financial Condition, Dec, 2006

OMB, Analytical Perspectives, FY 2008, Chapter 13

Suggested reading:

Charles Levine, Organizational Decline and Cutback Management, Public Administration Review

WEEK 10 – Performance budgeting reforms

Discuss approaches over the years to introduce performance assessments and measures into budgeting. Review the history of performance budgeting and cover the reasons for

the gap between expectations and reality. Understand the current initiatives being implemented at the federal level under the Government Performance and Results Act (GPRA) and the Program Assessment Rating Tool (PART). Assess whether the political nature of budgeting is compatible with rational analysis and under what circumstances and conditions.

Allen Schick, The Road to PPB: Stages of Budget Reform – article in Public Administration Review, December, 1966

Paul Posner and Denise Fantone, Performance Budgeting: Improving Prospects for Sustainability – handout

Philip Joyce, Linking Performance and Budgeting: Opportunities in the Federal Budget Process,

U.S. Government Accountability Office, Performance Budgeting: Efforts to Restructure Budgets to Better Align Resources With Performance, GAO-05-117SP

ASSIGNMENT: Class will be divided into two groups. Students will be asked to prepare class discussion on one of the following issues affecting a particular federal agency to be named later:

--You will be given a section of a federal agency's performance report. Lead a discussion for the House Appropriations Committee telling them what kinds of budget implications you can draw from the performance track record that can be useful guides to appropriators for the coming fiscal year.

--You will be given the agency's financial statement. Lead a discussion on what implications you can draw from this statement for appropriators considering this year's budget request.

--You are the head of the agency and have to decide how to implement a 10 percent cut. Knowing the budget structure, what decisions would you make? What difference would it make if the cut were one time vs continuing and how would you learn about this?

WEEK 11 – All Money is not Green: Capital budgeting, earmarked revenues and user fees

We will learn this week about the special challenges associated with budgeting for capital, fee funded programs and earmarked revenues. Advocates for these kinds of programs have perennially attempted to recognize the different character of these kinds of programs by providing for differential treatment in the budget process. This session will discuss the unique issues associated with each, and will explore the implications of such

solutions as capital budgets, trust funds and offsetting collections for the politics and outcomes of budgeting.

Lee, et. al., Chapter 12

OMB, Analytical Perspectives, Chapters 6, 18 and 22

CBO, How federal spending for infrastructure and other public investments affects the economy, 1992

GAO, Budget Issues: Budgeting for Federal Capital, 1996, GAO/AIMD-97-5

GAO, Federal Trust Funds and Other Earmarked Funds: Frequently Asked Questions (GAO-01-199SP)

GAO, Report on budgeting for federal user charges

Suggested Readings:

GAO, *Executive Guide: Leading Practices in Capital Decision-Making*. GAO/AIMD-99-32. December 1998

President's Commission to Study Capital Budgeting Report, 1999.

Sita Nataraj and John B. Shoven, Has The Unified Budget Undermined The Federal Government Trust Funds? – handout paper

WEEK 12 – Intergovernmental Fiscal Relationships

Federal budgeting is not only about federal agencies and their employees but also entails a range of other subsidies and tools providing subsidies, grants and loans to state and local governments and other nonprofit and private for profit entities. State and local and the national government often jointly participate in financing public services through grants, loans and tax expenditures as well as mandates. This discussion will examine federal budgeting for intergovernmental programs and understand the implications for federal and state and local finances and accountability to common taxpayers. We will assess whether the politics of federal budgeting varies significantly for different tools of governance and how this manifests itself in federal program design and implementation.

Timothy Conlan, Grants, in Lester Salamon, The tools of government - handout

GAO, State and Local Governments: Persistent Fiscal Challenges, GAO-07-1080SP, July, 2007.

OMB Analytical Perspectives, Chapter 8

NAPA, Financing Governments in the 21st Century, 2006.

Robert D. Lee, Public budget Systems, Chapter 14

WEEK 13 – Assessing Long Term Commitments and Fiscal Risks

Session will explore how to think about long term commitments in the federal budget. Long term budget models will be examined to ascertain the nature of the long term exposures in the federal budget. New approaches for measuring and presenting those commitments in federal budgeting will be assessed. Potential linkages between federal budgeting and accounting will be examined to test whether additional value could be realized from the integration of these two financial disciplines.

GAO, Fiscal Stewardship: A critical challenge facing the nation, GAO-07-362SP, January 2007

GAO, *Fiscal Exposures: Improving the Budgetary Focus on Long-Term Costs and Uncertainties*, [GAO-03-213](#) (Washington, D.C.: Jan. 24, 2003).

Hannah Brix, Fiscal Risk – handout

GAO, Accrual Budgeting: Experiences of Other Nations and Implications for the United States, GAO/AIMD-00-57

Social Security and Medicare Board of Trustees, Summary of the 2007 Annual Reports
<http://www.ssa.gov/OACT/TRSUM/trsummary.html>

ASSIGNMENT: Explain to a policymaker what a present value of the social security deficit means for decisions today and over time.

WEEK 14 – BUDGET PROCESS REFORMS

When groups don't like the outcomes of the budget process, they reach for budget process reforms to change the results. In this session, we will inventory the types of process reforms, understand their prospective impacts and explore the political prospects of serious reform to the budget system at the national level.

Susan Irving, Budget Process: History and Future Direction, GAO/T-AIMD-95-214

Aaron Wildavsky, The Political Implications of Budget Reform: A Retrospective – Handout

Allen Schick, Federal Budget, Chapter 11

Congressional Research Service, Federal Budget Process Reform in the 110th Congress, 2007 – handout

Suggested Readings:

Center for Budget and Policy Priorities, Budget Process Reform, 2007 – handout

Heritage Foundation, 10 Elements of Comprehensive Budget process Reform, 2006 - handout

Philip Joyce and Robert Reischauer, The Federal Line Item Veto: What it is and what it will do, Public Administration Review Vol 57, No. 2 (March, April, 1997)

WEEK 15 – Putting it all together

Discussion will address global proposals to rethink budget priorities and policies on a larger scale. Several proposals and criteria will be reviewed.

Alice Rivlin, Restoring Fiscal Sanity, Brookings, 2006

GAO, 21st Century Challenges: Reexamining the Base of the Federal Government (GAO/05-325SP), 2005.

OECD report on budget reforms and actions undertaken in other nations.

ASSIGNMENT: Students will join together in the deficit reduction simulation in weeks 14 and 15.

FINAL EXAM – handed out in last class of semester and due one week later.