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The (Il)logics of Federal Budgeting, and Why Crisis Must Come

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

The U.S. federal budgeting system faces severe challenges in coming years. Deficits are being recorded at levels and with regularity not seen in prior periods. This article suggests that such problems reflect the uncomfortable mix of logics informing budgetary and political institutions—that is, the rules of the game. Logics make it appropriate to expect that government be limited in its tax demands but simultaneously responsive in providing expensive services necessary for the achievement of the American dream, for example. Crisis is needed to allow the emergence of institutional forms that mediate between these conflicting logics.

Roy T. Meyers and Irene S. Rubin are correct in arguing that current federal budgetary policies are unsustainable. They are also right that this observation was made a century ago, leading to reforms initiated through the 1921 Budget and Accounting Act. Their contention that these and other reforms were incomplete and ineffective also holds as accurate. On the face of it, they seem right that future solutions lie in citizens demanding better coordination and compromise between Congress and the president. It is doubtful whether this will be achieved through improving voter education on budgetary issues, however.

Using the lens of institutional theory, this response argues that federal budgeting challenges reflect embedded ways of thinking about government in the United States. Beliefs embedded in doctrines, principles, and other social scripts entrench ideas, practices, and rules about separated powers, limited government, assertive and dispersed political competition, exceptionalism, and the American dream. The combination of such “logics” generates an ambigu-

ous and opportunistic budgeting environment that is conducive to unsustainable spending behavior. The logic mix also limits what citizens are likely to make of information they receive about such problem. One sees it already in polls showing that voters “know” the deficit is a problem and blame big government for its profligacy but simultaneously and repeatedly call for more spending and less taxes.¹ Can government be limited and also exceptional enough to keep the dream alive? Can these conflicting logics and expectations be accommodated in a budgetary process?

This article suggests not, but also argues that the ambiguity of mixed logics is likely to continue, no matter how much voters are educated. Crisis is needed to force attention on such ambiguity and to allow a path to solution. Past mini-crises have led to temporary balancing acts involving short-lived congressional and executive compromise. A more permanent fix is required, however, to clarify the illogical situation that

currently exists. It seems that the appetite for ambiguity now dominates the will for radical change. The potential for game-changing crisis is high, however, and such crisis will create opportunities for transformational reform.

Federal Budgeting Reform Puzzles

Federal budgeting reforms since 1912 have gone beyond executive budgeting and fiscal rules initiatives. One could list many others, from planning-programming-budgeting systems to zero-based budgeting, performance-based budgeting, and the Program Assessment Rating Tool, the formalization of internal audit in agencies, process computerization, the adoption

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of long-term planning, and more. In many respects, the last century was a period of great budgetary reform in the federal government. Interestingly, however, the sustainability problem has worsened in this period. Deficits have been more prevalent since these interventions than before. Federal spending has exceeded revenues in 75 percent of the years following the 1921 act, compared with 38 percent of the years between 1792 and 1920. Spending exceeded revenues in 16 of the 20 years after the 1990 Budget Enforcement Act introduced measures to control deficits. Deficits have exceeded 3 percent of gross domestic product (GDP) in 8 of the 20 years since the Budget Enforcement Act, reaching such levels only 26 times in the prior 198 years (13 of which were related to wars).²

Meyers and Rubin argue that this is the result of a major common-pool problem. Political representatives drive up expenditures by promising voters “something for nothing” and blame opponents for the deficits that ensue. It is hard to disagree with such an argument. Advocates on both sides of the political divide have run wild in support of their constituencies’ interests. Supporters of defense spending (arguably Republicans) have built a bloc of more than 5 percent of GDP,³ significantly more than any comparable Organisation for Economic Co-operation and Development (OECD) country. Other representatives (stereotypically Democrats) bemoan this as fiscally irresponsible while simultaneously pushing for more health spending. Federal spending (and tax expenditures) on health now accounts for more than 5 percent of GDP, contributing to cumulative public and private allocations that exceed 15 percent. This is nearly double the average level of spending on health in OECD countries.⁴ Republicans blame such spending (and Democrats) for high deficits, even as they demand new spending and resist new taxes.

It is puzzling that the last century’s many reforms were not able to bring some sense to this situation. Different combinations of these reforms have (arguably) engendered discipline in other national budgeting systems (Andrews 2010). Executive budgeting can work, as can fiscal rules and top-down budget processes. But not, apparently, in the U.S. federal government. It is also baffling that voters have not called their representatives on the ambiguities implicit in this “blame game.” The game is loud and transparent, and it has been regularly identified for what it is by civil society groups. Third-party candidates such as Ross Perot have bought attention to the situation as well, and public antipathy toward the issue manifests in every presidential election. Candidates are routinely required to outline solutions to the problem of excessive spending. Yet the problem continues, and is getting worse. Why? Is there any way out?

Meyers and Rubin offer a less than enthusiastic answer to these questions. They argue that prior unfinished reforms are probably not worth revisiting. But there may be some hope in pushing for Congress to work more closely with the president, perhaps in a formal process that requires coordination, compromise, and accountability in joint budget resolutions. The authors argue that voters should be educated on the realities of America’s budgeting crisis to demand such partnership. The idea of empowering voter demand was proposed and ignored in 1912 and needs to be given its chance now.

Institutions and the Logics That Make Them

The potential of such a solution is questionable, however, when one considers the institutional underpinnings of America’s federal

budgetary system. Institutional theory is relevant here because Meyers and Rubin cite studies on fiscal institutions. These studies are located in an even broader set of work on the way in which societies use institutions, or the “rules of the game,” to order themselves. Understanding where institutions come from helps us think about why and how they may change as well.

An interdisciplinary approach suggests that institutions comprise regulative, normative, and cultural-cognitive elements (Scott 2008). Regulative elements include laws and regulations that carry the threat of externally enforced sanction. Normative elements consist of norms and values that shape what is appropriate as means and ends. They influence behavior through intrinsic processes. Conformity or nonconformity evokes feelings of honor or shame, fostering compliance. Cultural-cognitive elements are the rule-like scripts and frames through which people, in groups, interpret and make sense of the world. They include ideologies that structure the information people receive and the way information is processed and given meaning. Such mechanisms make some choices more likely and render others unlikely.

Regulative mechanisms are the typical tools used in budget reform. Think of the 1921 and 1990 acts and administrative regulations requiring budget preparation according to certain procedures. These mechanisms and their supporting activities and resources are typically captured in measures of “budget institutions” (whether these are fiscal rules or legislative characteristics). The relative malleability of such mechanisms underscores an implicit assumption that institutions “can be purposefully created or re-created by rational agents to maximize either their own or some social welfare function” (Ingraham, Moynihan, and Andrews 2008, 67). Such an assumption supposedly underscores the idea that citizens who know that the rules of budgeting are problematic can and will usher in changes to these rules.

Theory generally dampens such thinking, however. It suggests that institutions are more complex than this and that agents such as citizens are not easily able to “see” when change is needed and to effect such change.⁵ Even economists such as Douglass North emphasize the fundamental importance of the other institutional elements, especially grounding beliefs, in structuring behavior and influencing options for change (Denzau and North 1994). Some authors refer to “institutional logics” to capture the interactive impacts of beliefs, norms, and regulative mechanisms. These are “the socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality” (Thornton and Ocasio 1999, 804).

Renata Meyer and Gerhard Hammerschmid (2006) provide an example that is relevant to the public sector. They explain that the Austrian public sector has traditionally been characterized by a “legalistic-bureaucratic” logic in which legality, correctness, and neutrality are core values. This is contrasted with the “corporate-bureaucratic” logic of New Public Management, in which the dominating values are performance, efficiency, and effectiveness. The two logics are characterized by different regulative regimes, norms, and cognitive scripts. They shape what agents such as civil servants think about information they receive, the acceptability of behaviors they observe, and the options they entertain for change—and are

capable of pursuing. Research shows that they explain why groups and nations perceive and respond to problems differently. Austrian civil servants, for example, have been slow, deliberate, and selective in adopting New Public Management reforms.

Logics, therefore, limit institutional change and design options.

They are “the product of historical development, [and] are deeply rooted in collective understandings and cultural practice, and resilient in the face of changing circumstance” (Guillén 2003, 20). Regulative elements enjoy influence and legitimacy because of the grounding in the norms, values, and cognitive scripts reflecting such logics, for example. Accordingly, regulative mechanisms that do not reflect prevailing beliefs will not be supported as legitimate and will have limited influence—or will take a long time to take hold (as in public management reforms in Austria; see Meyer and Hamerschmid 2006). Mauro Guillén cites broad consensus on this issue in arguing that “[o]nly practices or organizational forms that ‘make sense’ . . . are adopted” (2003, 21).

Logics in Federal Budgeting

What logics inform federal budgeting in the United States? How do they influence the functionality of the budgeting system? And how do they shape potential reform options in future?

In this brief note, it is hard to answer such questions definitively. The following makes some observations to think through the issue—focusing on logics at the broad level of American society. The first logic is reflected in the doctrine of separation of powers. Enshrined in the U.S. Constitution and branded onto the cognition of voters, this doctrine requires different government branches to operate independently. A system of checks and balances allows each branch to restrain abuse by the others. Federal budget preparation and oversight are the responsibility of Congress, for example, but execution rests with the executive (Mosher 1984). The system purposefully fragments power, which inevitably fragments accountability as well. Consider as well the principle of limited government. Formalized in the Constitution, it reflects a deep-seated American view that government should not encroach significantly in the lives of individuals. Applications in the Articles of Confederation relate directly to budgetary policies, limiting the federal government’s powers of taxation. Many still believe these limits should hold, including civil society groups such as the Club for Growth. Such groups see low taxes as appropriate fare.

These and other scripts are reflected in commonly used indicators of American culture—arguably, the deepest factors shaping logics.⁶ Geert Hofstede’s (2001) measures are an example. Originally developed to show differences in workplace culture, these measures have been used widely to illustrate and explain differences in values, behaviors, institutions, and organizations across nations. The United States scores low on Hofstede’s “power distance” measure, suggesting a cultural preference for distributed power. This mirrors the thinking behind the logics of separation of powers and limited

government. A high score on “individualism” and the correlated belief in self-reliance also reflect norms of limited government.

High “masculinity” ratings represent American values of assertiveness and competition, which are reflected in the free-market structures evident across the society. Bolstered by what Hofstede terms “low uncertainty avoidance,” the appropriateness of assertive competition arguably informs what Meyers and Rubin describe as aggressive, unfettered budgetary deal making. These values are reinforced by regular competitive elections, expectations that representatives will bring home pork, and the appropriateness of a vast structure of lobbyists set up to press for interests. In a sense, these elements contribute to a logic of competitiveness that encourages politicians to act as snake oil salesmen playing high-stakes games of chicken in the budgetary process.

Short-termism and a defining belief in the “American dream” and versions of American exceptionalism promote such behavior. These scripts generate expectations that America is “better” than others, which manifests in demands on government and on government expenditure. The demands come from multiple competitive representatives and their constituencies, who all wish to be heard and expect to be satisfied with appropriations. Some expect and demand federal assistance in the aftermath of Hurricane Katrina and are willing to sponsor lobbyists to ensure that this is forthcoming. Others demand military responses to provocation from Iran, Iraq, and Afghanistan. Some work hard to ensure that federal efforts are robust in stabilizing unstable financial markets. Additional interests call for support for small business, help for first-time home buyers, and much, much more. The scripts suggest that an exceptional country needs an exceptional government that can do all these things—and still be limited.

Illogical Federal Budgets and the Need for Crisis

These logics are part of the central fabric of American culture, arguably constituting “master principles” of the society (Haveman and Rao 1997). As such, they drive the way in which voters and political representatives think about the federal government. This has consequences for the way in which federal budgets work and for the possibilities to make these budgets work better. The deep influence of logics centered on separated powers is a strong limit on opportunities for strong-form executive budgeting in federal government, for example. Similarly, logics emphasizing competition and laissez-faire stand in the way of using fiscal rules to permanently constrain political deal making.

The problem is that some reform is required, given the consequences of rampant ambiguity emerging because of the mix of these logics. The blend of social logics about separated powers, political competition, and responsive, exceptional government fosters fragmentation of appropriation powers across multiple congressional committees and executive agencies. The logics of limited government and exceptional government lead to contradictory

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expectations of low taxes and high service delivery (and spending). The country has been here before—in the period leading up to Taft Commission deliberations, for example. Previously unseen deficits then were considered problematic and focused attention on the system's ambiguities. Other interruptions in the 1930s, 1980s, and 1990s also shed light on the tensions of competing logics and generated short-term solutions. Many reforms over the past 70 years—from planning-programming-budgeting systems to zero-based budgeting to internal control modernization and beyond—also emerged as responses to tensions between competing logics such as these.⁷

Theory suggests this will happen. Logics often coexist in multiples, resulting in creative tension and ambiguity. Such ambiguity and tension led to policy and procedural compromises between the Bill Clinton administration and Congress in the mid-1990s, for example, which helped balance the demands of competing logics on the budget system for a few years. Excessive institutional ambiguity and recurring problems will gradually undermine confidence in institutions, however, attracting more urgent attention and more fundamental—or transformational—change. The appetite for change is inversely related to the appetite for ambiguity, however, and it is determined by the degree to which agents considering change can think outside the boxes created by extant logics. Arguably, the stubborn durability of American logics and a high appetite for ambiguity in federal budgeting explain why reforms have not been transformational to date. These are the hurdles to change that voter education will not easily overcome. Voters do not want to know that their logics are dysfunctional, and, borrowing from the Grateful Dead, “You ain’t gonna learn what you don’t want to know.” Unless, of course, crisis forces the issue.

Theory suggests that crises are an integral part of the story of institutional change. They ramp up attention to the ambiguities and dysfunctions of institutions and the mix of logics behind such, creating opportunities for transformation. However, it is difficult to predict what a crisis will ultimately look like, when it will happen, or what the ensuing transformation will look like. This is a special challenge in the United States, where being a “rich empire” arguably makes it possible to turn a blind eye to events that would be crises in other countries—or in past generations. The size and consistency of deficits since the 1980s probably would have been considered signs of a crisis in the 1910s and 1920s, for example, but apparently are considered acceptable today. Meyers and Rubin are right that these deficits are ultimately unsustainable, even with America’s perceived “rich empire” status. They will generate some form of crisis and crisis response in the near future.

When this happens, critical observers should push for far-reaching reform that forces competition between logics and more transformational change. A constitutional amendment requiring joint budget resolutions must surely be an option. Or perhaps constitutional clarity on “who” in Congress should bring out the budget and what kind of indicative “rule” they should be allowed to use in doing so. The system “worked” best when a single committee held sway under an informal balanced budgeting convention prior to 1860, for example, and between 1921 and 1932, when rules ensured that no spending could be undertaken without the authority of single congressional and Senate appropriations committees *and* the president (Cogan 1994). These kinds of solutions “fit” the American context better than hard versions of executive budgeting but will

still require direct attack on conflicting logics. Illogics will continue until such aggressive solutions are introduced. Crisis must and will come to create opportunities for these steps. The question is whether academics will have relevant ideas when these opportunities arise.

Notes

1. The ambiguity is evident in most polling data. As many as 80 percent of respondents typically suggest that “federal government debt” poses an extremely serious or very serious threat to the country. Between 5 percent and 20 percent place the “federal budget deficit” at the top of the list of problems that the federal government should prioritize, however, typically calling for help in getting the economy right, ensuring that people have jobs and health care, and so on.
2. The deficit also exceeded 3 percent of GDP in four years during the Great Depression, two years during the recession of the mid-1970s, and seven years during the 1980s.
3. This represents more than 20 percent of federal government spending.
4. The average is at about 8.5 percent of GDP.
5. This is often referred to as the “problem of embeddedness.”
6. See Hofstede’s site for this information. http://www.geert-hofstede.com/hofstede_united_states.shtml [accessed February 11, 2011].
7. Schick (1966) details tensions between other logics of efficiency and control on “The Road to PBB,” for example.

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