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An Economic Interest Theory of Congressional Budget Process Reform

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Abstract

The Gramm-Rudman-Hollings Act (or "GRH"), which unprecedentedly provided for "sequestration", a doomsday device to enforce fiscal discipline upon Congress and the President, was passed with bipartisan support on December 12, 1985. How did GRH take place, and why did it assume its final form? Casting GRH's enactment in functionalist and benign terms, previous literature largely ignored the U.S. political economy since the mid-1970s, when American corporate elites, in increasingly aggressive assaults on organized labor and an activist state, successfully reordered the federal government's fiscal priorities.

In this project I intend to challenge the existing politician/state-centered approach to the study of congressional institutions, and instead theorize mechanisms whereby societal forces and the struggles amongst them shape the rules and procedures of the congressional budget process. I hypothesize that between the mid-1970s and 1980s the congressional budget process reform was influenced by outside groups that sought to protect their economic interests.

To test this hypothesis, I draw on congressional hearings, bills, hearing testimonies and other public statements to search for evidence pointing to outside groups' activities and articulations of their preferences for issues and proposals on the reform agenda. I found that groups actively participated in shaping the congressional budget process, and their preferences were indeed motivated by economic interests. In addition, the business community tended to dominate the discussion. The general content and the direction of enacted reform was more consistent with what business interests preferred, though not at the complete expense of low-income and working-class Americans.

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Chapter 1 Introduction

Termed by its principal sponsor as "a bad idea whose time has come"[1], the Gramm-Rudman-Hollings Act became law on December 12, 1985. A significant departure from previous budget process reforms in that it attempted to guarantee a specific budget outcome, the 1985 Act provided for automatic across-the-board budget cuts in the event that Congress failed to meet precise deficit targets every year and balance the budget by FY1991. It also made significant changes to various aspects of the congressional budget process. The Gramm-Rudman-Hollings Act (henceforth "GRH") is extraordinary in that though it was widely hated by members of Congress,[2] it swept both houses with strong, bipartisan support within a very short period after it was first introduced, [3] and was reaffirmed again in 1987 ("GRH II"). What is more extraordinary is that despite witnessing how GRH failed miserably to achieve its intended goals[4] and many concluding that procedural mechanisms like automatic sequestration ultimately could not force policymakers to compromise upon policy solutions to the persistent deficit where deep disagreements exist,[5] both Congress and the President chose to continue experimenting with

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[1] Senator Warren Rudman famously was quoted to have said these words about the bill he co-sponsored with Senators Phil Gramm and Ernest Hollings. "Congress Enacts Strict Anti-Deficit Measure," *CQ Almanac 1985* 41 (1986): 459.

[2] Senator Hollings called the GRH a "long and tortured document". Even Senator Gramm, widely seen as the architect behind the GRH, was reported to have compared it to a "shotgun wedding". Peter Carlson, "Though Critics Scoff, Senators Gramm, Rudman and Hollings Vow to Beat the Deficit by 1991," *People*, January 6, 1986.

[3] The final version of the bill was adopted by the Senate by a 61-31 vote (R 39-9; D 22-22), and was passed in the House with a 271-154 vote (R 153-24; D 118-130). Introduced on September 25th in the Senate, the bill took less than three months to pass.

[4] To name a few areas where the GRH failed: The deficit did not come down as promised. Congress through short-term fixes and budget gimmickry generally managed to evade or raise its limits. And without exception, every date in GRH's ambitious new timetable for congressional budgeting was missed and missed badly. Finally, the Act's portion regarding how automatic-sequestration is triggered was struck down in 1986 by Supreme Court as unconstitutional. See Edward Davis, "The Evolution of Federal Spending Controls: A Brief Overview," *Public Budgeting & Finance* 17, no. 3 (1997): 10-24.

[5] On the point that institutional solutions such as a balanced budget requirement and line-item veto could not resolve differences among policymakers regarding what changes are necessary to meet those deficit targets, see Norman J.

institutional fixes to the alleged deficit problem. For instance, five years after the original GRH was signed into law, it was supplanted by the Budget Enforcement Act of 1990. In 1996, Congress enacted the Line-Item Veto Act to enhance president's ability to reduce deficits.[6] The idea of revamping the budget process in pursuit of budget control was revived again in the Budget Control Act of 2011 which resurrected the sequestration.

How did GRH happen at all? Why did it assume the form it did? And why did recurring attempts to reform the budget process continue to take place? The existing literature usually ascribes the efforts undertaken by politicians during the 1970s and 1980s in revising congressional budget rules to their persistent pursuits of solutions to the mounting federal budget deficits. However, it cannot explain why an institutional solution that revised budget rules and procedures was considered at all when substantive policy changes such as spending cuts and tax increases were the obvious, and most direct choices to reduce deficits. More importantly, by ignoring the larger context of U.S. economic downturns since the 1970s and the major fiscal policies enacted during the first term of the Reagan administration, this line of literature generally portrays the changes to budget rules in benign and functionalist terms, with no concern for the fact these rules had significant distributional consequences favorable to affluent Americans.

As my discussion in the next chapter will reveal, existing studies of congressional budget process reform reflect a rather widespread bias among the scholarship studying changes to congressional rules and procedures: a bias toward exclusively analyzing politicians and their

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Ornstein, "Veto the Line Item Veto," *Fortune*, January 7, 1985. ; Louis Fisher and Philip Joyce, "Introduction: Reflections on Two Decades of Congressional Budgeting," *Public Budgeting & Finance* 17, no. 3 (1997): 3-9.

[6] In 1998, the Line-Item Veto Act was ruled by the Supreme Court in *Clinton v. City of New York* as unconstitutional.

activities inside formal political institutions. Correcting this politician/state-centered approach commonly used by both the rational choice and historical institutionalist traditions is the key to furthering our understandings of when changes to congressional rules and procedures take place, why they take place, and why the changes assume some forms but not others.

In this dissertation project, I intend to rectify the one-sided historical narrative by adding societal actors and their struggles back in. Besides recounting the history, I will theorize the mechanisms whereby outside groups and interests influence the details of congressional budget process reform. Throughout the entire project, I use the word "reform" as a convenient shorthand for any suggested changes to rules and procedures that govern congressional budgeting. It does not, however, imply "a change for the better", as commonly used in many studies that probe the intent, causes, and consequences of "reform" movements in Congress. In fact, only after we stop looking for progress or improvement in iterations of changes are we able to uncover – embedded underneath what might appear to be politicians and technocrats pursuing solutions to the deficit problem through trial and error – a story about groups and actors pursuing their economic interests, trying to influence the budget process by defining in their own terms what the problems are, and identifying solutions that suit them.

In developing a theory of budget process reform, I draw particular attention to outside groups' incentives to shape the rules, and the opportunities afforded to them to do so. Guided by this theory, I look for relevant evidence which points to groups' participation and articulations of their preferences at events effecting changes to budget rules. I intend to answer the following questions:

1) Did outside interests participate in shaping the congressional budget rules?

2) Why did they participate?

3) How did their participation influence the direction and the content of the congressional budget process reform?

To answer these questions, I utilize a three-stage analysis, with each stage of the analysis requiring a different type of evidence in order to test the relevant hypotheses. In the first stage, using lists of witnesses invited by congressional committees to testify on subjects related to budget reform, I show that outside interests were indeed active. Building on this evidence, I then analyze what these outside interests wanted, or what motivated their participation, by examining groups' preferences as articulated at congressional hearings over issues and proposals on the reform agenda. And finally, by comparing what groups wanted with what was enacted into law, I tackle the question of ultimate interest: did outside interests eventually get what they wanted?

In this project I see structures of formal political institutions, which include rules and procedures, as the gateways through which only certain policy issues will be considered by policymakers. Incorporating a power-distributional perspective from studies of institutional development, I see successful iterations of structural revision as the end-products of actors competing against one another to gain control over the structures. While the winners get to set up rules and procedures that protect their pet policies and interests, the losers have to accept what the winners impose, even if it makes them absolutely worse off. By abandoning the narrow view that changes to rules and procedures can only take place when actors governed by these structures decide collectively to deviate from the status quo because they all see the benefits of doing so, I shift our analytical focus from politicians to outside interests and recognize that "changes in rules often are associated with forces outside Congress."[7]

[7] Ira Katznelson and John S. Lapinski, "At the Crossroads: Congress and American Political Development," *Perspectives on Politics* 4, no. 2 (2006): 247.

My project sheds light upon the political economy of the period since the mid-1970s when the combination of OPEC oil embargo, a deteriorating U.S. economy, and heated international competition precipitated a massive right turn in the ideological orientations of American business. The corporate elite shifted from its postwar political moderation toward an effort to reduce the role of government and the power of labor.[8] Corporations' relentless assault on organized labor was partially abetted by an increasingly anti-union government, particularly the Reagan administration, and by the acquiescence of the Democratic Party leadership.

And as severe budgetary constraints resulted in explicit recognition of who would pay for the additional costs either through more taxes or less benefits, business interests had to compete with other interests in advancing their own policy demands and shaping fiscal priorities of the federal government. As the evidence I collected shows, business interests, thanks to their superior informational as well as organizational resources, consistently dominated discussion of changes to congressional budget rules. The general direction that budget reform eventually pursued was indeed more consistent with businesses' preferences than with those of other groups and interests.

My dissertation is organized in the following manner. In Chapter 2, I introduce a theory of budget process reform which explains changes to the rules and procedures of the congressional budget process by tapping into outside groups' incentives to, and the opportunities afforded to them, to shape the congressional budget process. I argue that outside groups and interests get involved in budget process reform in order to advance their own economic gains and lock in policy outcomes that are favorable to them. By referencing groups' preferences over the

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[8] Mark S. Mizruchi, *The Fracturing of the American Corporate Elite* (Cambridge, Massachusetts: Harvard University Press, 2013), 142-44.

spending and tax policies of the federal government, as well as their views of government's proper role in managing the economy, I develop a set of expectations regarding groups' preferences over issues and proposals on the budget process reform agenda. At the end of Chapter 2, I review the existing literature on changes to congressional rules and structures and its applications to the studies of budget process reform. By reversing the common approach to literature review that knocks down all the scholarship that has come before and then builds one's own theory from the ruins, I want to highlight the fact that despite the advantages and insights provided by previous studies, they are unable to accomplish what my theory does. Instead of claiming my own work to be the saving grace of all the literature that has anteceded mine, I see myself furthering our collective knowledge of why institutional changes take place, and why the changes assume certain forms.

To test my theory and the hypotheses drawn from it regarding group's preferences, in Chapter 3, I introduce the data and methods that I utilized. I discuss the suitability and limitations of relying on data compiled through congressional hearings to answer research questions, and will operationalize the key concepts such as "participation" and "influence" of groups and actors. Throughout the Chapter 3 and the rest of my dissertation, I emphasize that even though public hearings invite strategic behaviors by actors, which might pose challenges to our inferences, by interrogating the observations obtained from hearings and carefully chronicling them over time, we still can acquire reasonably reliable insights of groups' behaviors and preferences.

Chapters 4, 5, and 6 are the empirical portion of my dissertation, which report findings and discuss how well my theory and expectations fare in light of evidence. I also discuss interpretations of findings that were not anticipated when my study was conceived. And in the final chapter, building upon the findings presented in the empirical chapters, I make a few concluding statements and remarks.

Chapter 2 Theory and Literature Review

In this chapter, I introduce a theory that seeks to explain changes to the congressional budget process by looking at outside groups' incentives and opportunities to protect their economic interests and preferred policy outcomes.

To start, I review a set of contextual factors that characterize the American political economy since the 1970s. These factors indicate that businesses and other outside interests did have motivations to shape fiscal priorities of the federal government. Following the review of the historical context, I discuss why we expect groups' conflict over fiscal policies to be extended to the rules and procedures that govern how budget decisions are made. The key is to understand there are certain features of budget rules and procedures that provide incentives, as well as opportunities, for groups to shape the budget process to their liking. Understanding these features, I argue, helps address the puzzle that I raised in the opening chapter: why did budget reforms, couched in terms of reducing the federal budget deficit, occur at all, while substantive fiscal policy changes took place simultaneously?

Based on the theory, I develop a set of testable predictions about groups' activities at events effecting changes to the congressional budget process, and their preferences over specific reform issues and proposals. As my project is centered on the conflict between the business community on one side, and labor unions and anti-poverty groups on the other, the hypotheses I develop are specific to these groups and interests. I expect that, due to the advantages businesses enjoy in informational capacities and organizational resources over unions and the poor, the content and the direction of congressional budget process reform are more likely to be consistent with businesses' preferences.

At the end of this chapter, I provide a survey of the existing literature on congressional development and its applications to the studies of budget process reform. As I noted in Chapter 1, by reversing the traditional approach to literature review which knocks down all the works that have come before and then builds one's own theory upon the ruins, I want to emphasize that, while previous scholars provided important insights about changes to the structures of formal political institutions, the state/politician-centered approach these scholars utilized often blinded them to the possibility that changes in rules and procedures are often associated with societal forces outside formal political institutions.

The American political economy in the 1970s and 1980s

During the 1970s, the U.S. economy started to decline in an increasingly competitive and integrated world economy. Consider the following numbers: from 1948 to 1966 productivity grew at an annual rate of 3.3%; from 1966 to 1973, 2.1%; and from 1973 to 1978, it slowed to 1.2%. Mirroring the problem of productivity was a decline of the U.S. competitive position in the world economy. The merchandise trade balance first went into deficit in 1972, and by 1984 it reached $140 billion in the red.[1]

The deteriorating U.S. economic performance compromised individual prosperity severely. For businesses, the average net after-tax rate of profit of domestic nonfinancial corporations dropped from nearly 10% in 1965 to less than 6% by the second half of the 1970s.[2] Workers

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[1] Richard D. Wolff, "Magnitude and Causes of the Recent Productivity Slowdown in the United States," in *Productivity Growth and Us Competitiveness*, ed. William J. Baumol and Kenneth McLennan (New York: Oxford University Press with Committee for Economic Development, 1985), 32.

[2] Bennett Harrison and Barry Bluestone, *The Great U-Turn : Corporate Restructuring and the Polarizing of America* (New York: Basic Books, 1988), 7.

suffered as well. Total real wages for the manufacturer of durable goods dropped by 17.5% between 1973 and 1986, and nondurable goods, by 9.7%.[3]

Because of sagging growth and profits at home, and increased international competition, the business community became much more cost-sensitive. This stiffened business opposition to the growth of social spending. Pressures on the social side of the budget increased as growing U.S. involvement in the international economy widened demands within the business community for increased military spending. These competing demands on the budget, however, could not be easily reconciled by simply raising taxes, for sagging profit margins and intensified competition from abroad made it more difficult for corporations to pass taxes through to consumers.[4]

Along with these economic difficulties, American businesses were confronted with additional crises including growing public negativity toward business[5] as well as the establishment of new regulatory agencies (the EPA and OSHA in particular). Corporations increasingly perceived themselves as under siege. With the postwar consensus among business, labor, and the state largely abandoned, the 1970s saw a massive conservative shift in the American corporate elite's orientation. The business community, retreating from its strategy of accommodation and moderation, turned increasingly hostile to organized labor and an active state.[6]

With corporate forces assuming a more confrontational stance, the relations between business and unions were dramatically altered in the late 1970s and 1980s. The American labor movement

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[3] Ibid., 115.

[4] This paragraph is a summary of the content that appeared in the introduction of Chapter 3 in Thomas Ferguson and Joel Rogers, *Right Turn: The Decline of the Democrats and the Future of American Politics*, 1st ed. (New York: Hill and Wang, 1986), 78-79.

[5] Lipset and Schneider report that by 1974, nearly 60% of Americans expressed broadly negative attitudes toward business, compared with approximately 40% between 1958 and 1968. See Seymour Martin Lipset and William Schneider, *The Confidence Gap: Business, Labor, and Government in the Public Mind* (New York: The Free Press, 1983), 32-34.

[6] Mizruchi, *The Fracturing of the American Corporate Elite*, 142-44.

had lost its considerable oppositional influence by the late 1970s. Unions found themselves under relentless attack from corporations as well as government.

The nonagricultural union density in the U.S. had dropped from a peak of 35% in 1954 to 27% in 1970 and 22% by 1980.[7] The number of strikes involving 1,000 or more workers dropped from 235 in 1979 to 187 in 1980, 145 in 1981, and 96 in 1982.[8] Labor's loss of strength was partially attributed to structural and compositional factors such as reductions in economic sectors and demographic groups where unions were traditionally strong.[9] More importantly, the significant decline in the power of organized labor was precipitated by coercive campaigns and tactics employed by corporations to thwart workers' right to organize, as well as by the laws and policies of a government that had turned in a strongly anti-union direction. The Reagan administration, in particular, appointed a few anti-union officials to the key positions at the Department of Labor, the OSHA, and the NLRB.[10]

At the time, the Democratic Party – labor's traditional ally, turned increasingly moderate. Although the forces to push the party to the right were already in place during the Carter administration, the moderation of the Democratic Party was accelerated during the Reagan years when the Republican Party assumed political dominance.[11] Faced with political defeat, and out of the desperation to strengthen the party's ties with business, Democrats began rethinking themselves and redefining their image. Significant efforts made within the party included the establishment of the Democratic Leadership Council which was tasked with promoting more

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[7] Congressional Research Service, Library of Congress, "Union Membership Trends in the United States,"by Gerald Mayer, RL32553 (2004).
[8] Mizruchi, *The Fracturing of the American Corporate* Elite, 188.
[9] Researchers who study union decline believe that structural and compositional factors account for 20% to 60% of the decrease in union density. See Dan Clawson and Mary Ann Clawson, "What Has Happened to the Us Labor Movement? Union Decline and Renewal," *Annual Review of Sociology* 25 (1999): 95-119.
[10] Mizruchi, *The Fracturing of the American Corporate Elite*; Ferguson and Rogers, *Right Turn*.
[11] Ferguson and Rogers, *Right Turn*.

conservative candidates[12] and the Democratic Business Council which actively involved corporate elites to develop party policies.[13] In the early 1980s, with the signs of discontent in the rank and file with the Democratic leaders' acquiescence to major elements of "Reagan revolution" rising rapidly, the party rolled back most of the reforms of the early 1970s, thus significantly increasing the control of party leaders over the rank and file.[14]

Reorganization and rebranding efforts such as these signified the Democratic Party's abandonment of core political commitments that characterized the New Deal era – the belief that the state can and should play an active role in regulating the market and redressing income and welfare inequalities.[15]

Accompanying the shuffling of forces in the American political economy during the late 1970s and 1980s was the sea change in economic ideas. The combination of high inflation and unemployment, or "stagflation", called into question the Keynesian economic orthodoxy. The Keynesian approach of using deficit-financing to stimulate economy, appearing to be no longer effective, declined in relevance against alternatives that were proposed by monetarists and supply-siders. With the peacetime deficit reaching an unprecedented level in the mid-1970s, deficits ascended as a symbol of excessive government intervention in the market economy, especially within in the business community. The fact that Keynesian economic policy stopped

[12] Richard Gephardt, a founder of DLC, voted for the 1981 tax cuts and championed military spending. He was among the growing bloc within the Democratic party who wanted to move the party to the right. See Thomas Ferguson, *Golden Rule: The Investment Theory of Party Competition and the Logic of Money-Driven Political Systems* (Chicago: The University of Chicago Press, 1995).

[13] Ferguson and Rogers, *Right Turn*, 145.

[14] Ferguson and Rogers, *Right Turn*; Karl Gerard Brandt, *Ronald Reagan and the House Democrats: Gridlock, Partisanship, and the Fiscal Crisis* (Columbia: University of Missouri Press, 2009).

[15] Ferguson and Rogers, *Right Turn*, 10

being effective served to rally support for those who supported a reduced role of government in the economy.

The late 1970s and early 1980s also signaled the arrival of the "fiscal straightjacket era" which resulted from a multitude of factors such as cumulative shifts in spending (especially the growth of entitlement spending) over time, grass-root tax revolts, and deliberate political decisions to make federal spending more difficult.[16] As a consequence of severe budgetary constraints and deficits, the U.S. domestic politics became increasingly "fiscalized"[17]. As policymakers began to obsessively concern themselves with how much a piece of legislation would add to deficits and the national debt, their attention shifted away from the merits and limitations of individual programs to more abstract arguments about the appropriate scope of government. In this atmosphere of austerity, policymaking began to require explicit recognition of winners and losers – who would pay for the additional costs either through more taxes or less benefits. As a result, business interests had to compete with other interests to advance their own policy demands and shape fiscal priorities of the federal government.

Businesses were the clear winner of several battles that reordered the fiscal priorities of the federal government. On the revenue side, efforts to expand investment incentives and stimulate the economy from the supply side were already underway during the Carter administration. The Tax Revenue Act of 1978 made a variety of concessions to businesses, including reductions in the corporate tax rate and solidification and extension of a 10% investment tax credit. Carter was

[16] Eugene Steuerle, "Financing the American State at the Turn of the Century," in *Funding the Modern American State, 1941-1995: The Rise and Fall of the Era of Easy Finance*, ed. W. Elliot Brownlee (Woodrow Wilson Center Press with Cambridge University Press, 1996).
[17] Paul Pierson, "The Deficit and the Politics of Domestic Reform," in *The Social Divide: Political Parties and the Future of Activist Government*, ed. Margaret Weir (Washington, D.C. and New York, N.Y.: Brookings Institution Press and Russell Sage Foundation, 1998), 127.

also forced to make massive cuts in funds for the poor, blacks, and the cities, and to further tighten the money supply.[18] But it was the Economic Recovery Tax Act of 1981, the centerpiece of President Reagan's legislative agenda, that ushered in a fiscal "revolution" that culminated the forces to withdraw the government from its postwar obligations to working people and the poor, and channeled streams of cash to the affluent and corporate elites. ERTA cut individual rates across the board by 23%, giving the greatest savings to upper-percentile individuals. Corporate taxes were also greatly reduced through the expansion of investment incentives and the creation of a new kind of depreciation, the Accelerated Cost Recovery System. Estate taxes were drastically reduced as well.[19]

An economic interest theory of congressional budget process reform

Thus the worsening U.S. economy in the 1970s and 1980s led to heightened class conflict and groups' competing demands for an already strained federal budget. The business community, faced with decreasing profits and growing public negativity at home, as well as foreign competition, largely abandoned its postwar accommodation to an activist state, and demanded aggressively for lower taxes, less regulation, and a reduced role of government in the economy. Characterizing by the retreat of an activist state and organized labor – two of the most powerful constraining forces that had compelled the American corporate elite to behave in a relatively moderate, pragmatic fashion in the postwar period, the late 1970s and 1980s were truly transformative times.

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[18] Ferguson and Rogers, *Right* Turn, 105-113.

[19] Cathie Jo. Martin, *Shifting the Burden: The Struggle over Growth and Corporate Taxation* (Chicago: University of Chicago Press 1991).

The starting point of my theory of congressional budget process reform is the argument that the conflicts among outside groups over fiscal policies will result in groups' competition over the rules and procedures that govern how budget decisions are made. Rules and procedures of the congressional budget process have significant impact over fiscal outcomes which are politically contentious. By shaping these rules and procedures in budget process reform, groups can secure their favorite policy outcomes and subsequently shield them from political tides.

By identifying the characteristics of budget rules and procedures which are likely to invite outside groups to make structural demands, my theory echoes the works done by scholars such as Margaret Weir and Paul Pierson who argue that coalitions that seek to dismantle the welfare state usually complement a redistributive project to transfer resources toward a governing coalition with a structural and systemic project.[20] This structural and systemic project is designed to change the "rules of the game" and alter governmental capacities in ways that lock in the governing coalition's agenda and facilitate further transfers in the future. However, unlike these authors who usually rely on thick descriptions to show that both projects were simultaneously at work without demonstrating how they informed each other, I develop a set of testable hypotheses which explicitly map groups' preferences for proposals that revise budget rules and procedures to their preferences over government's spending and tax policies, as well as its role in the economy. In Chapter 3, I introduce data and methods that I utilized to test these hypotheses.

The congressional budget process consists of a set of rules that are written specifically for the consideration of bills related to the federal budget. These rules govern various aspects of the

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[20] Paul Pierson, *Dismantling the Welfare State? : Reagan, Thatcher, and the Politics of Retrenchment* (Cambridge, England; New York: Cambridge University Press, 1994); Margaret Weir, "Political Parties and Social Policymaking," in *The Social Divide: Political Parties and the Future of Activist Government*, ed. Margaret Weir (Washington, D.C. and New York, N.Y.: Brookings Institution Press and Russell Sage Foundation, 1998).

congressional budget process including the timing of the process, which government activities are subject to the budget process, and the size of majorities required for bill enactment. Although these rules can appear to be highly technical and neutral, they have significant impact on fiscal outcomes so are politically contentious.

To begin with, House and Senate consideration of budget resolutions and reconciliation bills are governed by “fast-track” procedures which expedite the bill enactment. The congressional budget process thus presents an extremely attractive route for legislators as well as outside interests to advance their legislative agendas.

Secondly, since budget rules determine which government functions and activities are subject to legislative decisions, and they also determine how often these decisions will be made, legislators and outside interests can effectively shield their preferred policy outcomes from electoral tides through maneuvers like granting certain policies and programs off-budget status, or changing the authorization schedule of programs from annual authorization to multi-year or permanent authorization. Locking in actors’ preferred outcomes through designing rules around them complement substantive policy and programmatic changes once actors take into account of potential policy reversals in the future.

Additionally, rules governing the budget process, like other types of institutions, can stabilize the expectations of actors. Rules that require balanced budget, for example, have been found to serve as signals for imperfectly informed bond market investors to distinguish between politicians who choose to comply with the expectation of balance and those who do not. In a state where balanced budget is required, if politicians run deficits repeatedly, it is highly likely that they are not conforming to the balanced budget requirement. Markets will penalize politicians accordingly through government bond ratings.[21]

Beyond the innate characteristics of budget rules and procedures which are likely to invite the lobbying of outside groups, the act of revising rules and procedures itself also affords groups with opportunities to exert their influence. For one, because budget rules do not make changes to policies directly (e.g. legislators don't vote for cuts for specific programs, or for hikes on particular types of taxes), and the connection between obtuse budget rules and substantive outcomes is often obscure for non-experts, changes made to the budget process are less likely to draw regular voters' attention, and voters are less likely to penalize politicians for enacting controversial rules changes. This provides favorable conditions for covert influence of attentive groups that have particular stakes in the budget process. For another, within Congress, jurisdictions of budget procedures reside with multiple committees in both the House and the Senate. Given that nearly every committee of the House and Senate has jurisdiction over legislations with a budgetary impact, "interest in the budget process and proposals to change it radiate throughout both chambers."[22] The overlapping jurisdictional boundaries between committees confer great advantages to strategically minded groups and individuals who might shop for the most favorable locus or channel that offer the best prospects for advancing their agenda of budget reform.

These characteristics associated with congressional budget rules help explain the puzzle of why reforms occurred at all. They also lead to our first theoretical expectation: ***Organized***

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[21] Robert C. Lowry and James E. Alt, "A Visible Hand? Bond Markets, Political Parties, Balanced Budget Laws, and State Government Debt," *Economics and Politics* 13, no. 1 (2001): 49-72.

[22] Congressional Research Service, Library of Congress, "Federal Budget Process Reform in the 111th Congress,"by Robert Keith, R40113 (2010), 3-4.

interests, to advance their policy preferences and lock in their preferred policy outcomes, will have incentives to shape the congressional budget process to their liking.

Several observable implications flow from this theoretical expectation. If outside interests have incentives to shape the congressional budget process, we will be likely to observe that:

H1: Outside interests will participate in reforming the congressional budget process.

In this project, I primarily focus on the legislative hearings held by congressional committees on subjects related to the congressional budget process. Hearings afford the best venue for us to observe the activity of outside interests. To understand why, consider one key characteristic of congressional budget process reform: reformers usually find it difficult to agree upon whether the existing congressional budget process is indeed "broken", and what "the problems" are.[23] I expect that outside interests often take advantage of this ambiguity and try to exert influence through identifying problems with the congressional budget process, and proposing solutions accordingly. Congressional hearings, where issues are identified and defined and solutions are discussed, present excellent venues to do that.

To test **H1**, I tally all the witnesses who were invited to testify at hearings on subjects related to congressional budget process reform. I also tally people who submitted statements to the committees that held these hearings. I then categorize these participants by their affiliations (both governmental and non-governmental) to assess how many outside groups and individuals did participate in hearings that discuss changes to the congressional budget process.

However, evidence of participation is insufficient for us to say anything about outside actors' exact motives for participating. After all, outside actors can be invited by legislators to

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[23] See Congressional Research Service, Library of Congress, "Issue Brief: Congressional Budget Process Reform,"by Edward Davis and Robert Keith, IB87196 (1988).

participate in reforming the congressional budget process for their *neutral* expertise, or for other reasons that are not informed by self-interest. To discover whether they participate because they want to advance their own policy preferences, and lock in outcomes that are favorable to them, we must look for additional evidence.

Two general expectations are that: **Outside actors' preferences over specific budget process reform proposals are often informed by their preferences for government fiscal policies and government's management of the economy.** And subsequently, **if actors' underlying policy preferences diverge, their preferences over specific budget process reform proposals will diverge as well.**

As I have alluded to in the first chapter, this project will focus primarily on business interests and their competitors. Since labor unions, and groups representing the poor, often have preferences over fiscal policies that diverge from those of businesses, the specific hypotheses I develop will be based on this divergence. To write these two general expectations more specifically,

H2: Business', labor unions', and anti-poverty groups' preferences over budget process reform proposals reflect their respective preferences over government fiscal policies and its role in managing the economy.

H3: Business' preferences over budget process reform proposals diverge from those of labor unions and groups representing the poor people.

As noted in the first section of this chapter, the American business community beginning in the 1970s largely abandoned the orientation that had predominated during the postwar period, and it turned most hostile to organized labor, what they viewed as overly high taxes, and what they saw as excessive regulation. During the period studied, this reversal and the intensity of the business community's preferences exhibited over tax policies and regulation made it more likely that,

H4: Business interests generally prefer budget rules that limit taxes.

H5: Business interests generally prefer budget rules that reduce the size of federal government and its regulatory functions.

On the spending side of the federal budget, the dominant narrative[24] in the existing literature suggests that as the U.S. was increasingly involved in the international economy, demands for increased military spending widened within the business community. A growing budget crisis practically forced a choice between social and military spending, and businesses generally supported the idea of reductions in social spending. Thus, I am expecting that

H6: Businesses generally diverge from labor unions and anti-poverty groups in preferring rules that limit or cut social spending.

Note that in the above hypotheses, I assume the business community can be treated as a collective with unified stands on policies governed by the budget process. This assumption, however, becomes less tenable if we consider the literature on the internal fragmentation within the business community. This line of literature sees the unity of the American business community as highly variable depending on a multitude of factors including economic interdependence between different types of businesses and ownership and directorate networks. The existing literature has shown fragmentation within the business community became more prominent entering the 1980s, which roughly corresponds to the period under examination in this project. I consider the possible fragmentation between industrial sectors that are more averse to

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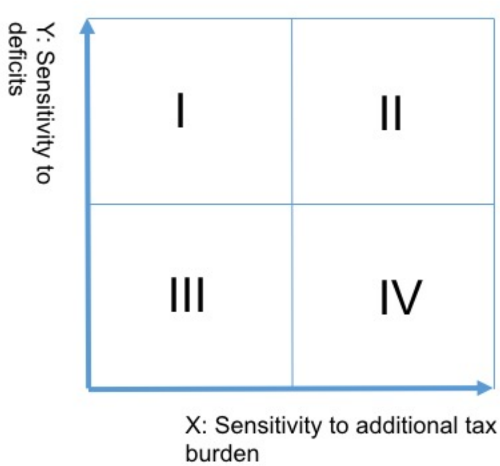
[24] Mizruchi, *The Fracturing of the American Corporate Elite*; Ferguson and Rogers, *Right Turn*.

additional tax burdens and those who are more averse to federal budget deficits to be relevant to my analysis. Sectors that are more averse to deficits are more willing to raise taxes to balance the budget because the decades of experience demonstrate to them that "spending cuts alone were not sufficient to balance the budget. Tax increases were necessary to address at least part of the problem."[25] This brings these sectors to direct conflict with sectors that are less affected by deficits but detest additional[26] tax burdens more.

To illustrate this fragmentation, I present the quadrant below (**Figure 2-1**) that is divided into four sections. The X-axis denotes the degree by which business sectors are averse to additional tax burdens. As we move to the right on the X-axis, businesses are more averse to additional tax burdens. The Y-axis denotes the degree by which business sectors are concerned with federal budget deficits, and as we move up away on that axis, businesses are more sensitive to deficits. A business sector will be placed in one of these sections to denote its sensitivity to both additional tax burdens as well as budget deficits, relative to other sectors.

Figure 2-1 Conceptual Sensitivity Groupings of Business Sectors



[25] Mizruchi, *The Fracturing of the American Corporate Elite*, 227.

[26] I believe "additional" is an accurate qualifier because the central question boils down to if spending cuts are insufficient to salvage deficits, then which sectors would pay more taxes in addition to what they already pay to compensate for the budget imbalance.

I want to make it clear that the coordinates and four sections here are purely for conceptual purposes. It helps us to conceptualize the preferences of industrial sectors **relative** to one another. While I can make a statement about how Sector A, relative to Sector B, is more sensitive to deficits, I remain agnostic of the absolute value of the level of sensitivity they exhibit towards deficits respectively.

Now let's proceed in placing some industrial sectors into their respective sections.[27] The sectors that are most concerned with deficits are those whose profits or asset holdings may be directly affected by inflation and high interest rates (which were attributed to budget deficits in the 1970s and 80s). These sectors include <u>banking, housing, and insurance industries</u>. Bankers, for instance, are committed to maintaining a stable currency in order to protect the integrity of the system and their own profit margins. They exhibit a rabid fear of devaluation and budget deficits which would threaten the currency and their assets. Because of this fear of deficits, banking, housing, and insurance industries are willing to raise taxes to balance the budget. Thus I place them in **Section I**.

Compared to banking, housing, and insurance, <u>capital-intensive manufacturing</u> when faced with a choice between inflation and recession, often favor domestic expansion. These sectors, including <u>chemical, petroleum, metal, paper, transportation, mining, utilities, aerospace</u>, are less worried about monetary stability. They will be placed to reflect their relative low sensitivity to deficits. Meanwhile, as Cathie J. Martin points out, most of selective tax incentives created in the postwar period have aimed at increasing capital investment in fixed plant and equipment which tend to benefit firms with capital-intensive production processes whereby machines rather than

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[27] My discussion of sector-specific preferences, and the typology of industrial sectors are drawn from Martin, *Shifting the Burden.*

workers are used to create much of the value added during production.[28] As a firm's ability to use these selective tax incentives affects its tax burden, prior to the 1980s capital-intensive manufacturers had enjoyed lower effective tax rates for many years.[29] Their tax benefits already were much better secured in the federal tax codes compared to the benefits enjoyed the third type of industrial sectors that I introduce below, thus I place them in **Section III**.

This third type of industries, typically small businesses, service and labor-intensive sectors (e.g. food and beverages, publishing and printing, tobacco, retailers) are more averse to additional tax burdens. Prior to the 1980s, these firms had not enjoyed selective tax incentives, and tended to pay high effective tax rates, thus they would try to avoid tax increases at all cost. In the meantime, compared to banking, housing, and insurance companies, they care less about monetary stability and more about recessionary dips because their profit margins and other resources are meager. Thus, I place them in **Section IV**.

I leave **Section II** empty as it is irrelevant to the illustration of the fragmentation within the business community. Conceptually speaking, business sectors placed in **Section II** are averse to both deficits and additional tax burden, which implies they are more receptive to implementing spending cuts to reduce budget deficits. And as noted above, business firms were generally on the same page regarding the necessity of spending cuts.

Based on businesses' varying degree of sensitivity to deficits, I expect to see:

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[28] Martin, *Shifting the Burden*, 36-37.

[29] Ibid., Table 1.3 Effective Tax Rates by Industrial Sector (%) on p. 13. See also Alan L. Feld, *Tax Policy and Corporate Concentration* (Lexington, Massachusetts: Lexington Books, 1982); Michael Lugar, "Tax Incentives and Tax Inequities," *Journal of Contemporary Studies*, no. Spring 1982 (1982): 36-37.

H7: Industries in Section I are more likely to prefer budget rules that mandate deficit-reduction, or mandate a balanced budget to be achieved immediately, compared to industries in other sections.

H8: Industries in Section I are more likely to prefer budget rules that enhance monetary stability and control interest rates, compared to industries in other sections.

And based on the level of intensity with which industrial sectors are sensitive to additional tax burdens, I expect to see

H9: Industries in Section IV are more likely to prefer budget rules that explicitly limit tax increases, compared to industries in other sections.

And as the literature indicates, small business and service sectors – due to their inability to claim selective tax incentives during this period – demanded equity in distribution of selective tax incentives that were comparable to those received by capital-intensive businesses. Therefore, I also expect to see:

H10: Industries in Section IV are more likely to be receptive to budget rules that reform the existing treatment of tax incentives on the budget (as opposed to industries in Section III)

I have now introduced a set of predictions regarding groups' preferences over budget reform proposals. In the empirical portion of this project (Chapters 4, 5 and 6), I discuss how well the evidence I collected corroborates these expectations. The ultimate goal of identifying groups' preferences is to answer whether groups get what they wanted from budget process reforms. I have emphasized that certain characteristics associated with congressional budget rules create incentives as well as opportunities for outside groups to implement their preferred structural arrangements. Particularly, the oftentimes obscure connection between budget rules and substantive outcomes enables groups to shape the budget process to their liking without drawing much scrutiny from ordinary voters. In addition, analyzing budget, understanding budget process, and subsequently, influencing reforms all require substantial informational apparatus, lobbying and organizational resources from outside groups. It is considerably easier for the affluent and resourceful to navigate the minutia of budget rules, and change the rules than those who are poor and lack resources. As the business community in general possesses more of such informational and organizational advantages than labor unions and anti-poverty groups, I expect to see that ***business interests exert dominant influence over congressional budget process reform.*** Specifically, I hypothesize that

H11: Business interests testify in congressional hearings more frequently than labor unions and anti-poverty groups.

H12: Proposals preferred by business interests are more likely to be enacted, compared to labor unions and anti-poverty groups.

A review of the existing literature

Most existing theories of congressional development including their applications to congressional budget process reforms tend to utilize a politician/state-centered approach. I argue that this approach is insufficient to help scholars understand when changes to the congressional rules and structures take place, why they take place, and why the changes assume some forms but not others. Following a review of existing congressional studies, I discuss some of the insights that I gleaned from other areas of American politics research that link shifts inside the formal political institutions to forces in the larger society. I argue that incorporating outside groups and actors to our analysis might help resolve these questions.

In the rational choice tradition, scholars tend to view formal political institutions as structures of voluntary cooperation that resolve collective action problems and benefit all concerned. Institutions exist simply because the relevant actors value the functions that these institutions serve. Institutional change is usually ascribed to actors collectively and voluntarily agreeing to deviate from the existing institutional form in pursuit of alternative ones that deliver more benefits.[30]

To apply this stylized formulation to studies of the U.S. Congress: since the fundamental objective of political actors is to get reelected,[31] all the institutional arrangements within Congress, which are products of conscious design and redesign, must serve to enhance actors' electoral objectives. The prediction thus follows that institutional changes happen when there are major shifts in the electorate, which induces membership turnover or preferences shifts in the legislature.[32]

Though the rational-choice approach offers useful explanations why existing institutions continue to exist by drawing our attention to the functions that institutions perform and the benefits they provide, several features of this approach severely limit its adequacy in predicting when and how institutional changes take place.[33]

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30 For a more detailed review of rational choice institutionalism and how it differs from sociological and historical institutionalisms, see Peter A. Hall and Rosemary C.R. Taylor, "Political Science and the Three New Institutionalisms," *Political Studies* 44, no. 5 (1996): 936-57.

31 David Mayhew, *Congress: The Electoral Connection* (New Haven: Yale University Press, 1974).

32 Schickler, McGhee, and Sides' study of reform preferences in the early 1970s, for instance, found that the support for institutional alterations came from junior and liberal members seeking to advance policy proposals obstructed by more conservative and senior legislators. Eric Schickler, Eric McGhee, and John Sides, "Remaking the House and Senate: Personal Power, Ideology, and the 1970s Reforms," *Legislative Studies Quarterly* 28, no. 3 (2003).

33 The discussion of the limitations of the rational-choice institutionalist explanations in this paragraph is built upon Hall and Taylor, "Political Science and the Three New Institutionalisms"; Paul Pierson, "The Limits of Design: Explaining Institutional Origins and Change," *Governance* 13, no. 4 (2000).

First of all, the theories offered by this line of literature carry strong "intentionalist" and "functionalist" overtones. They are "intentionalist" in that scholars within the rational choice tradition tend to assume actors can correctly perceive the effects of the institutions they choose and create them precisely to secure these effects. Accounts of institutional design that adopt this assumption conveniently avoid the issue that social realities are complex and institutional designers who are limited by their prior experiences make mistakes.[34] The rational choice theories of institutional change are also largely "functionalist" in that they tend to explain the origins of an institution largely in terms of the effects that follow from its existence. Consequently, readers are often left without an explanation why the ensuing institutional forms can exhibit many inefficiencies.[35]

Secondly, because of its theoretical formulation that ascribes the existence of and changes to rules and structures by reference to politicians' electoral incentives, the existing literature following the rational choice tradition cannot provide theoretical explanations for institutional changes in absence of major electoral shifts. To compensate for its insufficiency, the scholarship has evolved to recast the electoral explanation by referencing other collective interests shared by members of Congress. Yet since these other interests are only extensions and secondary to members' reelection goal, studies that invoke them still have to rely on shifts in the electorate to explain institutional changes.

[34] Pierson, "The Limits of Design". Pierson pointed out that political scientists had largely avoided engaging in the discussion of how the limitations of human cognition and complex social settings in which political actors reside engender institutional choices with unintended effects.

[35] Ibid. The sociology's version of "the new institutionalism" challenges the premise shared by functionalist accounts by pointing to the evidence that in structuring institutional arrangements, actors may be motivated more by conceptions of what is appropriate than by conceptions of what would be effective. Such arrangements, motivated by "logic of appropriateness" behaviors, may actually be dysfunctional.

For instance, starting from the assumption that electorally-minded members have stakes in protecting the party's reputation,[36] some scholars argue that majority party members will structure the legislative rules to further their party's policy preferences and suppress the advantages of the minority party.[37] Others develop theories of congressional organization with lawmakers' interest in supporting structures that enhance the capacities of the institution they reside in.[38] At heart, members' institution-based interests derive directly from their electoral incentives as they know the prospects for reelection are partly dependent on their collective problem-solving abilities.

Finally, most of the studies using the rational-choice approach have focused our attention almost exclusively to the sets of rules and structural arrangements within either the House or the Senate that govern parliamentary activities and allocate procedural rights.[39] Other types of congressional rules and procedures such as budget rules and ethics rules[40] are comparatively less well studied. Furthermore, the approach that investigates one chamber at a time also dismisses

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[36] D. Roderick Kiewiet and Matthew D. McCubbins, *The Logic of Delegation: Congressional Parties and the Appropriations Process* (Chicago: University of Chicago Press, 1991); David W. Rohde, *Parties and Leaders in the Postreform House* (Chicago: University of Chicago Press, 1991).

[37] But the minority party is not without options. They can strategically negotiate the constraining and creative features of rules to their own advantages. See Adam Sheingate, "Rethinking Rules: Creativity and Constraint in the U.S. House of Representatives," in *Explaining Institutional Change: Ambiguity, Agency, and Power*, ed. James Mahoney and Kathleen Thelen (New York: Cambridge University Press, 2009).

[38] e.g. Adler E. Scott and John D. Wilkerson, *Congress and the Politics of Problem Solving* (New York: Cambridge University Press, 2013).

[39] To list a few influential works written on parliamentary rules: Sarah A. Binder, "The Partisan Basis of Procedural Choice: Allocating Parliamentary Rights in the House, 1789-1990. (Us House of Representatives)," *American Political Science Review* 90, no. 1 (1996); Sarah A. Binder and Steven S. Smith, "Political Goals and Procedural Choice in the Senate," *The Journal of Politics* 60, no. 2 (1998); Gary W. Cox and Mathew D. McCubbins, *Setting the Agenda : Responsible Party Government in the U.S. House of Representatives* (New York: Cambridge University Press, 2005). See also David W. Brady and Matthew D. McCubbins, eds., *Party, Process, and Political Change in Congress*, vol. 2 (Stanford, California: Stanford University Press, 2007). Part II "Internal Changes in Congress" of this edited volume provides a compilation of articles on parliamentary rules that were written by some of the very best scholars in the field.

[40] For a good starter on the theoretical puzzles of congressional ethics reform, see Denis Saint-Martin, "Gradual Institutional Change in Congressional Ethics: Endogenous Pressures toward Third-Party Enforcement," *Studies in American Political Development* 28, no. 2 (2014).

the coordination between party members in both chambers, and ignores the larger temporalities that influence both chambers at the same time. The limited scope that the rational choice approach affords is largely the result of the fact that the analytical models utilized in this line of literature which are centered on equilibria and actors' best responses can only be applied to a limited number of settings with relatively simple configurations.

The historical institutionalism tradition contests the approach taken by the rationalists. It emphasizes that the institutions that are created often reflect the relative contributions of – and often conflict among – differentially motivated actors. It is the conflicts and asymmetries embedded in the institutional arrangements that animate the next round of institutional change. In some cases, the power of one group (or coalition) relative to another may be so great that dominant actors are able to design institutions that closely correspond to their well-defined institutional preferences.[41]

In addition, historical institutionalists also stress the importance of systematic approaches to temporality, including distinctions between critical junctures and more normal moments. The subject of temporality opened up opportunities for scholars of institutional development to explore how within the American democratic system, different institutions moving at their own tempo can also interconnect to produce key outcomes that each on its own might not.[42]

However, within the studies of congressional rules and structures, scholars following the historical institutionalist tradition sometimes find themselves unable to break away from the rationalists. The conflict between actors with different endowments of resources is usually

[41] James Mahoney and Kathleen Thelen, "A Theory of Gradual Institutional Change," in *Explaining Institutional Change: Ambiguity, Agency, and Power*, ed. James Mahoney and Kathleen Thelen (New York: Cambridge University Press, 2009).
[42] Katznelson and Lapinski, "At the Crossroads".

narrowly construed as competition between two parties.[43] Scholars who consciously avoid attributing change to politicians' single-minded pursuit of staying in the office, however, usually remain silent or vague in their theories and predictions of *when* exactly congressional rules and structural change happen.[44] Although they invoke concepts such as skilled entrepreneurial politicians and the critical junctures during which these skilled politicians operate to explain changes to congressional rules and procedures, these scholars cannot generally explain what exactly precipitates such critical junctures other than electoral transformations.[45] Historical institutionalists' emphasis on temporality has been inhibited by the relatively modest notice it has given to Congress.[46]

Thus far, I have identified a few weaknesses and limitations with the existing literature of congressional development. To illustrate these inadequacies more concretely, let us apply the explanations and predictions offered by this literature to congressional budget process reform.

Consider the argument that changes to congressional institutions derive momentum from careerist politicians responding to larger electoral shifts. However, little evidence suggests any major realignment of American voters actually happened from the mid-1970s to the 1980s.[47] In

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[43] e.g. Sheingate, "Rethinking Rules"; Richard M. Valelly, "The Reed Rules and Republican Party Building: A New Look," *Studies in American Political Development* 23, no. 2 (2009).
[44] e.g. Eric Schickler, *Disjointed Pluralism* (Princeton: Princeton University Press, 2001).
[45] Hall and Taylor, "Political Science and the Three New Institutionalisms".
[46] Katznelson and Lapinski, "At the Crossroads".
[47] According to surveys conducted by the National Opinion Research Center (NORC) between 1969 and 1979, public skepticism toward business, and support for government regulation of it actually increased. Other opinion polls conducted within the similar timeframe also showed that the typical "New Deal issues" – including government management of the economy, the protection of social security, the aged, and worker welfare – did not become less important to Americans during the late 1970s. For more discussion about how opinion data do not bear the "right turn" of public opinion out, see Ferguson and Rogers, *Right Turn.*

addition, the most popular proposals on the budget rules reform agenda, which set to cut social spending, had little support among the American public.[48]

In addition, the predictions that to secure their reelection prospects, members of Congress will invest in structures that generate benefits for the majority party or enhance Congress's institutional capacities are at direct odds with what actually happened in history. The reaffirmation of the Gramm-Rudman-Hollings Act in 1987 witnessed Democrats in the House actively supporting strengthening the fiscal hands of a Republican President. Furthermore, since the establishment of an independent congressional budget process in 1974, in its recurring attempts to curb the growth of budget deficits, Congress consistently sought to reverse the punitive measures imposed by the 1974 Act on President's impoundment authority, thus ceding its power to the President little by little.[49] This course of events clearly run contrary to the theoretical expectation that Congress should strengthen its own institutional capacity to achieve its objectives.

Largely written by scholars who abide by the rational choice tradition,[50] the existing studies of congressional budget process reforms have mostly ignored the larger context of U.S. economic downturns since the 1970s and the major fiscal policies (with significant distributional consequences that were favorable to the affluent) enacted during the first term of the Reagan

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[48] Even as cutbacks in domestic spending became evident during Reagan's first term, the public increased its support for social programs. For instance, an NBC News poll found that those who agreed with the statement that Reagan was "going too far in attempting to cut back or eliminate government social programs" rose from 37% to 52% over the period of 1981 ~ 1983. A CBS News/*New York Times* poll found that by 1983, 74% of the public supported a jobs program even if it meant increasing the size of the federal deficit. All data cited appeared in Seymour Martin Lipset, "The Economy, Elections, and Public Opinion," *The Tocqueville Review* 5 (Fall - Winter) (1983).

[49] The series of events finally culminated in the enactment of the 1996 Line Veto Item Act which granted the President the authority to veto part of a bill passed by Congress. This Act later was ruled unconstitutional by the Supreme Court in 1998.

[50] On the topic of federal budget process reform, the abundance of works is produced by scholars in the discipline of public policy which shares close lineage with economics.

administration. Instead, they cast the revision of congressional budget rules and structures during the same period in a purely benign mode. Lacking reflections on the paths by which lawmakers arrived at their decisions, these works cannot explain, responding to the budget deficits, why an institutional solution that established and revised budget rules and procedures was considered at all, when substantive policy changes such as spending cuts and tax increases were the obvious, and most direct choices. Neither can they explain why a widely detested and inefficient proposal such as the Gramm-Rudman-Hollings Act – which nobody expected to accomplish what it set out to do – could sweep the Congress with bipartisan support within a very short period of time.

So far, my review of the existing literature has shown that theories of congressional development tend to attach great explanatory power to politicians' electoral incentives in explaining why institutions exist and evolve. In recent years, revisionist theories have begun to change our understandings of parties and elections. These revisionist theories share the common thread that elected officials rarely respond to the demands of ordinary voters. Parties are not organized to solve the collective action problem of politicians who are single-mindedly driven by electoral goals. Instead, they are best understood as coalitions of "a small number of elite actors commanding disproportionate shares of politically mobilized resources"[51] seeking to capture and use government for their particular goals.[52]

Among this small number of elite actors, many scholars point to business interests. Businesses varying by their sizes, geographic locations, and industrial sectors form coalitions,

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[51] Ferguson, *Golden Rule*.

[52] Similar to Ferguson's investment theory of political parties, Bawn et al.'s group-based theory of parties sees parties best understood as coalitions of interest groups and activists seeking to capture and use government for their particular goals, which range from material self-interest to high-minded idealism. See Kathleen Bawn et al., "A Theory of Political Parties: Groups, Policy Demands and Nominations in American Politics," *Perspectives on Politics* 10, no. 3 (2012).

and these coalitions constitute the core of political parties. Party competition is not about appealing to the median voter. Party realignments occur when cumulative long-run changes in industrial structures (notably steep economic downturns) reshuffle the business community. Realignments also happen when business elites change their preferences.[53]

Aside from renewing our knowledge of parties and electoral competition, these revisionist theories also shed light on the institutional implications of the divide between ordinary voters and a small number of elites in political processes. They help explain that legislators, to avoid retaliation from ordinary voters, engage in activities such as bundling unrelated policies in omnibus legislation, adding or subtracting major provisions from bills in conference reports, and adopting rules that assure passage of more extreme legislation than voters favor.[54] Through similar maneuverings of government rules and proceedings by their allies in the legislature, outside groups can get their desired policy outcomes while leaving ordinary voters confounded.

Outside interests not only can benefit from politicians' deliberate manipulation of the electoral blind spot in the legislative process, they can also participate more directly in shaping the rules and structures of formal political institutions. On this point, studies of bureaucracy direct our attention to how interest groups and their allies in the legislature, through designing rules, decision procedures, and reporting requirements, strategically constrain the bureaucracy to faithfully carry out policies favored by the interest groups.

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[53] Ferguson, *Golden Rule*

[54] Bawn et al. "A Theory of Political Parties"; Cox and McCubbins, "Setting the Agenda"; Frances E. Lee, *Beyond Ideology : Politics, Principles, and Partisanship in the U.S. Senate* (Chicago: University of Chicago Press, 2009); Barbara Sinclair, *Unorthodox Lawmaking : New Legislative Processes in the U.S. Congress*, 2nd ed. (Washington, D.C.: CQ Press, 2000); Sean M. Theriault, *Party Polarization in Congress* (New York: Cambridge University Press, 2008).

Discussing the role of outside interests in shaping the rules and structures of formal political institutions inevitably brings us to the question how much autonomy state actors (politicians and bureaucrats) enjoy when making decisions regarding the rules and structures. The literature on bureaucracy indicates that bureaucrats are relatively insulated from interest group pressures and have relative freedom to design structures and rules in accordance with their separate goals and interests. The reason why bureaucrats can enjoy such autonomy is because of the information advantages they have over their principals, i.e. legislators and interest groups.

However, compared to bureaucrats, legislators are less able to resist pressures from their constituents and interest groups. Although my interviews with congressional staffers indicate that mid-level technocrats are driven by the desire to make good rules and policies, it remains to be seen how much autonomy they have and to what extent they are simply following the instructions of their bosses (who are under pressure from outside interests). Autonomy becomes an even more elusive quality when we start considering how much Congress has become increasingly reliant on outsourced expertise. According to Baumgartner and Jones[55] and Drutman and Teles[56], sometime around 1980, congressional capacity just flatlined. Congress stopped hiring, and then began cutting. The decline in congressional capacity opened the floodgate for information and analytical capacities provided by those with the biggest material and ideological stakes in the outcome.

Several studies that I reviewed above hinge on the important insight that outside interests have the incentives and opportunities to exploit institutions and transform the ways institutions

[55] Frank R. Baumgartner and Bryan D. Jones, *The Politics of Information: Problem Definition and the Course of Public Policy in America* (Chicago; London: University of Chicago Press, 2015).
[56] Lee Drutman and Steven Teles, "Why Congress Relies on Lobbyists Instead of Thinking for Itself," *The Atlantic*, March 10, 2015.

allocate power and authority to benefit themselves. It is based on this insight that my theory directs the attention of scholars who explore the institutional dynamics of Congress from politicians to forces outside Congress. By unpacking the stakes that outside groups have in rules and procedures that govern lawmaking activities, we might be able to see more clearly why structural changes to Congress assume certain forms. And by inquiring about the shift in the relative distribution of power among all the relevant actors in the political process within a larger temporal context, we might be able to provide better explanations and predictions for when institutional changes take place.

Chapter 3 Data and Methods

In Chapter 2 "Theory and Literature Review", I identified some major weaknesses associated with the existing theories of congressional rules and structures, and with their application to studies of congressional budget process reform. To alleviate these weaknesses, I argue, we should add outside groups and actors back into our analysis.

We now have ample evidence suggesting that rules and structures have profound impact on the policy-making process that distributes differential "bundles of resources and incentives"[1] to different segments of the population. The next step is to explore how forces outside Congress, because of these resources and incentives, subsequently shape congressional rules and structures. My project contributes to this research inquiry by analyzing the influence of outside interests in changing the rules that govern congressional budgetary decision-making.

To tackle the key question of influence, my analysis proceeds in three stages. Each stage of the analysis requires a different piece of evidence to be present in order for the broad hypothesis that "outside interests influence the direction and the outcome of congressional budget process reform" to be true. To start, I collect the most rudimentary evidence that suggests outside interests are indeed present at activities and events that effect changes to the congressional budget process.

Then in the second stage, building upon this evidence, I ask what these outside interests want, or what motivates their participation. I propose that outside groups and actors are involved in changing the rules of the congressional budget process primarily to protect their preferred fiscal policy outcomes. Testing this proposition requires me to tap into groups' preferences over

[1] The language within the quotation marks is borrowed from Katznelson and Lipinski, "At the Crossroads", 250.

proposals that reform the congressional budget process. I show that these preferences are indeed informed by groups' policy stands on government tax and spending policies, as well as their views of the proper role of government in regulating the market economy. During the second-stage analysis, I will devote some space to the discussion of how to reconstruct actors' preferences using the data available. I discuss methods that deal with the situations where actors' preferences are unobserved and where actors strategically misrepresent their preferences.

The first- and second-stage analysis will pave the foundation for the third and final stage which allows me to answer the question of ultimate interest: given what we know about their preferences, do outside interests eventually get what they want?

In this chapter, I introduce three different sets of data – "congressional hearing witness participation data", "Congressional Budget Act and Gramm-Rudman-Hollings amendment bills data", and "congressional hearing witness testimony data" – that I will use to test the hypotheses introduced in Chapter 2. For each set of data, in addition to explaining the collection and analysis methods, I will discuss their suitability regarding addressing the research questions and operationalizing the key concepts such as "participation", "preference", and "influence". I will also discuss the measures that I have taken to enhance the validity and reliability of the analytical results.

A. Understanding Patterns of Outside Interests' Participation

To collect evidence that outside interests participated in reforming the congressional budget process, I turn to congressional hearings where outside groups and actors were invited by committees to testify on subjects related to congressional budget process reform. I track the appearances made by different types of groups from the enactment of CBA on July 12, 1974 until September 29, 1987 when President Reagan signed GRH II into law, with attention to appearances of business corporations, labor unions, and groups representing the poor. I am interested in the volume of hearing appearances made by any given group or any type of interest, and the frequency at which they appeared during this time period. And based on the patterns observed on these measures, I will discuss what can be concluded about a group's level of engagement and their influence in congressional budget process reform.

Although hearing participation data have flaws in presenting a complete picture of all the parties involved in any given issue, I will show they do offer some unique benefits for making inferences about the influence of groups and actors. In fact, under the circumstances where other types of data are inaccessible, hearing participation data are probably the best systematic data that offer insights into patterns of outside interests involved in any given issue.

Drawing inferences from congressional hearing participation

Congressional hearings afford me the best systematic evidence available for observing the activity of outside interests in reforming the rules of the congressional budget process. To understand why, consider one key characteristic of congressional budget process reform: reformers usually find it difficult to agree upon whether the existing congressional budget process is indeed "broken", what "the problems" are, and what "means of achieving reform" are warranted.[2] This ambiguity presents an opportunity for interested parties inside and outside the Congress to shape the reform agenda by defining problems need to be addressed and proposing solutions accordingly. Congressional hearings, where issues are identified and defined, and

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[2] Congressional Research Service, Library of Congress, "Issue Brief: Congressional Budget Process Reform".

solutions are discussed, present excellent venues to do that. In addition, for scholars who analyze the activities of major players on a given issue and how they position themselves in the debate, using congressional hearings is much more convenient than pursuing data on all potential groups separately.

However, some existing empirical research studying activities of interest groups calls into question the reliability of using hearings data to answer who the major outside players are in any given issue.

To begin with, scholars studying policy change and issue evolution attach great importance to policy venues where "authoritative decisions are made concerning a given issue."[3] In the U.S., where authority is shared among different institutions and levels of government, particular venues may confer advantage on specific groups over others. Strategically minded policy entrepreneurs therefore might shop for the most favorable locus or channel that offer the best prospects for reaching their goals.[4] Within Congress itself, jurisdictions of budget procedures reside with multiple committees in both the House and the Senate. Given that nearly every committee of the House and Senate has jurisdiction over legislations with a budgetary impact, "interest in the budget process and proposals to change it radiate throughout both chambers."[5] Groups thus might choose committee(s) they consider friendly to present their viewpoints.

Alternatively to appearing in front of congressional committees, groups can also resort to other means of lobbying for their causes. Leyden reports, after conducting interviews with interest group representatives or lobbyists, that most of them feel that one-on-one lobbying and

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[3] Frank R. Baumgartner and Bryan D. Jones, *Agendas and Instability in American Politics* (Chicago: University of Chicago Press, 2009), 32.
[4] Ibid.
[5] Congressional Research Service, Library of Congress, "Federal Budget Process Reform in the 111th Congress".

mobilizing grass roots pressures are more vital to their interests.[6] The possibility that groups might conduct other activities to influence legislators and legislative outcomes would potentially compromise the picture of group advocacy we draw solely from the hearing participation data.

Hearings invite strategic behaviors from legislators as well – thus adding additional complications to the inference. Empirical evidence suggests hearings in general serve to frame a debate from the perspective of the committees that hold them.[7] Committee chairs, in particular, strategically select witness to stack the hearing in their favor. The committee's minority party may have to expend considerable resources in order to get a witness put on the list to testify.[8] Since the committee majority controls who may testify, a group might be uninvited because its positions are already known and considered unfavorable by the chair despite the group's stakes in the issue on which the hearing is held. It is also likely that a group, though absent, might nevertheless submit questions for their allies on the committee to ask other witnesses at the hearing in order to test how well the group's arguments hold in light of opposition. These possibilities potentially create a "missing data" problem for any attempt to draw a full picture of groups involved in a given issue.

The complications discussed above have led some scholars to discount the value of hearing participation data. Some have concluded that hearings are "window dressing",[9] and that the importance of the hearing process in affecting policy outcomes is overstated. While I think more first-hand investigations remain to be done on how exactly hearing testimonies are used by

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[6] Kevin M. Leyden, "The Purpose and Politics of Congressional Committee Hearings: Who Participates and Why" (PhD diss., The University Iowa, 1992), 201.
[7] Leyden, "The Purpose and Politics of Congressional Committee Hearings"; Jeffery C. Talbert, Bryan D. Jones, and Frank R. Baumgartner, "Nonlegislative Hearings and Policy Change in Congress," *American Journal of Political Science* 39, no. 2 (1995).
[8] Talbert, Jones, and Baumgartner, "Nonlegislative Hearings and Policy Change in Congress", 389.
[9] Jeffrey M. Berry, *The Interest Group Society*, 2nd ed. (New York: Harper Collins, 1989), 142.

legislators, staffers, and interest groups in practice,[10] we will see that hearings data contain a great deal of useful information. Researchers need to explore techniques to extract more of it.

My project examines the pattern of hearing participation drawn from 74 hearings held on the subject of congressional budget process reform after the enactment of the Congressional Budget Act of 1974 until the Gramm-Rudman-Hollings Reaffirmation Act of 1987 was signed into law by President Reagan, or between July 12, 1974 and September 29, 1987. Selecting hearings held by different committees on the same subject helps ensure that groups' strategic venue shopping within Congress will be at least partly accounted for. Additionally, the period that I investigate spans eight consecutive Congresses. This reasonably long period of time reduces concerns that some groups might make their preferences known to legislators earlier in time than other groups, but then remain absent for the remainder of the hearings held later. Examining patterns of group participation in hearings for a long time also afford us vantage points to look at groups' activities in different stages of legislative decision-making, which will be proven valuable for analyzing groups' relative influence. I will elaborate on this point later in this section.

To add a robustness check on the patterns of group participation observed from the hearing participation data, I examine the appendices of published hearings which usually print materials submitted for the record. These materials not only include reports and exhibits submitted by the witnesses who were invited to testify, but also include correspondences and documents submitted by other interested parties who were not invited. Unlike the invite-only hearing participation, there is no constraint for submitting materials for the record. Thus the appendices, to some extent, should present a more diverse pool of participants and interests.

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[10] Some preliminary evidence collected through interviews with interest group representatives suggests most representatives believe the hearing forum presents an important arena to promote their interests. See Leyden, "The Purpose and Politics of Congressional Committee Hearings".

Despite that hearings present challenges to forming a complete picture of groups and individuals that are involved in a given issue, being invited by committees to testify at hearings in itself is a significant indicator of a group's *influence* – a concept central to the aims of this study. Testimony in hearing requires resources such as budgets and staffs to provide organizations with the capacity to research, write, and deliver testimony. The types of organized interests most likely to testify are those that can afford to hire their own Washington-based lobbyists and supporting staff. Groups with PACs tend to participate in more hearings than groups without PACs.[11] Invitations to hearings also require "legitimacy as an authoritative source of information in the eyes of congressional committee staffers."[12] Because testifying at hearings is costly, we can be confident that those get to testify are more likely to be crucial players, and are also more likely to influence the legislative outcomes than those that don't testify.

Selecting hearings

To select the hearings that are relevant, I conducted key word searches on the congressional hearing abstracts which were originally published in the *Congressional Information Service Annual* (*CIS Annual*). *CIS Annual* provides abstracts on congressional publications from 1970 to the present, and has been digitized by *ProQuest Congressional* database. The main abstract for hearings includes basic bibliographic data for the publication as a whole, the name of the subcommittee holding the hearings, a brief description of the purpose and focus of the hearings

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[11] Kevin M. Leyden, "Interest Group Resources and Testimony at Congressional Hearings," *Legislative Studies Quarterly* 20, no. 3 (1995).
[12] Kyle W. Albert, "An Analysis of Labor Union Participation in U.S. Congressional Hearings," *Sociological Forum* 28, no. 3 (2013).

(including a description of what, if any, the specific legislation is under consideration), and a characterization and/or listing of any appendix materials.[13] By using abstracts to select relevant hearings some information is lost in this process; keyword search in the full text would yield a larger set of hearings.[14] But the short abstract included in the *CIS Annual* creates a high threshold of importance, and this practice is consistent with that of the previous scholarship.[15]

To start, I used the keyword "Congressional Budget and Impoundment Control Act" or "Congressional Budget Act" as its shorthand variant, the rationale being that since CBA established an independent congressional budget process, any attempt to change the congressional budget process *after* 1974 must take the form of amending the 1974 Act's provisions. To be clear, I will not be dealing with the enactment of the CBA itself in this project, on the grounds that actors' motivations in establishing an independent congressional budget process would be expected to be quite different from their motivations to change the existing rules governing the budget process. I elaborate on this point further in the "Theory and Literature Review" Chapter and in the "Conclusion and Final Remarks" Chapter. The motivations governing actors' behaviors, either before and after the enactment of the CBA, are to a large extent a function of the political and economic contexts. And since the pre-1974 context is different from the post-1974 one, actors' motivations may be quite different as well.

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[13] Refer to the instruction offered in *CIS Annual* for more information.

[14] I conducted keyword search in the full text as well just to see how much is lost, and I found full-text search did return more results than search conducted in abstracts. Hearings that appeared under the full-text search but not under the abstract search include "Federal Block Grants and Revenue Sharing: The Advantages and Disadvantages for the State of Iowa" (held on February 18, 1982, by Senate Budget Committee, 97th Congress, 2nd Session), and "Veterans' Housing, Burial, and Cemetery Programs" (held on June 15, 1978, by Senate Veterans' Affairs Committee, 95th Congress, 2nd Session). I have found that these hearings are more likely to pertain to the implementation of budget rules in various government programs, than to the discussion of rules changes. As I will make it clear below, in this project I excluded from the analysis hearings that concern the implementation of rules. The loss of information in using abstracts is thus minimal.

[15] Frank R. Baumgartner, Suzanna L. DeBoef, and Amber E. Boydstun, *The Decline of the Death Penalty and the Discovery of Innocence* (Cambridge University Press, 2008), 104.

To refine the results yielded from these initial keyword searches, I further selected only hearings whose abstracts include words such as "amend", "modify", "improve", "review", or "proposal", or "recommendation". This criterion filtered out hearings that dealt with applying budget rules to the various stages of annual budgeting in various years. For example, "hearing to examine the state of the economy in preparation for passage of the second concurrent FY76 budget resolution providing targets and ceilings" (held on September 23-25, 30 – October 2, 1975 by the Senate Budget Committee, 94th Congress, 1st session) is excluded. Similarly, authorizations and appropriations hearings are excluded as they emphasize the implementation of the rules instead of rules revision.[16] Hearings that discuss and review the impact of budget rules on specific policies or programs are also excluded for the same reason.[17]

In total, 74 hearings held between July 12, 1974 and September 29, 1987 were selected.

Coding hearing witnesses' affiliations

After selecting a large set of relevant hearings, I turned to categorizing the organizations that were invited to testify and recording the number of appearances made by different types of organizations and interests during the time period studied.

CIS Annual provides testimony abstracts for hearings which contain the name and affiliation or credentials of every witness. Note that *CIS* defines a "witness" as an individual who appears

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[16] Examples of authorizations and appropriations hearings that appeared in the search results include "Department of Defense Appropriations for 1977 Military Personnel Entitlement Bills Referred Under Section 401(b), Congressional Budget and Impoundment Control Act of 1974" (held on September 8 and 14, 1976, by House Appropriations Committee, 94th Congress, 2nd Session), and "Waiver of Section 402 of the Budget Act as It Applies to an Authorization Contained in S. 50, the Full Employment and Balanced Growth Act of 1978" (held on October 4, 1978, by Senate Budget Committee, 95th Congress, 2nd Session).

[17] The literature on incremental institutional change emphasizes that institutional change often occurs precisely when problems of rule interpretation and enforcement open up space for actors to implement existing rules in new ways (e.g. Mahoney and Thelen, "A Theory of Gradual Institutional Change"). However, it is beyond the scope and capability of this dissertation project to examine the vast number of hearings that implement budget rules.

before a committee to deliver testimony. It does not consider individuals who accompany principal witnesses but make no significant contribution of their own to the testimony to be witnesses, and these subsidiary individuals are not recorded in the *CIS Annual abstracts*.[18] For instance, in the hearing titled "Government Economy and Spending Reform Act of 1976", *CIS Annual* recognizes Richard L. Lesher, the president of U.S. Chamber of Commerce as the only witness. However, if we examine the hearing transcript, we will find that three other people with different roles in the Chamber accompanied Lesher at the same hearing.

Instances like this, where one senior person, usually the group's national spokesperson or president, makes a full-length statement on behalf of his or her organization while lower-level staff from the same organization appear alongside, happen frequently. Although these lower-level staff are not normally expected to make a statement, they do sometimes get asked by committee members to voice their opinions on record. Such subsidiary individuals are usually from the specialized (usually legal or research) divisions of the organization, assuming titles such as "chief economist" or "counsel". To ignore their presence would be to dismiss the important differences between organizations with varying levels of engagement and resources. The attendance of specialized staff indicates that an organization is devoting serious attention and resources to the issue at hand. It also lends additional heft (and perhaps credence, in the eyes of members of Congress) to the statement made by the head of the organization. For these reasons, I count the people who accompany their principals but whose appearances are not recorded by *CIS Annual* as witnesses from their respective organizations as well.

[18] Refer to the instruction offered in *CIS Annual*.

Testing **H1 (Outside interests will participate in reforming the congressional budget process)** involves differentiating witnesses who are government officials or employees from those who are affiliated with non-governmental organizations. Among the government witnesses that I recorded, in addition to federal government officials or employees (such as officials from various executive branch agencies with budgetary responsibilities)[19], many came from state and local governments, which gives one indication the issue of federal budget and budget process attracts a broad audience. More important to this study are *non-governmental* participants. These include people who represent particular organizations, coalitions, business firms, etc., and also some private citizens not expressly affiliated with any organization[20].

To develop a finer categorization of non-governmental witnesses, I turned to previous scholarship that has classified interest groups based on a group's membership, organizational structure, and scope of political concerns. After consulting with the pioneering work conducted by Kay Scholzman and John Tierney[21], and some other works subsequent to or inspired by those two authors, I came up with my own coding scheme which contains 12 distinctive categories. To ensure that I could place each organization accurately, I further referred to the *Encyclopedia of Associations* and previous scholars' works. My categories are as follows:

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[19] To foreshadow the next chapter, witnesses affiliated with national governmental entities included members of Congress, staff members from the Congressional Budget Office, the Government Accountability Office, and other congressional bodies. They also included officials and employees from the Executive Office of the President, executive departments, and independent agencies.

[20] Although listed as "private citizens" by *CIS Abstracts*, these witnesses oftentimes are retired members of Congress or government officials. Given the prevalent "revolving door" phenomenon in the American politics, it is highly likely that these people are hired for their specialized subject-matter expertise and/or connections by various outside groups to lobby on behalf of these organized interests. However, it is beyond the scope of this project to uncover how these private citizens are linked to organized interests. But readers should keep in mind that because of this, the representation and influence of outside interests accounted for in this project is likely to be underestimated.

[21] Kay Lehman Schlozman and John T. Tierney, *Organized Interests and American Democracy* (New York: Harper & Row, 1986).

1) Trade Association
2) Business Corporation
3) Professional Association
4) Labor Union
5) Farm Group
6) Intergovernmental Group
7) Think Tank or Foundation
8) Citizen Group
9) University
10) Civil Rights and Social Welfare Group
11) Private Citizen
12) Other

Categorizing hearing witnesses by using this coding scheme can illuminate the general landscape of advocacy conducted by non-governmental participants in revising the congressional budget rules. In order to go further and analyze the often-competing interests of business corporations vis-à-vis labor unions and groups representing the poor, I collapsed the “trade association” category and “business corporation” category into an encompassing category, “business interests”. Trade associations and corporations are the primary voices for business and industry interests in the U.S. Future research might factor in business connections that some of the other types of organizations have, for instance, with think tanks and citizen groups. In the next chapter, I will devote a section to discuss our existing knowledge of how these organizations are linked to material interests. The bottom-line is: it is harder to identify whose interests these other types of organizations represent. By contrast, trade associations and business corporations clearly and unambiguously, over a broad range of policy issues articulate the material interests of business. For similar reasons, I do not attempt to identify organizations that are not themselves labor unions but are strongly backed by unions. On the other end of the political spectrum, civil rights organizations (by Scholzman and Tierney’s definition) work to combat discrimination against members of specific racial, ethnic, or gender groups.[22] In practice, these organizations share very similar concerns with social welfare groups organized to meet needs of the poor on issues such as child care, health care, employment, and affordable housing.[23] Therefore, I treat both of these types of groups as representing “the poor,” while fully aware that some civil rights groups have a distinctly middle-class or professional constituency as well.

The theory that I developed in Chapter 2 predicts that the business community’ preferences diverge from those of labor unions and groups representing the poor over proposals that change the existing structures of the congressional budget process. It also predicts that conflict between industrial sectors that are averse to additional tax burdens and sectors averse to budget deficits will lead to preference divergence within the business community itself. To test this prediction, in Chapter 2 I have introduced three different types of industrial sectors and have proposed some hypotheses that involve comparing the preferences of two of the three sectors at a time over different reform proposals. To reiterate, these three types of industrial sectors are,

1) banking, housing, and insurance industries;

2) capital-intensive manufacturing
(e.g. chemical, petroleum, metal industries);

3) small business and service sectors
(e.g. electronic, appliances, tobacco, retailers).

For each organization that I categorized as a “business corporation”, I further identified which industrial sector, and which (if any) one of the three types listed above it belonged to. I did the

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[22] Scholzman and Tierney, *Organized Interests and American Democracy*, 47.

[23] To name a few civil rights organizations that participated in the discussion of changes to the congressional budget process during the time studied: National Urban League, American Jewish Congress, NAACP, and Leadership Conference on Civil and Human Rights. Social welfare groups that participated include National Housing Conference, National Ad Hoc Housing Coalition, and National Rural Housing Coalition.

same thing for most trade associations. But for certain peak associations such as U.S. Chamber of Commerce and the National Association of Manufacturers, I consulted with the previous literature and the data on their membership composition (if available) to identify which (if any) industrial sector(s) predominated within them.

Measuring patterns of group participation

Thus far, I have introduced four ways of classifying a hearing witness's affiliation based on 1) whether the organization the witness represents is a governmental or non-governmental entity, 2) whether the organization belongs to any one of 12 categories of interest groups, 3) whether the organization speaks on behalf of business interests, labor unions, or the poor, and finally, 4) whether the organization represents the economic interests of a specific industrial sector. With all the witnesses classified, I moved on to measure the patterns of hearing participation by outside interests.

Measures capturing patterns of hearing participation should, first of all, permit comparisons across different groups with varying levels of engagement in issues related to reform of the congressional budget process. As discussed earlier, the invitation to testify itself is an indicator of a group's influence. Other things equal, the more frequently a group appears, the more influential it is likely to be. Thus, for each type of outside interest, I recorded the total volume of hearing appearances made by all witnesses affiliated with groups or organizations representing this type of interest. That is, I calculated the total number of witnesses classified under a given type of interests who testified during the period of the study.[24] I then compared values on this

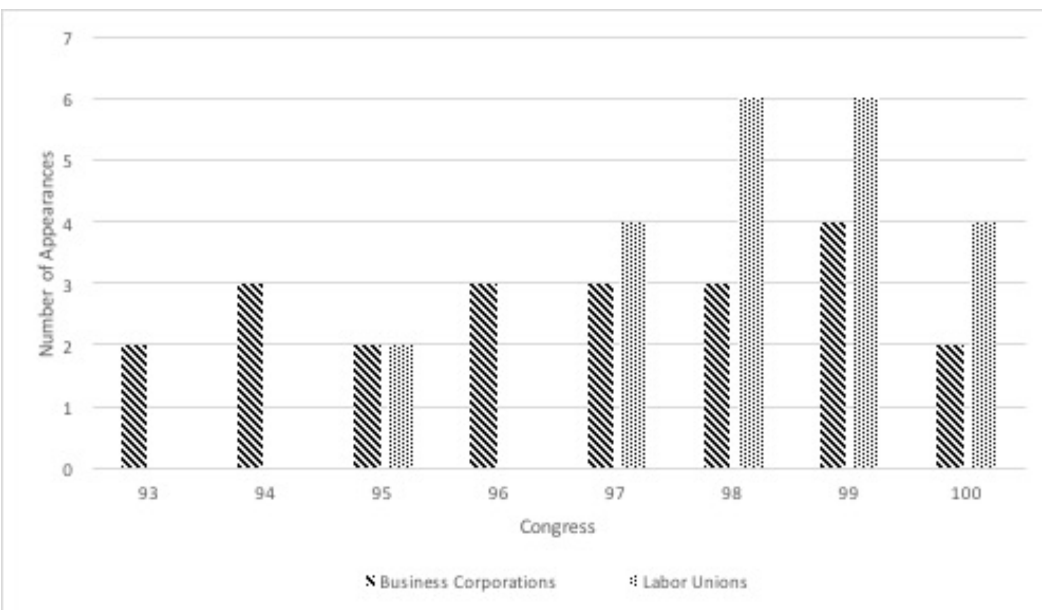
[24] The same witness who testifies at two different hearings will be counted twice as if two different witnesses testified.

measure across different types of interests, on the assumption that a higher volume of appearances indicates that a certain type of interest is more engaged and are more likely to be influential compared to others.

However, pooling a group's hearing appearances across time cannot fully capture subtle differences in patterns of group activity. It fails to illuminate whether a groups' appearance is conditioned by which party controls the committee that hosts the hearing. After all, groups are more likely to concentrate their lobbying efforts on committees that are more sympathetic to their causes, and likewise, committees are more likely to invite groups whose preferences are considered aligned with those of committee chairs. In Chapter 4, I present a simple test to explore whether this bias figures prominently in patterns of hearing appearances made by different types of groups.

Additionally, pooling a group's hearing appearances also fails to account for different ways in which groups distribute their lobbying efforts across different stages of legislative decision-making. To understand why accounting for these differences is important, consider a hypothetical scenario. **Figure 3-1** illustrates a scenario where the total number of appearances made by business interests are equal to those made by labor unions. However, business corporations' appearances are more evenly distributed across different Congresses, whereas labor unions' appearances were concentrated in certain particular sessions of Congress. Do we conclude that unions and businesses are equally influential? Not necessarily. In this case, unions' participation clustered near the enactment of the Gramm-Rudman-Hollings Act (passed during the 99th Congress) which is the legislative endgame where issues have been crystalized and alternatives have been clearly defined. But as I have reiterated in earlier chapters, the congressional budget process reform is characterized by ambiguity. Taking advantage of this ambiguity to shape the reform agenda and alternatives may be one of the most promising ways for outside groups and actors with stakes in issues related to the congressional budget process to exert their influence. Those who get to shape the parameters within which an issue is discussed and its alternatives are identified may wield the "supreme instrument of power,"[25] as the literature on "issue definition" reminds us. If so, lobbying efforts made by outside interests in the earlier stages of legislative decision-making are more likely to yield influence over the final outcomes. In addition, in this example, businesses appear to have demonstrated a more sustained level of engagement throughout years than their competing interests, which could be used as another piece of evidence suggesting their preponderance of impact.

Figure 3-1 Patterns of Hearing Participation by Businesses and Labor Unions (A Hypothetical Example)



[25] David A. Rochefort and Roger W. Cobb, "Problem Definition: An Emerging Perspective," in *The Politics of Problem Definition: Shaping the Policy Agenda*, ed. David A. Rochefort and Roger W. Cobb (Lawrence, KS: University Press of Kansas, 1994), 13.

Thus to complement the inferences regarding groups' relative influence drawn from the total volume of their hearing appearances, I also calculated the proportion of hearings attended by each type of interest in each of the 8 Congresses (93rd ~ 100th Congress). By plotting and comparing the trends in these percentages for different types of interests (such as business interests, labor unions, and groups representing the poor) across time, we will have another measure of groups' relative influence.

B. Understanding Outside Groups' Preferences

In this section I introduce a different set of data and methods that I use to answer a different question: what *motivates* outside interests' participation in reforming the congressional budget process? I collected evidence that linked groups' preferences over process reform proposals to their underlying preferences concerning broader aspects of public policy – spending programs, taxes, and the government's role in managing the market economy. This evidence will help us assess whether or not groups eventually got what they wanted, and how influential each type of interest has been relative to their competitors.

As suggested earlier, ambiguity among reformers about what "the problems" are with the existing congressional budget process and about what "solutions" are warranted makes it likely that some outside interests, in order to further their own policy goals and preferences, will engage in trying to shape the reform agenda by identifying or conceptualizing problems and by proposing solutions. In other words, the problems that outside interests are interested in and the solutions they approve of may be determined or influenced by their policy preferences. Groups with diverging policy preferences can be expected to differ in the problems they identify and in the solutions they endorse.

I identified all 312 bills that were introduced to modify existing congressional budget rules during the period studied. These bills provide the most systematic available data on all major problems and proposals that made it onto the reform agenda during this period. For each type of interest, I developed expectations concerning what kinds of problem(s) a given type of interest – be they business corporations, labor unions, or the poor – will be likely to identify with, and what sorts of proposals they will be likely to endorse, based on our existing knowledge of the groups' preferences over government tax and spending policies, as well as government's role in regulating the market economy. With these expectations, I then looked for groups' articulations of their views and preferences concerning congressional budget process reform in the hearing testimonies to see if the problems and proposals they identify with at hearings are consistent with our expectations.

Issues and proposals in congressional budget process reform

To study the agenda of congressional budget process reform – all the problems identified by reformers as needing to be addressed, and all the solutions introduced – I turned to bills that proposed changes to the congressional budget process. Bills introduced in Congress probably provide the best systematic data that can approximate the true universe of all the viable reform options that are floating around on the policy-making agenda.

Unlike roll-call voting and statements or votes at hearings, where members of Congress face a predetermined set of alternatives they had no part in shaping, introducing and sponsoring bills is under the control of the individual legislator, and has been argued to be a better indicator of members' true preferences.[26] It also has position-taking value, since members use bills as signal to reward, encourage, or pacify interest groups and indicate they are sympathetic to their causes and hope to gain credit for their stands.[27] By the same token, opposing groups, reelection challengers or constituents might punish a legislator later on by pointing to a bill introduced by the legislator in which she or he has taken unpopular positions. Because the costs associated with introducing a bill are not negligible, legislators usually expend time and energy consulting with constituents, interest groups and colleagues about all potential bills, and consider all the issues and proposals available (or the issue "market")[28].

I analyzed all 312 identifiable bills that introduced amendments to the Congressional Budget Act of 1974 and the Gramm-Rudman-Hollings Act of 1985. In order to identify them I conducted key word searches on *Congress.gov*[29]. The first key words used were "Congressional Budget Act", and its full-name variant "Congressional Budget and Impoundment Control Act". Using the date specification tool, I limited the search results to the period between July 12, 1974 and September 29, 1987. The second set of key words used were "Gramm-Rudman-Hollings Act", and its variant "Balanced Budget and Emergency Deficit Control Act" with the range of dates specified as between December 12, 1985 and September 29, 1987.

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[26] Laurel Harbridge, *Is Bipartisanship Dead?: Policy Agreement and Agenda-Setting in the House of Representatives* (New York: Cambridge University Press, 2015); Wendy J. Schiller, "Senators as Political Entrepreneurs: Using Bill Sponsorship to Shape Legislative Agendas," *American Journal Of Political Science* 39, no. 1 (1995). Adler and Wilkerson concur that whereas hearings are collective actions largely determined by the majority party, congressional bills permit comparisons of individual level activity (of members of all parties) that will often deviate from hearings activity. See their congressional bills project (http://www.congressionalbills.org/).

[27] Michael S. Rocca and Stacy B. Gordon, "The Position-Taking Value of Bill Sponsorship in Congress," *Political Research Quarterly* 63, no. 2 (2010).

[28] Schiller, "Senators as Political Entrepreneurs", 187.

[29] Formerly known as Library of Congress' THOMAS website.

After finishing key word searches, I then closely examined the summary of each bill provided at *Congress.gov*. Only bills that contain languages such as “amend”, “modify”, or “repeal” CBA and/or GRH were included for further analysis. Overall, 312 bills were identified.[30]

I classified these bills by the aspects of the congressional budget process reformers found problematic and sought to rectify. In this project, I loosely call these aspects “issues”. Any bill that introduces changes to the congressional budget process can address multiple issues at a time and propose solutions for any or all of the issues it addresses. With assistance from the research conducted by the nonpartisan Congressional Research Service during the 1970s and 1980s,[31] I was able to identify a total of 12 major issues from all the bills I collected.[32] These 12 issues are as follows:

1. Balancing the budget;
2. Spending and/or tax limitations;
3. Inter-branch relations in budget making;
4. Zero-base budgeting;
5. Multi-year budgeting;
6. Budget status of public enterprises;
7. Budget status of government loans and loan guarantees;
8. Budget treatment of tax expenditures;
9. Budget treatment of trust funds;
10. Capital budgeting;
11. Budget timetable;

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[30] Bills that are irrelevant to the amending, modifying, or repealing of CBA and/or GRH but appeared in search results include “94 S.1398 A bill to provide authorization of activities and appropriations for the Department of the Interior, in conformance to the requirements of section 502(a) of the Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344)”, and “99 S.2921 A bill to amend the Public Law 99-396 exception to the Balanced Budget Emergency Deficit Control Act of 1985, and for other purposes”.

[31] Congressional Research Service, Library of Congress, “Issue Brief: Congressional Budget Process Reform”; Congressional Research Service, Library of Congress, "An Outlook on Issues for the 96th Congress," RN79-59 GOV (1979); Congressional Research Service, Library of Congress, "An Introduction to the Spending and Budget Process in Congress,"by Stanley Bach, RN84-153 GOV (1984); Congressional Research Service, Library of Congress, "Issue Brief: The Budget Process in Congress: Recent and Proposed Changes,"by Daniel P. Strickland, IB83041 (1984).

[32] In each report I consulted for the purpose of identifying major reform issues, the Congressional Research Service summarized major issues and proposals for reforming the congressional budget process Congress, with each issue and the debate involved regarding the merits and demerits of relevant proposals thoroughly discussed. I have found that the categories of issues employed in these reports, intended to be mutually exclusive, were consistent throughout the time period studied in this project.

12. Reconciliation and resolution process.

Table 3-1 (attached in the back of this chapter) reviews and describes each of the 12 issues. For each issue, the table provides information on why this particular aspect of the congressional budget process was found problematic. It also contains a list of major proposals that sought to fix the problem.

Of course, understanding key issues and proposals for reform is just a first step, not the primary goal of this project. The chief thing I set out to accomplish is to collect evidence that bears on whether outside groups' preferences over reform issues and proposals are informed by their broader policy preferences. Therefore, for each issue, the fourth column of **Table 3-1** points out whether or not this issue and each of its major proposals would have effects on how budgetary decisions are made regarding tax and spending policies (social programs and entitlements in particular) or on government's role in regulating the market economy. To pinpoint these effects and explain the mechanisms through which the effects are realized, I consulted with analyses and remarks offered by the most prominent experts on the federal budget and budget process.[33]

With information on the likely effects of specific issues and proposals at hand, I developed expectations for business interests, labor unions, and the poor, concerning which issues they would have an important stake in and what kind of proposals they would be likely to endorse. These expectations take the hypotheses I introduced earlier in the "Theory and Literature

[33] These experts include (but are not limited to) Allen Schick, Louis Fisher, Robert Keith, Richard Kogan, and Aaron Wildavsky. With the exception of Wildavsky, all the first four experts had their stints with the Congressional Research Service. CRS, known for its nonpartisan, authoritative, and objective analysis, produces a large quantity of research products every year on the rules and procedure matters in the federal budget process. The Congressional Budget Office, though known as another authoritative and nonpartisan source of information regarding the federal budget, produces budget and economic projections, or "scorekeeping", which has less to do with budget process reform itself.

Review" Chapter one step further, since the earlier hypotheses deal only with the general direction that a group's preferences would assume, whereas these hypotheses are much more specific. For instance, businesses generally prefer social spending cuts, while the poor and the labor unions generally prefer not to cut spending. But different reform proposals introduce different mechanisms that would likely result in cuts of different magnitude or cuts in different social programs. With the help of expert analysis, I have been able to propose expectations that map the general preferences hypothesized earlier unto concrete preferences concerning specific issues and proposals (see **Table 3-1**, 5th Column).

Observing outside groups' preference articulations at congressional hearings

Having developed expectations about groups' preferences over specific reform issues and proposals, I moved on to collect groups' voiced opinions on congressional budget process reform to see whether or not the preferences articulated by a given type of interests were consistent with our expectations. For this purpose, I turned again to congressional hearing witness testimonies (including both statements and Q&A sessions with committee members). To be sure, however, this research design begs the question whether preferences articulated by outside groups and actors in hearing testimonies and materials submitted for record are indeed their genuine preferences. In the end, with the assistance of a few inferential rules (which I introduce later) that I established and with hearing appendices to triangulate groups' statements, I am comfortable with using hearing testimonies to understand what outside groups and actors truly wanted from congressional budget process reform.

In the previous section analyzing patterns of hearing participation, I have acknowledged that hearings permit strategic behaviors from outside groups and actors, which might jeopardize the inferences we draw from hearing participation data. For example, the fact that congressional budget process reform comes within the jurisdiction of multiple committees in the House and the Senate makes it possible that strategically minded interest group representatives might articulate their preferences differently depending on the venues they choose. They might also strategically misrepresent their preferences at hearings in anticipation of other witnesses' or committee members' responses.

Here is another somewhat different problem that could challenge our inference: since each committee's chair controls who may testify, a group might not be invited to testify because its positions are opposed by the chair, despite the group's stakes in the issue on which the hearing is held (note, however, that it is also possible that a group, though absent, might nevertheless submit questions for their allies on the committee to ask other witnesses at the hearing). These possibilities potentially create a "missing data" problem, that some groups' preferences are unobserved.

Finally, the fact that the committee has control over what gets to be discussed at the hearing (by controlling the agenda, the allocation of time to each witness, and the order of witness testimonies, for instance) makes it likely that witnesses at the hearing are constrained to express their positions over a subset of reform proposals narrower than the actual range of all viable options.[34] This seems especially likely to occur near the late stages of legislative decision-making, and at hearings where specific bills are debated.

[34] For more discussion on this point, see Jacob S. Hacker and Paul Pierson, "Business Power and Social Policy: Employers and the Formation of the American Welfare State," *Politics & Society* 30, no. 2 (2002).

All these characteristics of the hearing process feed into to our concern that congressional hearing testimonies (like most other types of data, such as non-testimony public statements) may not be perfect indicators of groups' genuine preferences.

Researchers therefore need to devise methods to triangulate witnesses' stated preferences at particular hearings and to make judgments, when possible, about the silence of specific groups at some hearings or on some issues. Here I adopt the approach of examining actors' expressed preferences across strategic contexts, paying attention to variations in audiences and time.[35] I established several assumptions to supplement our understanding of witness testimonies. These assumptions are useful for adjudicating whether or not outside actors' articulated preferences are likely to closely reflect their genuine preferences. These working assumptions include the following:

1. The same preference articulated by a certain group consistently over time is more likely to be genuine.

2. The same preference articulated by a particular group in front of different committees in a given chamber is more likely to be genuine. Furthermore, consistent articulations of the same preference by the same group before Democrat-controlled and Republican-controlled committees ensures an even higher possibility that the preference is genuine.

3. Preference articulated at earlier stages of legislative decision-making are more likely to be close to a group's genuine preferences. Since the time period I investigate covers the enactments of two comprehensive congressional budget process reform acts, the "earlier stages of legislative decision-making" can be operationalized as early in temporal sequence.

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[35] David E. Broockman, ""The Problem of Preferences": Medicare and Business Support for the Welfare State," *Studies in American Political Development* 26, no. 2 (2012).

4. Preference articulated at hearings that do not have bills attached are more likely to be genuine. These hearings are usually held in "search for issue space"[36] in which committee members explore the policy and political viability of new issues, problems or proposals.[37] Because of their exploratory nature, I expect these hearings to place less constraint on witnesses' articulations of preferences than those that are held upon specific bills.

I consider using these kinds of analytical assumptions to reconstruct actors' preferences to be generally a good practice in various types of research. However, uniquely to my project, the hypotheses and expectations that I proposed regarding groups' preferences almost all involve analyzing one group's preferences in relation to the preferences of another group (even if some of the hypotheses did not explicitly say "compared to Group B, Group A is more likely to prefer X"). Each hypothesis explicitly or implicitly concerns the rank order of Group A's preferences relative to those of Group B. Consider **Figure 3-2**, which depicts hypothetical preferences of business corporations and groups representing the poor, over a range of reform options that require a balanced budget that stretch along a simple left-right continuum. From left to right, each balanced budget requirement takes a more stringent form and leaves Congress with less discretion. Business corporations are likely to favor, in ascending order, those options grouped toward the right end of the spectrum, with a balanced budget Constitutional Amendment being close to their ideal point and maintaining the status quo being their least favored option. The preference rankings of anti-poverty groups are likely to be the exact opposite with maintaining the status quo being their favorite option.

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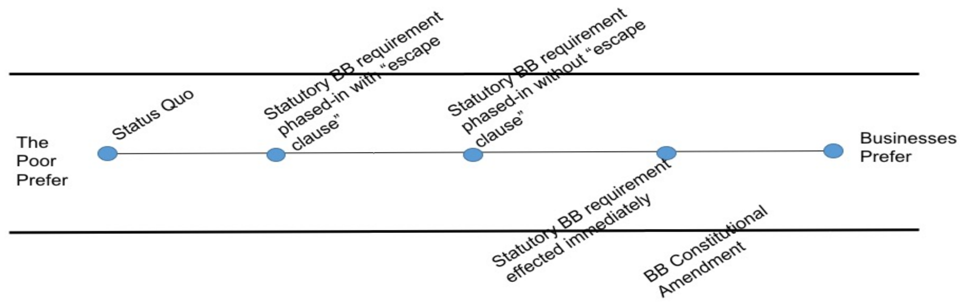
[36] Leyden, "The Purpose and Politics of Congressional Committee Hearings".
[37] Ibid.

Figure 3-2 Ranked Preferences of the Poor and Businesses over a Balanced Budget Requirement (A Hypothetical Case)



Given this picture, misrepresentations of preferences might take place when businesses, considering a Constitutional Amendment politically infeasible, opt for a statutory balanced budget requirement or some other less stringent options. As for the poor, if they consider maintaining the status quo infeasible, they might favor a phased-in statutory requirement. In this example, given the underlying policy preferences of businesses and the poor, if neither act against their interests, under no circumstances would the poor take a position to the right of the businesses on this spectrum. This means that even if groups might choose to misrepresent their preferences, it would not affect their relative positions on the spectrum. So it would not affect our hypothesis testing overall.

Now we consider the missing data problem, in which a group's preferences concerning an issue are unobserved. In general terms, "unobserved" can result from the group genuinely not having a preference or being indifferent, or from that the group having a preference but failing to reveal it. The latter possibility could be caused by 1) the group not being invited to present the preference over the issue across the time period under investigation, or 2) the group being invited but failing to express its preference (given, for example, how the hearing is structured, how questions are asked and how alternatives are framed by the committee).

Thus there are three main scenarios in which a group's preference is unobserved:

1. The group is indifferent;

2. The group has a preference but is never invited to present its preference concerning the issue;

3. The group has a preference and is invited, but due to some factor beyond its control (e.g. lack of time, or how the hearing is structured), it fails to express its genuine preference.

To alleviate this potential “missing data” problem when only hearing testimonies are analyzed, we need to expand our search to find groups’ articulations of their preferences in some other venues or in some other formats. Accordingly, just as I did in generalizing patterns of group participation from the hearing participation data, I turned to the appendices of published hearings.

Recall that the appendices of published hearings contain materials that are submitted not only by witnesses but also by other outside interested parties to voice their opinions. Unlike hearing testimonies, there are no restrictions on submitting materials for the record. Groups and organizations are free to choose the types of materials they want to submit. A personalized letter penned by a group’s president to the committee chair is the most popular format. In such a letter, the president usually states the group’s official stances on matters that are directly pertinent to the hearing. Or rather than submitting a letter, groups can choose from a range of materials published for purposes other than congressional hearings, such as reports, issue briefs, correspondence with individual legislators, and so forth. Since these materials are not prepared for a specific hearing, they give groups and organizations liberties in addressing a broader set of issues and alternatives.[38] Therefore, they are particularly suited to complement our analysis of hearing testimonies in reconstructing groups' preferences.

Coding groups' preference articulations

In the last section, I discussed problems associated with using hearing testimonies to understand outside groups' preferences. To alleviate these problems, I established a few inferential rules and proposed an alternative source of evidence to triangulate the observations obtained from testimonies alone. In this section, I detail how I went about coding each piece of evidence, with a particular focus given to discussing the decisions that I made in determining a group's position on any given reform issue.

For any piece of material – be it witness testimony or written material submitted by groups for the record, I first needed to determine how many issues out of the 12 issues on the agenda of congressional budget process reform were touched upon by this material. In the end I observed that a given piece of material covered from as few as zero issues to as many as seven issues on the reform agenda.

For the majority of the reform issues, the task of identifying them was quite easy as they were usually plainly spelled out in the materials I analyzed. Take this sentence from a testimony given by Lawrence Chimerine, the chief economist of Chase Econometrics, for example:

[38] For instance, for the hearing titled "H.R. 4882, to Amend the Congressional Budget Act of 1974" (held on December 9 and 10, 1981 by the House Rules Committee, 97th Congress, 1st Session), the AFL-CIO submitted resolutions adopted by the union's 14th convention which detail their positions on a number of issues including tax and macroeconomic policies and also spell out their recommendations for dealing with these issues.

"The concept of *capital budgeting* (emphasis added) is less relevant for Government than it is in the private sector and it won't address the issue anyway of how much we have to raise in capital markets to finance Government expenditures and government deficits."[39]

This following quote taken from a testimony given by NAACP's Althea Simmons also illustrates this point:

"Perhaps Congress should even consider the adoption of a *multiyear budget* (emphasis added). This process would facilitate better planning and review of programs..."[40]

However, there are instances where understanding what issue(s) groups were referring to is less straightforward. For instance:

"We cannot support the proposal for limiting federal spending by voting on budget totals before voting on functions."[41]

Here, to understand that the representative affiliated with the National Association of Government Employees (or "NAGE") was articulating their organization's position on the issue of "budget resolution and reconciliation" requires some background knowledge of how the two budget resolutions and reconciliation were originally stipulated in the Congressional Budget Act of 1974. Under the CBA, Congress is required to vote twice on budget totals in the process of formulating a budget, once in the first budget resolution (in April) which sets nonbinding "targets" to guide the consideration of budgetary legislation, and once in the second resolution (in September) which is binding. In between the two resolutions, Congress goes about its

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[39] U.S. Congress, House, Committee on Government, *Reform of the Federal Budget Process*, 100th Con., 1st sess., 1987 (statement of Lawrence Chimerine, chief economist of Chase Econometrics), 8.

[40] U.S. Congress, House, Committee on Rules, *Federal Spending Limitation Proposals*, 96th Cong., 2nd sess., 1980 (statement of Althea Simmons, director, Washington Bureau, NAACP), 504.

[41] U.S. Congress, House, Committee on Rules, *Federal Spending Limitation Proposals*, 96th Cong., 2nd sess., 1980 (statement of Kenneth Lyons, national president, National Association of Government Employees), 576

business of authorizing and appropriating funds for each of the budget functions.[42] If the nonbinding budget limits established in the first resolution could not be met, reconciliation instructions (which direct one or more House or Senate committees to recommend legislation changing existing law to bring spending, revenues, or the debt limit into conformity with the budget resolution) could be included in the second resolution. However, shortly after the enactment of the CBA, Congress increasingly resorted to the practice of attaching the reconciliation instructions to the first resolution, thus dropping the second resolution,[43] in other words, voting on the totals before voting on functions, which is exactly what NAGE representative was critical of here in this quote.

Instances like this one, though they rarely happened in the course of my coding, require a close reading of each piece of material as well as an extensive knowledge of the technicalities of the budget process. More importantly, coding a large amount of materials authored by budget experts and groups involved for a long time in itself was also a learning process as I, the coder, got increasingly familiar with the lingo and terminology that were commonly used among the insiders of the budget process reform at that time.

After teasing out the issue areas that a piece of material covers, I then coded a group's position on a given issue, specifically their attitudes toward specific proposals under one issue. Most of the times, groups articulated their preferences in a direct and straightforward fashion. Take these two statements for example:

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[42] The report that accompanies the budget resolution includes a table called "302(a) allocation" which takes the spending totals laid out by budget function in the budget resolution and distributes them by congressional committees.

[43] The second budget resolution in FY1982 merely "reaffirmed" the figures in the first resolution. No second budget resolutions were adopted in FY1983, FY1984, FY1985. See Louis Fisher, "Ten Years of the Budget Act: Still Searching for Controls," *Public Budgeting & Finance* 5, no. 3 (1985).

> "My conclusion in taking a look at your bill and addressing the question of 'would zero-base budgeting work in the federal government,' is that the answer must be 'Yes'".[44]

> "I would oppose a fiscal rule that excluded the Federal trust funds… The largest of these trust funds – the social security fund – is now the most rapidly increasing component of the Federal budget."[45]

However, there are instances where coding a group's position involves complications. To begin with, instead of endorsing or opposing a general *type* of proposals which is what I have summarized in the 5th Column of **Table 3-1**, groups sometimes expressed their opinions on legislations that were specific *implementations* of these proposals. For example, the broad category of proposals that impose spending limitations includes various implementations that can range from restricting the growth of the total budget outlays to the same growth rate of the gross national product (96 S.2922; 97 S.83), to limiting annual expenditures to a specified percentage of the gross national product (e.g. 95 H.R.14073; 98 S.3059).[46]

Proposals that introduce multi-year budgeting to the congressional budget process are another example. Although a common feature of multi-year budgeting approaches is the inclusion of revenue forecasts and expenditure estimates for two or three years beyond the current year, the practices and implementations of multi-year budget vary in terms of how many years are projected (in addition to upcoming budget), whether the spending plan and the revenue plan for

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[44] U.S. Congress, Senate, Committee on Government Operations, *Government Economy and Spending Reform Act of 1976*, 94th Cong., 2nd sess., 1976 (statement of Peter A. Pyhrr, vice president, Alpha Wire, Corp.), 320.

[45] U.S. Congress, Senate, Committee on the Judiciary, *Balancing the Budget*, 94th Cong., 1st sess., 1975 (statement of William Niskanen, chief economist, Ford Motor Co.), 66.

[46] Oftentimes the different implementations of a type of proposals vary in terms of their formulas. In the spending limitation example I provided here, the question is not whether spending limitations should be imposed or not, the question is what kind of limitations are necessary. In this project, unless otherwise spelled out, I assume groups' preferences over specific implementations of reform proposals are not premised upon their underlying fiscal policy preferences and their views of government's role in managing the economy. Future research might look into whether the preferences over specific implementations reflect groups' and actors' genuine policy disagreements.

each budgetary year are approved at the same time or individually each year, whether expenditure estimates are made centrally or by departments, and how often the multi-year budget estimates are updated.[47]

Does a group's rejection of a particular implementation of a type of proposals amount to its rejection of this entire type of proposals? It depends.

Compare the following two excerpts from the same testimony given by Nicholas Katzenbach, senior vice president and general counsel at IBM, regarding 97 H.J.Res.350, a joint resolution that proposes a constitutional amendment for balanced budget.

> "I am opposed to H.J.Res. 350 because it is unnecessary, it is unwise, and it is unworkable…Its proponents…believe its necessity lies in the inability of Members of Congress to muster the resolve necessary to restrain levels of Federal spending… I think an analysis which blames our fiscal problems and difficulties on a lack of resolve on the part of the elected representatives is not only simplistic, but wrong..."
>
> "My second reason is Section 2's requirement that tax revenues do not automatically increase with growth of the GNP. Apart from the undesirability of enshrining an untried hypothesis in the Constitution, this provision seems to assume some rigid correlation between the need to expend monies for whatever purposes and the rate of increase in the national income. I appreciate that the automatic increase in tax revenues many not be a healthy approach to fiscal responsibility. But surely that is an easy problem to resolve through legislation."[48]

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[47] To see how these various aspects of implementing a multi-year budget were discussed and considered, refer to the hearing titled "Multi-Year Planning" (held on July 23, 1979, by the House Budget Committee, 96th Congress, 1st Session). In Chapter 5, I come back to this point that the implementations of a concept embodied in proposals can vary greatly. I discuss how the fact that a concept such as "multi-year budgeting" can have various implementations affects the way groups articulate their preferences.

[48] U.S. Congress, House, Committee on the Judiciary, *Constitutional Amendments Seeking to Balance the Budget and Limit Federal Spending*, 97th Cong., 1st and 2nd sess., 1983 (statement of Nicholas Katzenbach, senior vice president and general counsel, IBM), 370-72.

In the first paragraph, though it appears that Katzenbach targeted his criticism specifically at the bill at hand, soon it became apparent that his criticism was actually directed at the whole slew of balanced budget constitutional amendment bills regardless of their details. He rejected the point of view which were shared among proponents of a balanced budget constitutional amendment that the deficit problem originated from the lack of binding rules in Congress that could restrain members' spendthrift behaviors.

In the second paragraph, Katzenbach discussed his opposition to the section of 97 H.J.Res.350 that forbids tax revenues increase automatically with the growth of GNP. However, aside from knowing for sure that he was not in favor of this particular formula of tax limitation stipulated in this bill which purported to be grounded on a correlation between GNP and tax revenues, we cannot extrapolate Katzenbach's general position on whether taxes should be allowed to increase in pursuing a balanced budget – a question which my project seeks to find out.

In conclusion, in instances where adjudicating whether a group's opposition is directed at a particular bill or a general type of proposals is required, I read closely the group's rationales for their opposition and their analysis of what would entail once the bill gets implemented. If their opposition stems from their skepticism or criticism of the logic or motivations that are common to the type of proposals that the bill falls under, or if their analysis of the effects incurred by implementation of this bill can be generalized to the type of proposals that this bill belongs to, then I decided that it is appropriate to extrapolate the group's opposition to the entire category of proposals from their opposition against this bill at hand.

While discerning a group's position on a reform issue involves a close reading of the text, sometimes it also requires researchers to fill in what the group stated with a bit more context. Take this statement given by CIGNA corporation representative for an example:

> "We contend that off-budget spending should be transferred on-budget all at once"[49]

Here CIGNA's representative used a broad term "off-budget spending" which according to budget experts includes tax expenditures.[50] But does this statement indicate that CIGNA supports moving tax expenditures on to the budget? Not really. Based on my analysis of all the hearing testimonies given by, and other written materials submitted by corporations and business associations, the business community never accepts the categorization of tax expenditures as "off-budget spending". In fact, they often saw themselves vilified by the perversion of the language inherent in linking the words "tax" and "expenditure".[51]

Summarizing and presenting results

Up to this point, I have explained the methods and data that I used to test the hypothesis that outside groups participate in reforming the congressional budget process so that they can advance or protect their own favored policy outcomes. To review, I started with some general expectations regarding which types of process reform measures – limiting tax revenues and/or expenditures, balancing the budget, reducing government's regulatory functions, etc. – a given group would prefer based on our existing knowledge of their policy preferences. I then

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[49] U.S. Congress, House, Committee on Rules, *Congressional Budget Process*, 98th Cong., 1st sess., 1983 (statement of Arthur House, vice president of Government and Industry Relations, CIGNA Corp.), 83.
[50] Allen Schick, "Off-Budget Expenditure: An Economic and Political Framework" (paper presented at the The Annual Meeting of the OECD Working Party of Senior Budget Officials, 1981).
[51] U.S. Congress, House, Committee on Rules, *Federal Spending Limitation Proposals*, 96th Cong., 2nd sess., 1980 (statement of Theodore F. Brophy, chairman and CEO, General Telephone and Electronics Corp.), 357.

developed hypotheses that map these general expectations to specific issues and proposals that were floating around during the period I am investigating. With the hypotheses of groups' preferences in hand, I then examined if these hypotheses are consistent with groups' articulations of their preferences at congressional hearings.

To facilitate presenting and evaluating my research findings in a systematic way, I have created a table that is formatted similarly to hypothetical **Table 3-2**. In the first column of **Table 3-2**, I list the names of all 12 types of issues that were on the agenda of congressional budget process reform. In the second column, I present expectations about which type of interest, be they business corporations and specific industrial sectors, labor unions, or groups representing the poor people, are likely to have stakes in the issue. Each type of interest occupies an individual row. In the next column, for each type of interest on the same row I record whether or not they articulated preferences and opinions on this issue. In the hypothetical scenario illustrated in **Table 3-2,** for the issue of "multi-year budgeting", all three groups that are expected to have preferences did indeed express their views.

Table 3-2 Groups' Preferences over Reform Issues and Proposals: Predictions vs. Outcome (A Hypothetical Example)

Issue Title	**Prediction** **Groups/interests expected to be vested in the issue**	**Outcome** **Groups/interests expressed their preferences on the issue**	**Prediction** **Groups' preferences over reform proposals**	**Outcome**
Multi-year budgeting	Labor Unions	Yes	Labor unions are more likely to support multi-year budgeting.	Consistent
	Groups representing the poor	Yes	Groups representing the poor are more likely to support multi-year budgeting.	Consistent
	Businesses	Yes	Businesses are more likely to oppose multi-year budgeting.	***Inconsistent***

Capital Budgeting	Labor Unions	Yes	Labor unions are more likely to endorse capital budgeting.	Consistent
	Groups representing the poor	Yes	Groups representing the poor are more likely to endorse capital budgeting.	Consistent
	Businesses	***Missing***	Businesses are more likely to oppose capital budgeting.	***Inconclusive***
Budget Timetable	None of the groups	Labor Unions	None	***Inconsistent***
		Groups representing the poor		
		Businesses		
…	**…**	**…**	**…**	**…**

But in the hypothetical example illustrated in **Table 3-2**, for the issue of "budget timetable", contrary to my expectations, unions, the poor, and businesses all identified with this issue in hearings or some other forms of public statements. When instances like this happen, I judge that the hypotheses appear to be "inconsistent" with the evidence, which will be recorded in the last column of the table. Meanwhile, let's look at the issue of "capital budgeting". Hypothetically, if I fail to find evidence suggesting businesses indeed are concerned with the issue (recorded as "missing" in the third column in **Table 3-2**), I will deem the result "inconclusive". Inconclusive because I cannot adjudicate whether the failure to record businesses' preferences is due to the possibility that they are truly not interested in capital budgeting, or due to the fact that I only have limited sources of data to observe their expressed preferences.

In the fourth column of the table, for each type of groups that are expected to be involved, I list the hypothesis regarding the group's preferences over specific proposals under a given issue. If, after examining the group's hearing testimonies and materials submitted for the record, the direction of the group's preference goes the opposite way, I deem the expectation inconsistent with the evidence available and record “inconsistent” in the last column accordingly. In the hypothetical case illustrated in **Table 3-2**, inconsistency occurs when businesses are found to approve of “multi-year budgeting”, instead of opposing it, which is the contrary of our expectation.

In the next chapter, I will discuss in detail how to deal with and interpret instances where I deem expectations inconsistent with the evidence available.

C. Measuring Outside Groups’ Relative Influence

The question of political influence is fundamental to our understanding of political systems and processes. However, the conceptualization and measurement of influence continue to pose serious challenges. In the following paragraphs, I discuss these challenges, and explain how I respond to them in evaluating the influence of businesses relative to those of labor unions and anti-poverty groups in the case of congressional budget process reform.

To begin with, influence is closely related to the concept of power, but how do we define power? Does the power of business, as per scholars who emphasize the “instrumental” aspects of power, stem from its ability to staff governments with business sympathizers and to exert direct influence on policymakers through campaign contributions and lobbying efforts? Or does it result from a privileged “structural” position that business firms occupy in societies in the sense that politicians, to build a well-functioning economy, have incentives to maintain the profitability of these organizations that control the production of wealth, and provide economic resources for most citizens?[52]

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[52] To have a more thorough understanding of the respective arguments provided by “instrumentalists” and “structuralists” and how to bridge the theoretical gaps between them, refer to Hacker and Pierson, “Business Power and Social Policy”.

Secondly, how do we identify political influence when we see it? The traditional method that simply relies on congruence between preferences of specific actors and outcomes is flawed in that it confounds association and causation. Congruence can result from accidental correspondence which does not reflect that decisions made by policymakers are in direct or indirect response to actors' preferences.

In my project, I recognize both the instrumental and structural sources of influence that outside groups may possess. By analyzing data that concern groups' testifying at congressional hearings – an activity that requires substantial informational and organizational capacities from outside participants, we will see that business interests dominated the discussion of what the problems are and what solutions are needed in reforms. In addition, I have reiterated in previous chapters the importance of understanding politicians' recurring attempts to reform the congressional budget process in the context of a deteriorating U.S. economy in late 1970s and 1980s. By borrowing insights from scholars who documented how politicians responded to signals of a worsening economy and declining profits, I argue that it is highly likely that, during the period studied, businesses possessed greater structural power relative to labor unions and the poor.

Although the actual process whereby reformers of the congressional budget process responded to macroeconomic signals and pressures from outside groups remains unobserved, by analyzing the outcomes on issues where businesses' preferences diverged from those of labor unions and anti-poverty groups, we will have direct evidence that suggests how one group relative to the others is better- or worse-off under a certain outcome. By combining such evidence with observations indicating each group's hearing activities and inferences about their preferences, we will have a reasonably good measure of each group's influence.

The analysis and findings regarding each group's influence, which I will detail in the next chapter, will proceed in the following manner. First of all, in consultation with detailed reports published by the Congressional Research Service about changes to the congressional budget process made through the GRH, I identify how many issues on the reform agenda were actually addressed by the GRH. Then for each of these issues addressed by the GRH, I review what GRH's provisions are and compare these provisions with groups' preferred reform solutions. A group that has more issues addressed by, and more preferred proposals against other groups enacted through the GRH is deemed the more influential compared to other groups.

Table 3.1 Major Issues and Proposals in Congressional Budget Process Reform

Issue Title	What's wrong with the existing process?	Major proposals	Central conflict(s) as underlined by groups' preferences over spending, tax policies as well as government's role in managing the economy.	Hypotheses
Balancing the budget	Congress cannot resist the temptation to tax and spend. The budget process established by the Congressional Budget Act of 1974 is not equipped to curb persistent deficits.	1. A constitutional amendment for balanced budget. Pros: More binding than a statutory requirement; Cons: 1) Less flexible and adaptive to changing circumstances; 2) Take long time to be ratified. 2. Statutory balanced budget requirement. Pros: 1) More flexible and adaptive; 2) can come into effect immediately. Cons: Can be waived and overturned easily.[1]	Central to the debate is the ideological question whether budget deficits should be used to stimulate economic growth.	***Hypotheses: H2, H3*** (comparing businesses with groups representing the poor and unions) ***H7, H8*** (comparing industries averse to budget deficits with others) - Labor unions are more likely to oppose any measures that require a balanced budget. - Groups representing the poor are more likely to oppose any measures that require a balanced budget. - Businesses are more likely to support measures that require a balanced budget. - Banking, housing, and insurance industries are more likely to prefer a statutory requirement as it becomes effective immediately.

[1] Congressional Research Service, Library of Congress, "Congress and a Balanced Budget Amendment to the U.S. Constitution,"by James Saturno, 87-900 GOV (1987).

Spending and/or tax limitations	The Federal government is spending too much and taxing too much as well. The budget process established by the Congressional Budget Act is not equipped to curb Congress's temptation to tax and spend.	Spending limit alone; Tax limit alone; A combination of both.	Central to the debate is who should shoulder the costs of balancing the budget.	***Hypotheses: H2, H3, H4, H5, H6*** (comparing businesses with groups representing the poor and unions) ***H9*** (comparing industries averse to additional tax burdens with others) - Labor unions are more likely to oppose measures that impose limitations on spending. - Groups representing the poor are more likely to oppose measures that impose limitations on spending. - Businesses in general are more likely to support measures that impose spending and/or tax limitations. - Businesses in general are more likely to support measures that impose limitations on social spending. - Banking, housing, and insurance industries are more likely to be receptive to tax increases to reduce budget deficits. - Small business and service sectors are more likely to prefer budget rules that explicitly limit tax increases, compared to other industries.

Inter-branch relations in budget making	Congress lacks either the political will or the ability to make the spending cuts necessary to reduce the deficit significantly. President should be given more authority to exercise more leadership in deficit reduction.	1. Give the President enhanced rescission authority; 2. Grant the President authority to remove or reduce some spending from an appropriations bill while approving the remainder (i.e. the item veto power).	The proponents of aggrandizing the president's authority to some extent plays into the blame-avoidance mentality of the Congress. The President, who enjoys a wider constituency, is less likely to suffer from electoral retaliation than members of Congress. This makes enacting spending cuts which are politically unappealing much easier.[2]	***Hypotheses: H2, H3, H6*** - Labor unions are more likely to oppose granting the President more authority in deficit-reduction. - Groups representing the poor are more likely to oppose granting the President more authority in deficit-reduction. - Businesses are more likely to support granting the President more authority.
Zero-base budgeting	Under the traditional incremental budgetary practices, only proposals for additions to (or reductions in) current programs and expenditures are considered and analyzed. As a consequence, the existing budget process does little to resolve the waste, duplication and ever-increasing outlays generated by the failure to weed out unproductive and unnecessary programs. And as the operational red tape accumulates, the subordinate lower-level bureaucracies that administer the programs wield increasing power at the expense of the President and agency officers.[3]	ZBB is the main alternative to the incremental budgetary practices. It requires every dollar of every program – from "dollar zero" be reviewed during each budget cycle. Its advocates believe ZBB will force lawmakers to identify and analyze how well programs meet their goals and objectives which promotes a more efficient distribution of resources. [4]	ZBB is seen by its advocates as an important means to **limit the size of government**, and sever the strong associations between fiscal constituencies and specific programs.[5] which clashes with people who support a more expansive and active role played by government.	***Hypotheses:H2, H3, H5, H6*** - Labor unions are more likely to oppose ZZB. - Groups representing the poor are more likely to oppose ZZB. - Businesses are more likely to endorse ZZB.

[2] Jasmine Farrier, *Passing the Buck : Congress, the Budget, and Deficits* (Lexington: University Press of Kentucky, 2004), 14.

[3] Congressional Research Service, Library of Congress, "Zero-Base Budgeting (Zbb): Some Implications for the Federal Budget,"by Carol Gurvitz, 77-121E (1977); Charles L. Schultze, *The Politics and Economics of Public Spending* (Washington, D.C.: Brookings Institution, 1968), 79, 81.

[4] Congressional Research Service, Library of Congress, "Zero-Base Budgeting (Zbb)".

[5] Allan Greenspan, serving as the Chairman of the Council of Economic Advisers then, endorsed the ZBB in the article titled "American Survey: Business Confidence". See Alan Greenspan, "American Survey: Business Confidence," *The Economist*, August 6, 1977. This article is submitted for the record to a hearing held by the Senate

Multi-year budgeting	Budget-related matters are crowding out such important congressional activities as oversight, policy analysis, and consideration of non-budgetary legislation. In addition, Congress is finding it increasingly difficult to complete its budget activities on time. And furthermore, state and local governments often complain that the annual Federal budget cycle provides recipients of Federal monies too little lead time for planning purposes.[6]	To establish a multi-year budget process than can lessen the frequency of congressional budget-related activities.	The debate is around whether multi-year budgeting in effect **enhances or reduces the control** that Congress has over budget. *Proponents:* Multi-year budgeting enhances the ability of budget makers to control over the bulk of federal expenditures that are "relatively uncontrollable" such as contractual obligations, mandated payments, and open-ended programs. On the other hand, single-year budgeting surrenders effective control over future budgets. Especially for Congress to achieve a balanced budget for a future year, it must take appropriate steps well in advance of that year.[7] *Opponents:* Multi-year budgeting will result in a significant reduction in Congress' ability to exercise oversight. Some programs will be exposed to the "vicissitudes of life" as frequently and are less likely to be	***Hypotheses: H2, H3, H5, H6*** - Labor unions are more likely to support multi-year budgeting. - Groups representing the are more likely to support multi-year budgeting. - Businesses are more likely to oppose multi-year budgeting.

Budget Committee held in January 17-19, 1978. In this article, Greenspan emphasizes that through re-justifying every program annually, the relationships between government functions and citizens remain diffuse at best. Subsequently, the pressure on governments to expand existing programs and to create new ones will be limited. His remarks illuminate why supporters of limiting the size of the government find ZBB particularly attractive.

[6] Congressional Research Service, Library of Congress, "Reform the Federal Budget Process: An Analysis of Major Budget Process Reform Proposals", 73-601 (1987).

[7] U.S. Congress, House, Committee on the Budget, *Multi-Year Planning*, 96th Cong., 1st sess., 1979 July 23, 1979 (statement of Alan Schick, Senior Specialist, Congressional Research Service).

Multi-year budgeting (continued)			subjected to Congress's reviews and modifications.[8]	
Budget status of trust funds	Many of trust funds have been running annual surpluses of receipts over expenditures while other parts of the budget experience deficits. Should trust funds are be subject to expenditure limitations to offset deficits being experienced in other parts of the budget? Or should they be placed off-budget to avoid being included in budget-cutting actions? [9]	Most proposals pertain to the Social Security trust funds and the Highway Trust Funds during this period by moving them "off-budget".	*Proponents:* budgetary decisions that place constraints on trust fund expenditures "**violate a certain political understanding or implied contract** that was formed at the time that the trust fund was established."[10] *Opponents:* requiring trust funds to pay for deficits experienced in other parts of the budget is appropriate in times of fiscal constraint. The off-budget practices allow certain programs to escape the scrutiny. Without a unified budget, there is the danger of losing fiscal control over government activities.[11]	***Hypotheses: H2, H3, H5, H6*** - Labor unions are more likely to support placing trust funds off budget. - Groups representing the poor are more likely to support placing trust funds off budget. - Businesses are more likely to oppose placing trust funds off budget.

[8] Aaron Wildavsky, *The New Politics of the Budgetary Process* (Scott, Foresman and Company, 1988), 415. See also Congressional Research Service, Library of Congress, "An Introduction to the Spending and Budget Process in Congress".

[9] Congressional Research Service, "Reform the Federal Budget Process".

[10] Ibid, 6

[11] For a detailed discussion of budget treatment of trust funds and fiscal control, see Schick, "Off-Budget Expenditure".

Budget status of public enterprises	Public enterprises are located on the "fringe of government." To avoid both the alleged and genuine rigidities of regular government bureaucracies, these public enterprises are not subjected to the same financial controls as are applied to core government agencies. [12] To enable such bodies to operate more flexibly (meaning they are off-budget), to shield them from executive impoundment actions, and to avoid accounting problems. However, since most discussions of Federal budget deficits are based on estimates of on-budget spending, off-budget expenditures distort the true picture of government's financial state and impair budgetary control.[13]	Return these public enterprises back on the budget.	Public enterprises are the product of a dilemma facing many governments in the modern times that citizens demand more services from the government but also exhibit growing level of distrust of government and bureaucracy. Existing on the fringe of government with a great deal of confusion, many enterprises in practice are **disciplined either by the market nor by the government budget**.[14] During the period I am studying, the off-budget status of these following public enterprises draw most attention: Federal Financing Bank, Federal Home Loan Mortgage Corporation ("Freddie Mac"), Federal National Mortgage Association ("Fannie Mae"), Government National Mortgage Association ("Ginnie Mae"), Student Loan Marketing Association ("Sallie Mae"), Rural Telephone Bank.	***<u>Hypotheses: H2, H3, H5, H6</u>*** - Labor unions are less likely to support measures that return public enterprises on the budget. - Groups representing the poor are less likely to support measures that return public enterprises on the budget. - Businesses are more likely to support measures that return public enterprises on the budget.

[12] Schick, "Off-Budget Expenditure"; Congressional Research Service, Library of Congress, "Administering Public Functions at the Margin of Government: The Case of Federal Corporations,"by Ronald C. Moe, 83-236 GOV (1983).

[13] Congressional Research Service, Library of Congress, "Issue Brief: The Budget Process in Congress".

[14] Schick, "Off-Budget Expenditure".

Budget status of credit activities	When government finance outside activities through direct grants, the transactions are usually recorded as budget expenditures, but when they lend money to others through issuing loans and loan guarantees, the expenditure is often off budget. Because these credit transactions are often excluded, the budget tends to understate the size of deficits, and misrepresent the government's impact on economic activity. [15]	Control government issued loans and loan guarantees by subject them to the budget process.	Central to the debate is the politically-charged question regarding **government's role in managing the economy, redistributing resources, and pursuing a range of objectives.** When the government makes or guarantees a loan, it also influences the availability of credit to other borrowers. Government loans are a major means of assistance to various groups including public enterprises, business firms, homeowners, etc., marginal borrowers who might otherwise be unable to obtain credit.[16]	***<u>Hypotheses: H2, H3, H5, H6</u>*** - Labor unions are less likely to support measures that limit government's credit activities through returning them on the budget. - Groups representing the poor are less likely to support measures that limit government's credit activities through returning them on the budget. - Businesses are more likely to support measures that limit government's credit activities through returning them on the budget.
Budget treatment of tax expenditures	A tax expenditure represents "income forgone by government".[17] Tax expenditures are not amenable to budgetary control by the congressional budget process.	Control tax expenditures by subjecting them to budget resolution and reconciliation.	Tax expenditures are generally enacted as permanent legislation and these tax law benefits are seldom reviewed. [18] More importantly, there are systematic differences in the types of tax expenditures which **favor separate income groups**. Overall, the system of tax expenditures **benefits the high income group relative to the**	***<u>Hypotheses: H3, H10</u>*** - Labor unions are more likely to support controlling tax expenditures. - Groups representing the poor are more likely to support controlling tax expenditures. - Businesses in general are more likely to oppose controlling tax expenditures. - Small business and service sectors, in particular, are more receptive to

15 Congressional Research Service, Library of Congress, "Reform the Federal Budget Process"; Schick, "Off-Budget Expenditure".

16 Schick, "Off-Budget Expenditure".

17 Ibid, 9

18 U.S. Congress, Senate, Committee on the Budget, *Tax Expenditures: Compendium of Background Material on Individual Provisions*, 94th Cong., 2nd sess., March 17, 1976 committee print 67-312.

Budget treatment of tax expenditures (continued)			**middle and the low income groups.** [19]	controlling tax expenditures.
Capital budgeting	The current practice of using the unified budget does not differentiate between spending on current services, whose benefits are consumed in the year the expenditure occurs, and spending on capital (durable goods including machinery, highways, bridges, buildings, water systems, etc.), whose benefits are consumed for years after the expenditure occurs. The federal government has never had a distinct capital budget, unlike most states[20], for planning and financing capital items.	Restructure the existing unified budget to distinguish between capital and operating outlays, or require the preparation of separate budgets for capital and operating outlays.	Even though capital budgeting appears to just change government's bookkeeping, it pertains to **how budget deficits are calculated**. The most immediate result[21], and a primary reason for the capital budget, would be to reduce the current services deficit and allow for **a more realistic assessment of deficit reduction targets**. However, opponents argue a capital budget provides an **"official" justification for deficit spending and accounting gimmicks to hide the real deficit.** Those wishing to expand programs would have an incentive to classify them as capital spending rather than current services. It is politically advantageous to define programs as "capital".[22]	***<u>Hypotheses: H2, H3, H5, H6</u>*** - Labor unions are more likely to endorse capital budgeting. - Groups representing the poor are more likely to capital budgeting. - Businesses are more likely to oppose capital budgeting.

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[19] Congressional Research Service, Library of Congress, "Tax Expenditures: The Link between Economic Intent and the Distribution of Benefits among High, Middle, and Low Income Groups,"by Nonna A. Noto, 80-99E (1980).

[20] By 1982, 45 states have separate capital budgets.

[21] For instance, for FY1983, David Stockman was entertaining the idea of a capital budget. For FY1983, the projected deficit is $140 billion, but by Stockman's classification, the capital budget is $155.287 billion dollars. If removing the capital budget from the unified deficit, then you get an instant $15 billion surplus in the current operations category. See Norman Ornstein, "The Painless Balanced Budget: Stockman Has Given Us an Instance, Legitimate Way into the Black," *Washington Post*, September 26, 1982.

[22] Wildavsky, "The New Politics of the Budgetary Process", 422; Congressional Research Service, Library of Congress, "A Capital Budget for the Federal Government: Economic Issues,"by Dennis Zimmerman, 96-256E (1996).

Budget timetable	Authorizing committees complain that CBA's May 15th deadline for reporting authorizing legislation allows them insufficient time to perform their work. To meet the deadline, some committees have had to report incomplete bills or seek special waivers of the rules. The Appropriations Committees, in turn, depend on timely authorization action. In the face of tardy and incomplete authorizations, the Appropriations Committees have delayed some appropriation bills, appropriated for certain unauthorized programs, and excluded other unauthorized programs entirely. These ad hoc procedures add complexity and disorder to the congressional budget process.[23]	The deadlines for major budget actions are to be moved forward. Accelerate the pace of legislative activity. → "The budget process, because of the time tables, has tended to diminish the democratic process of congressional debate and deliberation".	None (The issue of budget timetable pertains only to the internal workings of Congress, particularly the relationships between authorizing committees and the Appropriations Committees).	***<u>None</u>***
Reconciliation and resolution	Congress has used the "elastic clause" of the Budget Act to include reconciliation instructions in the first budget resolutions for FYs 1981, 1982 and 1983 to apply to authorizing legislations, instead of to appropriations bills as the CBA originally conceived. Is it appropriate to include reconciliation instructions in the first rather than the second resolution as the CBA specifies?[24]	The proposal is to officially amend the CBA to drop the second resolution, and attach reconciliation instructions to the first resolution.	Attaching the reconciliation instructions to the first budget resolution is useful not merely because it saves time. It has led to enactment of **spending reductions and making changes to the existing laws**. Reconciliation has become an effective device in that it facilitated changes and cost savings in **entitlement and other spending programs** that could not readily be controlled by	***<u>Hypotheses: H2, H3, H5, H6</u>*** - Labor unions are more likely to oppose dropping the second resolution and attaching reconciliation instructions to the first resolution. - Groups representing the poor are more likely to oppose dropping the second resolution and attaching reconciliation instructions to the first resolution. - Businesses are more likely to support

[23] Congressional Research Service, Library of Congress, "An Outlook for the 96th Congress".
[24] Wildavsky, "The New Politics of the Budgetary Process"; Louis Fisher, "Ten Years of the Budget Act".

Reconciliation and resolution (continued)			cutting annual appropriations. [25]	dropping the second resolution and attaching reconciliation instructions to the first resolution.

[25] Congressional Research Service, Library of Congress, "An Introduction to the Spending and Budget Process in Congress"; Congressional Research Service, Library of Congress, "Issue Brief: The Budget Process in Congress".

Chapter 4 Empirical Findings and Analysis I: Patterns of Hearing Participation

In this chapter, I am going to present evidence that shows outside groups and actors were present at activities and events that effected changes to the congressional budget process. This finding poses a direct challenge to the implicit assumption made by previous studies of institutional development that only politicians and government officials are vested in changes to formal rules and institutions. After outlining the patterns of hearing participation made by outside groups, I then show that business interests, represented through individual firms and business organizations, were consistently dominant in the discussion of changes to the congressional budget process. Finally, lending support to my argument that outside groups try to exert influence through identifying problems with the congressional budget process, and proposing solutions, I present the evidence pointing to the consistent level of attentiveness and engagement exhibited by business interests, unmatched by their competitors, particularly during the stage of legislative discussion where budget rules were interpreted and reviewed.

An overview of hearing activities concerning congressional budget process reform

In total, using the selection criteria that I described in Chapter 3 “Data and Methods”, I included 74 hearings that were held between July 12, 1974 when the Congressional Budget Act was enacted, and September 29, 1987 when GRH II was signed into law, to analyze patterns of group participation in revising the congressional budget rules.

To further explore possible trends in the levels of interest Congress has exhibited towards budget process reform over time, in **Table 4-1** I tally hearings related to revision of congressional budget rules across different Congresses. Note that since the Congressional Budget

Act of 1974 became effective on July 12, 1974, during the 93rd Congress, no further hearings were held during that same two-year term to discuss modifications to congressional budget rules. Therefore, I exclude the entire 93rd Congress from **Table 4-1**. Also note that because of the time frame (July 12, 1974 ~ September 29, 1987) that I adopt for this project ends before the last day of the 100th Congress (which met from January 3, 1987, to January 3, 1989), **Table 4-1** ends up recording four *additional* hearings that were held in the 100th Congress.

Table 4-1 Hearings Held by 94th ~ 100th Congresses

Congress	Number of Hearings	Party Control		
		House	Senate	President
94	8	D	D	R
95	10	**D**	**D**	**D**
96	14	**D**	**D**	**D**
97	14	D	R	R
98	15	D	R	R
99	11	D	R	R
100	6*	D	D	R

*Note that the number of hearings that were held in the 100th Congress before September 29, 1987 is 2 instead. So the total number of hearings recorded in **Table 4-1** is 78, not 74.

Hearings, like the introduction of legislative bills, are indicative of Congress's attention to a particular issue.[1] With an average of 11 hearings held by each Congress, it appears that members maintained a relatively consistent level of interest in congressional budget process reforms. The

[1] George C. Edwards and B. Dan Wood, "Who Influences Whom? The President, Congress, and the Media," *American Political Science Review* 93, no. 2 (1999); Frank R. Baumgartner and Bryan D. Jones, *Agendas and Instability in American Politics* (Chicago: University of Chicago Press, 1993).

93^{rd} and 99^{th} Congresses enacted comprehensive reform legislations, and so the following congresses (94^{th} and 100^{th}) witnessed a slightly lower level of interest in revising budget rules among members of Congress. Between 94^{th} and 100^{th} Congresses, the partisan control of the two chambers in Congress and the Presidency changed four times. The four-year period during which the 95^{th} and 96^{th} Congresses met are the only times when the two branches of government were controlled by the same party. As far as we can tell from **Table 4-1**, the level of interest generated from within Congress in reforming the congressional budget process as measured by the number of hearings is unaffected by whether the government was divided or not.

If we further classify the 74 hearings held between July 12, 1974 and September 29, 1987 according to their organizing committees, we find a total of 15 committees in the House and the Senate and one joint committee (Joint Economic Committee) that conducted hearings related to congressional budget process revisions (**Table 4-2**). Since the Budget, Government Operations, and Rules Committees in the House, the Budget and Governmental Affairs Committees in the Senate are generally considered to have jurisdictions over executive and congressional budget procedures,[2] it is not surprising that these committees contributed a large share of hearing activities. However, it is important to recognize that in addition to these committees an array of other committees also devoted time and agenda space to congressional budget process reforms as well. Recall that one of the most important assumptions that forms the basis of this study is that overlapping and sometimes-ambiguous jurisdictional boundaries of congressional committees afford entrepreneurs[3] both within and outside the Congress the institutional contexts to pursue

[2] Congressional Research Service, Library of Congress, "Federal Budget Process Reform in the 111th Congress", 3-4.

[3] Here I use Adam Sheingate's conception of political entrepreneurs as "individuals whose creative acts have transformative effects on politics, policies, or institutions." See Adam D. Sheingate, "Political Entrepreneurship,

rules changes that are favorable to obtaining their preferred policy outcomes. Therefore, the finding that there was indeed a wide diversity of committees involved in revising the congressional budget process constitutes a significant step for us to uncover the influence of outside groups and individuals.

Table 4-2 The Number of Hearings Conducted by Each Organizing Committee between July 12, 1974 and September 29, 1987

Joint Economic Committee 3
House **Budget 17** **Rules 10** **Government Operations** (1953 – 1992; now "House Committee on Oversight and Government Reform) **4** **Ways and Means 4** **Judiciary 2** **Banking, Finance, and Urban Affairs** (1978 – 1994; now "House Banking and Financial Services Committee) **2** **Banking, Currency, and Housing** (1975 – 1977; now "House Banking and Financial Services Committee) **1**
Senate **Judiciary 9** **Governmental Affairs 7** **Budget 7** **Banking, Housing, and Urban Affairs 3** **Rules and Administration 2** **Temporary Select Committee to Study the Senate Committee System 2** **Human Resources** (1977 – 1979; now "Senate Health, Education, Labor and Pensions Committee) 2 **Government Operations** (1953 – 1977; now "Senate Governmental Affairs Committee) **1**

Note: adding all the numbers behind the committees is equal to 76, not 74, the total number of hearings held between July 12, 1974 and September 29, 1987 because two hearings are hosted by more than one committee.

Institutional Change, and American Political Development," *Studies in American Political Development* 17, no. 2 (2003).

Now shifting our attention from hearings to participants at hearings, we find that interest in the budget process and proposals to change it radiated throughout different branches of government, and from both federal and state/local governments. 74 hearings drew a total of 502 witnesses who were affiliated with a governmental entity (**Table 4-3**). Among these governmental witnesses, 316 were members of Congress, accounting for an overwhelming 62.9% of all governmental witnesses. Congressional Budget Office, Government Accountability Office, Congressional Research Service and other congressional bodies contributed the second largest number of governmental witnesses (16.5%). Officials and experts affiliated with the White House and the Executive Branch constituted the third largest group of governmental witnesses (13.5%). Among them, witnesses from the Executive Office of the President appeared most frequently (43.2%), compared to those affiliated with executive departments (35.8%) and independent agencies (21.0%). Notably, officials from the Office of Management and Budget (an organization residing within the Executive Office of the President) alone accounted for more than 40% of all the witnesses working for the White House and Executive Branch.[4] And finally, as budget decisions made at the federal level have significant impact on state and local fiscal policymaking, officials and employees affiliated with non-national governmental entities (6.8%) were also invited to appear at hearings discussing changes to the congressional budget process every now and then.

[4] The prominence of OMB witnesses is not surprising given that as the president's largest staff agency, OMB has the lead role in preparing and defending the president's budget; it cannot openly take positions contrary to the policies the White House prefers. For a detailed look at OMB's inner workings, and the comparisons between OMB and CBO, see Allen Schick, *The Federal Budget: Politics, Policy, and Process*, Rev. ed. (Washington, D.C.: Brookings Institution, 2000).

Table 4-3 Governmental Witnesses

Type of Government Entities	Number	Percentage
Congress	316	62.9
Congressional Body	83	16.5
Executive Branch	67	13.5
State and Local Government Entities	34	6.8
Other	2	0.3
Total: 502		

Hearing participation by non-governmental witnesses

After forming a general picture of the interest and the attention given by congressional committees and other governmental entities in congressional budget process reforms, I now proceed to test the hypotheses about the participation of outside groups and individuals. A wide array of groups and interests were present at the discussions of changes to the congressional budget process. Furthermore, the evidence presented below is consistent with my expectation that business interests, rather than labor unions and anti-poverty groups, are more likely to dominate hearings that seek to modify the congressional budget process.

In total, 346 witnesses who were invited by committees to testify are identified to be affiliated with a non-governmental entity, which accounted for 41% of all the witnesses during this period of time. The fact that the number of non-governmental witnesses was lower than that of governmental witnesses should not be used to dismiss their role in reforming the congressional budget process right away. This piece of evidence alone is already sufficient to call into question the implicit assumption made by existing scholarship that politicians and government officials are the only players vested in changes to the structures and rules of formal institutions.

To put the percentage of non-governmental witnesses into perspective, consider a study conducted by Baumgartner and colleagues in which more than three hundred lobbyists and government officials were interviewed over a random sample of 136 issues across the full range of activities of the federal government.[5] About 59% of the major actors[6] were found to be lobbyists from various organized interests, while 41% were government officials. Of these 136 issues sampled by Baumgartner and colleagues, none pertain to rules or structures of formal institutions, and all involve substantive government policies.[7] As I reviewed earlier, one of the key characteristics associated with congressional budget rules is that these rules do not make changes to policies directly. Unlike substantive policies, such rules do not provide for cuts to specific programs, nor do they provide for increases in particular types of taxes. Similar to other types of obtuse rules and structures of formal institutions, the connection between budget rules and substantive outcomes often remains obscure to non-experts and regular voters. As a consequence, interest in the changes to rules and structures which is generated from the outside of government is not expected to be as high as that shown in changes to policies or programs. It is based on this expectation that previous studies tend to be fixated exclusively on the activities of politicians and government officials, thus creating an impression that non-governmental actors show little interest in, and subsequently, have no influence in shaping rules and structures of

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[5] Baumgartner et al., *Lobbying and Policy Change: Who Wins, Who Loses and Why*, 2009. Frank R. Baumgartner et al., *Lobbying and Policy Change: Who Wins, Who Loses, and Why*, 1st ed. (Chicago: University of Chicago Press, 2009).

[6] Ibid. Note that Baumgartner et al. define a major actor as an advocate mentioned by others in their interviews as playing a prominent and important role in the debate. Hearing witnesses, who are invited by committees to testify because their views are deemed important by committee chairs, are naturally major actors.

[7] Ibid. See Table A.1 in the Appendix.

formal institutions. But instead of ignoring the participation of outside interests entirely, accepting the premise that rules and structures are less likely to register attention from the outside of government than substantive policies, it is impressive to see that outside groups and interests comprised of more than 40% of the advocacy universe in congressional budget process reforms.[8]

In the previous chapter, to study outside groups systematically, I introduced a coding scheme that contains 12 distinctive types of groups and organizations including business associations, corporations, labor unions, and social welfare groups. Using this coding strategy, I further classify each non-governmental witness by the type of organization that he or she was affiliated with. In the second column of **Table 4-4**, I present the number of witnesses that were affiliated with each type of group and organization. And in the fourth column, I calculate the percentage of witnesses affiliated with this particular type of organization among all the non-governmental witnesses.

Table 4-4 Non-governmental Witnesses

Group Type	Number	Number (With Robustness Check)	Percentage	Percentage (With Robustness Check)
Farm Group	5	12	1.4	2.7
Business Association	**70**	**94**	**20.2**	**20.8**
Corporation	**35**	**38**	**10.1**	**8.4**
Labor Union	**27**	**36**	**7.8**	**8.0**
Civil Rights and Welfare Group	**9**	**21**	**2.6**	**4.7**

[8] Additionally, note that the way Baumgartner et al. collected the sample of 136 issues is through asking lobbyists who were selected for their interviews to provide an issue they worked on in the recent past (see p.5). This sampling method almost certainly guarantees that the issues that were selected for their studies are prone to the engagement and the influence of outside interests.

Professional Association	9	25	2.6	5.5
Intergovernmental Group	14	20	4.0	4.4
Think Tank and Foundation	44	47	12.7	10.4
University	81	89	23.4	19.7
Citizen Group	34	50	9.8	11.1
Private Citizen	15	16	4.3	3.5
Other	3	3	0.9	0.7
	Total: 346	**Total: 451**		

Recall that, in order to alleviate the "missing data problem" arising from the concern that the selection of witnesses may be tainted with the committee chair's bias,[9] as a robustness check I use the appendices of published hearings to triangulate with the patterns of group participation drawn solely from rosters of hearing witnesses. The appendices of published hearings, which include materials submitted for the record by groups and organizations invited to testify as well as by those that are not should present a more diverse pool of parties interested in revising congressional budget rules.[10] Therefore, for each piece of material that appears in the appendix

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[9] If groups whose political orientations and policy views align with the committee chairs' are more likely to be invited to testify, the concern is that labor unions and anti-poverty groups are more likely to be underrepresented at Republican-controlled committees, and business associations and corporations are more likely to be underrepresented at Democrat-controlled committees. In the **Appendix** of this chapter, I present a simple test to see whether committee chairs of different parties diverged in the types of outside organizations that they invited to testify. In this test, I select all the hearings held by the 97th, 98th, and 99th Congresses where the House was controlled by Democrats and the Senate was controlled by Republicans. By tallying the number of witnesses affiliated with each of the 12 types of organizations for Democrat-controlled House committees and Republican-controlled Senate committees respectively, I have found that when it comes to business associations, corporations, labor unions, and civil rights and social welfare groups, Democratic chairs and Republican chairs invited almost identical proportions of witnesses from these types of organizations to testify. It suggests that these groups were probably not penalized, in the form of not being invited to testify, for holding opposing ideological and policy positions from the committee chair.

[10] Rules governing congressional committees' hearing conduct stipulate that anybody can submit materials to committees, however, it is within each committee's discretion to print these supplemental materials as part of the printed hearing. In this way, committee chair's bias in selecting what views to publish similar to that in selecting witnesses emerges again. However, as I stressed in the earlier chapter, given the infeasibility to study the true universe of all the interested parties on a single issue, hearing testimonies and hearing appendices offer the best systematic data that ensure views expressed through them are at least considered by committees.

of a published hearing, I first identify whether the organization that submitted this material was invited to testify at the actual hearing. If the organization indeed had representatives testifying at the hearing, then the material they submitted will not be counted, because the point of adding a robustness check is to discover organizations that were excluded from hearings but were nonetheless vested in the budget process. If the organization was not invited to testify physically in front of the committee, the total number of materials it submitted will be counted as if the organization had an equal number of witnesses testify.

The third column of **Table 4-4** records the number of witnesses affiliated with a particular type of organizations *plus* the total number of materials submitted by the same type of organizations that did not have witnesses appear at hearings. The fifth column calculates the percentages.

Before the robustness check is added, witnesses affiliated with universities appeared in higher number than any other type of witnesses at hearings, which accounted for almost a quarter of all the witnesses that were not affiliated with government. After the robustness check is added, business associations surpass universities in being the most active type of outside organizations in the discussion of budget process and proposals to change it, with universities, citizen groups, think tanks and foundations trailing in the second, third, and fourth places. Since the priority of this project is to examine how conflicts between outside groups with different economic interests result in their divergent preferences for rules and institutional arrangements of formal political institutions, groups and organizations that are not formed primarily out of members' economic concerns are of lesser significance for my analysis. However, due to the complex nature of these organizations and their relationships with economic interests, I will at the end of this first section highlight some findings from existing research linking universities, citizen groups, and think tanks to the business community.

If we collapse the two categories "business association" and "corporation" into a composite category "business interests", we have a total of 105 witnesses who spoke at hearings on behalf of the material interests of the business community (**Table 4-5**). Labor unions and groups representing the poor fall much behind by sending only 27 and 9 witnesses respectively to testify during the same period. If we calculate the percentages of witnesses representing businesses, labor unions, and the poor respectively among all the witnesses representing economic interests at hearings (3rd column, **Table 4-5**), it is clear that business interests, with their stunning 74.5%, overshadowed labor unions (19.1%) and the poor (6.4%). Business dominance (69.8%) does not change even after we account for unions (19.1%) and groups representing the poor (11.1%) that only submitted their opinions in written forms (as indicated in the 4th and 5th columns in **Table 4-5**).

Table 4-5 Witnesses Representing the Interests of Business, Labor, and the Poor

Type of Interests	**Number**	**% of all economic interests**	**Number (With Robustness Check)**	**% of all economic interests (With Robustness Check)**
Business	105	74.5	132	69.8
Labor Union	27	19.1	36	19.1
The Poor	9	6.4	21	11.1

Although not directly relevant to this project, it is worth pausing here to look at another type of organization that are organized primarily out of their members' common economic concerns – farm groups. Farm groups' underrepresentation at hearings discussing changes to the congressional budget process is surprising, considering that farmers, being both exporters and debtors, tend to be hurt by federal budget deficits as well. Deficits probably hurt farmers by driving up interest rates, attracting foreign capital, driving up the U.S. dollar, and making exports less competitive.[11] Despite such high stakes in reducing the federal deficits, witnesses identified as farm group affiliates accounted for no more than 2% of all the witnesses outside the government. Notably, the American Farm Bureau Federation was the only organization that represented the perspectives of farmers at these hearings that I collected to analyze. The underwhelming presence of farm groups can perhaps be explained by the traditional fragmented nature of the farm community, and it fits the historical narrative that the farm lobby as a whole suffered a significant setback in the 60s, 70s, and 80s.[12]

So far, I have illustrated individual groups' patterns of hearing participation by calculating the total volume of their appearances. However, as I explained in the earlier chapter, pooling a group's hearing appearances across time cannot fully capture subtle differences in patterns of group activity. More specifically, it fails to account for ways in which groups distribute their lobbying efforts across different stages of legislative decision-making. To capture these differences, in **Figure 4-1** I use solid colors to denote the proportions of hearings physically attended by witnesses affiliated with business interests, labor unions, and groups representing the poor in each of the seven consecutive Congresses (94th ~ 100th Congress),[13] and I use hatched

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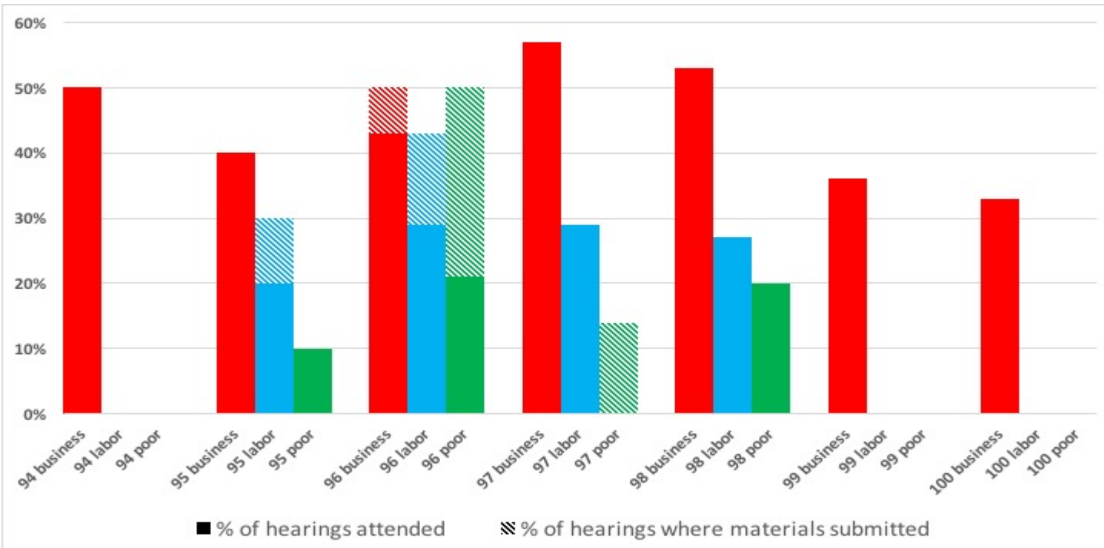
[11] Gary Mucciaroni, "Problem Definition and Special Interest Politics in Tax Policy and Agriculture," in *Problem Definition: An Emerging Perspective*, ed. David A. Rochefort and Roger W. Cobb (Lawrence, KS: University Press of Kansas, 1994).
[12] John M. Hansen, *Gaining Access: Congress and the Farm Lobby, 1919-1981* (Chicago: University of Chicago Press, 1991).
[13] Note that here I include all the hearings held by the 100th Congress so as to track long-term trends in groups' levels of engagement systematically.

patterns to indicate the proportions of hearings where materials were submitted by organizations that were not invited to testify physically.

Figure 4-1 Patterns of Hearing Participation (94th ~ 100th Congress)



What is the most striking, is business interests maintained a sustained level of participation throughout these seven congresses, and this level of activity was consistently higher compared to labor unions and groups representing the poor. Even after we take into consideration opinions of groups and interests that were only voiced through materials submitted for the record, business interests still appear to maintain a consistently high level of engagement. Labor unions and groups representing the poor rarely surpass business interests. Only in the 96th Congress, with the help of submitted materials, did groups representing the poor reach the same level of engagement as business interests.

Let's incorporate some legislative history here. The Congressional Budget Act of 1974 was enacted on July 14, 1974 during the 93rd Congress which met from January 3, 1973 to January 3, 1975. The first time the CBA was fully implemented and applied to a budget cycle was during the 94th Congress where, as indicated in **Figure 4-1**, labor unions and the poor were completely absent and silent. The Gramm-Rudman-Hollings Act of 1985 was enacted on December 12, 1985 during the 99th Congress and went into effect immediately. However, I have found since the passage of GRH, unions and anti-poverty groups were completely absent for the rest of the 99th Congress, and as shown by **Figure 4-1**, they did not participate in hearings held during the 100th Congress either. To see if this pattern of inactivity following the enactment of a major reform legislation holds for labor unions and groups representing the poor in the long run, it will certainly require lengthening the time span of our observations. However, within the time frame that I utilize for this project, it is probably worth asking how costly it is for unions and the poor to be completely absent in these initial years during which the reform legislation gets to be implemented, interpreted, and enforced for the first time.

It is clear from reading hearing testimonies that these initial years constituted as formative times during which lawmakers as well as outside groups were constantly grappling with the original intent of a reform act, and thinking about, with curiosity and caution, how this piece of legislation should be implemented. For instance, in an interaction that occurred on July 28, 1976 between Congressman Butler Derrick (D-SC) and Phillip Hughes, the Assistant Comptroller General regarding the "Program Review and Evaluation" provision in the Congressional Budget Act of 1974, the Congressman wanted to know whether program evaluation had made significant impact. The Assistant Comptroller, unable to name one particular program or agency where the impact was evident, responded vaguely,

> "Surely. There has been some good work done by executive agencies in the area of program evaluation." [14]

[14] U.S. Congress, House, Committee on the Budget, *Zero-Base Budget Legislation*, 94th Cong., 2nd sess., 1976 (statement of Phillip Hughes, assistant Comptroller General, GAO), 100.

Proceeding from here with much sincerity, the Assistant Comptroller admitted openly that sometimes he and his colleagues at the Government Accountability Office were also at loss as to how to execute the law.

> Program evaluation is … a catchword, a slogan, if you will. And there are a good many more people who are writing books and prepared to tell you how to do it and doing it well, because it is a difficult art, not yet a science. We are struggling with it in the GAO, as Title VII of the Budget Act tells us to do."[15]

Hughes' comparison of implementing law to "a difficult art" echoes the important argument made by scholars of incremental institutional change that institutional rules are ambiguous and are always subject to interpretation and debate. Rules themselves are "the object of ongoing skirmishes as actors try to achieve advantage by interpreting or redirecting institutions in pursuit of their goals, or by subverting or circumventing rules that clash with their interests."[16] It is through these conflicts over rules and their meaning that actors can transform the way institutions allocate power and authority. In the meantime, actors can also exploit the ambiguities of rules in their efforts to alter them, which sets in motion the next round of institutional change.[17]

A closer look at business interests: collaboration and fragmentation

As laid out above, business interests, compared to labor unions and groups representing the poor, consistently dominated hearings related to the congressional budget process and proposals to change it by having an overwhelmingly large number of representatives to testify. In general

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[15] Ibid.
[16] Wolfgang Streeck and Kathleen Thelen, "Introduction: Institutional Change in Advanced Political Economies," in *Beyond Continuity: Institutional Change in Advanced Political Economies*, ed. Wolfgang Streeck and Kathleen Thelen (Oxford: Oxford University Press, 2005), 19.
[17] Mahoney and Thelen, "A Theory of Gradual Institutional Change".

they also maintained a consistently high level of activity in submitting materials for the record to make their opinions known to members of Congress. Next, I provide some groundwork for testing the hypotheses that the internal fragmentation within the business community should result in divergence between industrial sectors with different priorities in endorsing different reform proposals. In particular, I expect potential conflicts will occur between three types of business sectors depending on their sensitivity to deficits and additional tax burdens. These three types of industrial sectors are:

1) banking, housing, and insurance industries;
2) capital-intensive manufacturing industries;
3) small business and service sectors.

Table 4-6 provides an overview of how these three types of industrial sectors were represented at congressional hearings respectively. For each type, I further divide their hearing witnesses based on whether these witnesses were affiliated with specialized trade and industry associations or spoke on behalf of corporations in their respective sectors. Examples of specialized trade and industry associations that participated in congressional budget process reforms during this period include American Bankers Association, Mortgage Bankers Association, National Limestone Institute, and Textile Manufacturers' Association. I want to point out that the results presented in **Table 4-6** do not include witnesses affiliated with the U.S. Chamber of Commerce, the National Association of Manufacturers, and the Business Roundtable as these three business associations draw their membership from all segments of the business community and claim to serve the "general purpose"[18] of the business community.

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[18] Sar A. Levitan and Martha R. Cooper, *Business Lobbies: The Public Good & the Bottom Line* (Baltimore, M.D.: Johns Hopkins University Press, 1984).

These organizations cannot be cleanly categorized using the typology of industrial sectors proposed in this project. Nonetheless, because they accounted for a substantial share of hearing witnesses affiliated with the business community, I will discuss the political activism undertaken by these three business associations specifically in brief later. Another business association, the National Foreign Trade Council is left out of the **Table 4-6** as well. The membership of the Council "comprises a broad cross section of American industry" concerned with the "expansion of American foreign trade and investment."[19] Having companies from manufacturing, banking, insurance, communication, publishing industries and so forth in their members[20] makes the Council unable to be categorized under the typology proposed in this project.

Table 4-6 Witnesses by the Types of Industrial Sectors They Belong to

Type of industrial sectors	**banking, housing, and insurance industries**		**capital-intensive manufacturing or "basic industries"**		**small businesses, high-tech and labor-intensive sectors**	
Collective action vs. individual firm	Trade and Industry Associations	Firms	Trade and Industry Associations	Firms	Trade and Industry Associations	Firms
	13	16	9	2	6	17
Total	29		11		23	

Note: excluded from **Table 4-6** are Chamber, NAM, Roundtable, National Foreign Trade Council.

Results in **Table 4-6** show that banking, housing, and insurance industries – sectors that are more likely to be rattled by budget deficits – were the most active participants in congressional hearings. Small business and service sectors, slightly less active, come in the second place. Capital-intensive manufacturing industries had the least number of witnesses testify in front of

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[19] U.S. Congress, Senate, Committee on the Budget, *Overview of Federal Credit*, 97th Cong., 2nd sess., 1982 (statement of Patricia Barrett, director of trade policy, National Foreign Trade Council), 286.

[20] *Encylopedia of Associations*, 19th ed., 2 vols. (Gale Research Company, 1985).

congressional committees. Recall that capital-intensive manufacturers, as I mentioned previously in the "Theory and Literature Review" Chapter, are less worried about monetary stability, and are less sensitive to budget deficits than banking, housing, and insurance industries. In the meantime, prior to the 1980s, these sectors had enjoyed lower effective tax rates for many years. Their tax benefits were much more secured in the federal tax code compared to the benefits enjoyed by the small business and service sectors. Eventually, what **Table 4-6** has shown is that, in the fight for revising existing budget rules, high demanders – those that pressure for lowering budget deficits and those that demand for tax relief, were more active than protectors of the status quo.

On a related note, in the case of congressional budget process reforms, **Table 4-6** also reveals that the distribution of lobbying efforts in the form of testifying at hearings between business organizations and individual firms varied across different types of industrial sectors. Banking, housing, and insurance industries exhibited a relative balance between lobbying through specialized trade and industry associations on one hand, and through individual firms on the other. In comparison, the two other types of industries appear to rely more heavily on one or the other: on either individual firms or specialized trade and industry associations. With limited data and cases, it is hard to tell whether these observations are indicative of the differences in the level of collective action across industrial sectors, or whether they suggest that industries might emphasize different strategies of lobbying during the period I am studying.[21]

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[21] The now widely circulated observation is made by Frank Baumgartner and Beth Leech that political activism on behalf of business interests takes place through the efforts of individual firms rather than industry groups. However, whether this observation holds when we look at different industrial sectors and apply to different periods of American politics requires further research. Frank R. Baumgartner and Beth L. Leech, "Patterns of Interest Group Involvement in Politics," *The Journal of Politics* 63, no. 4 (2001).

There is however, some evidence collected by previous scholars that can lend credibility to the patterns that emerge from **Table 4-6**. For instance, Levitan and Cooper[22] remark that the late 1970s and 1980s saw the considerable growth and increase in the visibility of small business activism. This is consistent with the finding that small business and service sectors trail behind the financial industries only slightly in having witnesses testify at hearings. More importantly however, Levitan and Cooper point out that small businessmen tend to have a difficulty in organizing on a national scale. Due to its diversity and to the fact that problems of small businesses tend to be local in nature, by the mid-1980s, there were only a handful of organizations that represented small businesses at the federal level. Lack of unity probably explains why in the case of congressional budget process reforms, the interests of small business and service sectors tended to be represented through individual firms, rather than trade and industry associations. Tellingly, five out of the six witnesses recorded in **Table 4-6** were affiliated with the National Federation of Independent Business, by far the largest organization in the small business community.

Now let's look at what may be the most important source of political support for companies, the peak business associations.[23] The U.S. Chamber of Commerce, the National Association of Manufacturers, and the Business Roundtable all fall under this category. Other scholars have referred to them as "general purpose" "all-industry" or "mass-membership" business associations. Whatever they are called, one common characteristic these business associations share is that they seek to advance the general interests of business and industry, and to articulate

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[22] Levitan and Cooper, *Business Lobbies*.

[23] I like Neil Fligstein's characterization of business associations as "predominantly political creatures". See Neil Fligstein, *The Architecture of Markets: An Economic Sociology of Twenty-First Century Capitalist Societies* (Princeton, N.J.: Princeton University Press, 2001).

the business perspective on broad policy issues.[24] Particularly pertinent to the historical context that my project is set against, entering the 1970s in the wake of the economic turmoil, new regulations, combined with popular challenges to business, the mobilization efforts undertaken by these peak business associations acquired a more unified and class-based consciousness.[25]

During the time period I am studying, these four peak business associations accounted for 40% of all the witnesses representing the business community at congressional hearings. Their prominence can be partially attributed to the fact that the issue of congressional budget process reforms which involves rules and structural arrangements are of a general nature, compared to issues at policy and programmatic levels. Scholars have noted that issues of a more general nature tend to be the province of broad, all-industry, policy-making organizations such as the Chamber and the Business Roundtable.[26] However, working to advance the collective interests of the business community does not ensure these peak business associations will necessarily collaborate with each other under all circumstances. As a study which I will review later shows, competition arises between peak business associations that cater to different members and constituents. Conflicts also arise when these associations are vying to be the leading advocate of corporate America. External competition aside, peak business associations also must reconcile different competing interests that reside under their broad umbrellas, and inevitably sometimes the particular needs of specific industries are overlooked.[27]

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[24] Scholzman and Tierney, *Organized Interests and American* Democracy, 40.

[25] Mizruchi, *The Fracturing of the American Corporate Elite*; Patrick J. Akard, "Corporate Mobilization and Political Power: The Transformation of U.S. Economic Policy in the 1970s," *American Sociological Review* 57, no. 5 (1992); Edward T. Walker and Christopher M. Rea, "The Political Mobilization of Firms and Industries," *Annual Review of Sociology* 40, no. 1 (2014).

[26] Mizurchi, *The Fracturing of the American Corporate Elite*; Scholzman and Tierney, *Organized Interests and American* Democracy.

[27] To quote Carol Greenwald, these peak business associations must accommodate the interests of all members, so heterogeneous and large that they tend to take very general issue positions representative of the lowest common

It is important for us to be at least cognizant of these dynamics of fragmentation and competition, for the preferences of these peak associations over particular budget process reform issues and proposals, which will be the focus of the next chapter, might not only be determined by the material interests they spoke on behalf of. Their preferences articulated at such public occasions as congressional hearings might also be induced by the competition between organizations and/or the aggregated outcomes of power struggles within them.

Considering the landscape of peak business association lobbying during the late 1970s and early 1980s, the most comprehensive survey is provided by Sar Levitan and Martha Cooper's *Business Lobbies – the Public Good and the Bottom Line*. Published in 1984[28], Levitan and Cooper's study delves into the workings and objectives of the major business lobbies in America. It also reveals the relationships and differences between these peak associations. Here, I want to review a few observations made by these two scholars which will prove important when we analyze the expressed preferences of peak business associations later.

There are two generations of peak business associations coexisting during this time. The Chamber of Commerce (shortened as the "Chamber" henceforth) and the National Associations of Manufacturers (the "NAM" henceforth) belong to the older generation, and the Business Roundtable (the "Roundtable" henceforth) belong to the newer. What distinguishes the Roundtable from the Chamber and the NAM is primarily that members of this newer generation of business associations tend to be business executives, as opposed to companies. The membership of the Roundtable includes the CEOs of the top industrial, financial, and

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denominator opinion within the association. Carol S. Greenwald, *Group Power: Lobbying and Public Policy* (New York: Praeger Publishers, 1977).

[28] There are more contemporary works published on the topic of business collective action. However, their time frames are much closer to the present thus do not offer as much value for my project as Levitan and Cooper's work which focuses entirely on the late 1970s to the early 1980s.

commercial companies in the country. The Roundtable, organized primarily to give big business more clout in Washington, contrasts with mass-membership organizations like the Chamber and the NAM, where the diversity of interests represented result in slow decision-making and difficulties in focusing business lobbying efforts. Objecting to the approach of both Chamber or the NAM on the ground that they put forward “knee jerk conservative views”, the Roundtable developed a rather low-key approach characterized by pragmatism and willingness to compromise.[29] On this point, Levitan and Cooper particularly emphasize that the Roundtable, preferring to work quietly behind the scenes, testifies at public hearings rather infrequently, which sheds light on the fact that among the three peak associations, the Roundtable came in the last in having the least number of representatives at the hearings that I analyzed (see **Table 4-7**). In the meantime, the Roundtable’s infrequent hearing appearances during this period might also be explained by the important fact that their status under the Reagan administration was diminished, which Levitan and Cooper attribute to the Roundtable’s lukewarm support for and skepticism of Reaganomics.[30]

Table 4-7 Witnesses Affiliated with Peak Business Associations

U.S. Chamber of Commerce	24
National Association of Manufacturers	9
Business Roundtable	7

The Chamber and the NAM, rivaling the Roundtable, often criticize the latter for ducking difficult issues and being too quick to compromise. It is the kind of grass-roots mobilization and

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[29] Peter Slavin, "The Business Roundtable: New Lobbying Arm of Big Business," *Business and Society Review* Winter 1975/1976, no. 16 (1975-76): 29.
[30] Levitan and Cooper, *Business Lobbies.*

the hard-line approach taken by the Chamber and the NAM that won them close alliance with the Reagan administration.

Members of the Chamber and the NAM are largely small businesses. In 1981, 87% of the Chamber's business members employed fewer than fifty employees. 22.7% of the NAM's members employed fewer than fifty employees and 44% employed fewer than one hundred people. However, the dominance of small businesses in their memberships is not translated to small businessmen's voices being elevated in the Chamber and the NAM. According to Levitan and Cooper, the general orientation of the Chamber and the NAM policies tends to reflect big business concerns rather than those of small business. One telling indicator of the Chamber's and the NAM's big-business preoccupation is the preponderance of executives from large corporations on their boards of directors. Levitan and Cooper report in 1981 that 38% of the Chamber's board members were executives of corporations on the Fortune 500 list, and about 40% of the more than 200 NAM board members were employed by firms on the Fortune 500 list.[31] It is based on this important observation that I decided not to categorize the Chamber and the NAM as associations representing small business interests.

The Chamber and the NAM, though sharing so many similarities that there has always been talks of merging these two organizations,[32] are in fact vying to be the "voice of American industry." Especially during the period I am studying, these two associations were both grappling with a new terrain of business lobbying, and both were struggling to establish their own identities independent from the other. There are several important insights from Levitan and Cooper's survey of the inner workings of and the relationships between the Chamber and the NAM during

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[31] In addition to these statistics, Levitan and Cooper also find that the views of the Chamber and the NAM are frequently indistinguishable from those organizations representing big business exclusively.
[32] Levitan and Cooper, *Business* Lobbies, 23 – 26.

the 1970s and 80s that will become useful later when we take a close look at the preferences articulated by the Chamber and the NAM representatives over proposals to revise congressional budget rules.

During this period, the NAM was beginning to modify its image of being the more conservative and the more extreme of the two organizations, particularly under the leadership of Alexander Trowbridge, who favored more flexible approaches to legislative issues. One example provided by Levitan and Cooper is indicative of the shift in NAM's legislative approach and positioning. In the fall of 1982, when amendments to social security legislation were pending before Congress, the NAM abandoned its earlier policy, which preached fiscal responsibility and a stable dollar, and recommended policy options that would close the gap of $150 billion to $200 billion in the social security system.[33]

Compared to the NAM's relatively concerted efforts to reposition itself, the Chamber's struggle with asserting itself during the Reagan era manifested in a widely publicized rift between Chamber president Richard Lesher and chairman of the Chamber board, Paul Thayer. In August 1982, President Reagan pushed for a tax increase to reduce the anticipated deficits caused by his huge tax cuts of the previous year. Lesher, true to supply-side economics, publicly opposed the tax increase, whereas Thayer and thirty other board members supported Reagan. In the end, Thayer won the confrontation, and the Chamber's board, to affirm its control over the staff, issued a resolution stating that the board "should be given the opportunity to consider significant acts or matters." However, one month after the incident, Thayer relinquished his post

[33] Ibid.,17.

with the Chamber for the number two spot in the Department of Defense. Richard Lesher, as it turns out, was the most frequent witness representing the Chamber at the hearings I analyzed.

A side note on other types of organizations

I have so far focused on the participation of groups with well-defined economic interests at congressional hearings, since this project sets out to test the theory that the direction and the content of the congressional budget process reform is influenced by outside groups that seek to advance their own economic interests and policy goals. However, **Table 4-4** showed that in addition to business associations, corporations, unions, and groups defending the interests of the poor, other outside groups and organizations with less well-defined economic interests were also both present and active at the same hearings. In the paragraphs that follow, I offer a brief discussion of the roles played by universities, think tanks and foundations, and citizen groups in discussion seeking to change the congressional budget process. Every now and then, I will review anecdotes and studies that link some of these organizations to the business community. The fact that some of these connections are anecdotal, however, further invites us to think about how to systematically study these organizations and their relationships to economic conflict, a major theme of politics in America.

The prominence of witnesses affiliated with universities among all the hearing participants is not unexpected. After all, the theoretical question underlining congressional budget process reforms is how to design institutions that discipline political actors' behaviors and lead to desirable policy outcomes, which falls within the realm of many disciplines. University-affiliated witnesses, the majority being economists, political scientists, and scholars of law, did not generally speak on behalf of the higher education institutions they resided in, e.g. by lobbying against deficit-cutting measures that would threaten federal aid to universities in the form of student loans. Instead, they testified primarily because of their expertise at macroeconomics, fiscal policies, budgeting, and the law in general. However, it remains empirically interesting to what extent the expertise offered by academics is *neutral* with respect to various economic actors.[34] Given the context of the 1970s – 1980s, during which the classic Keynesian economics was under assault, it may not be surprising to see that the debate among scholars at congressional hearings tended to reflect this larger ideological shift. But ideas are not always autonomous from interests. There are now some useful treatments, both anecdotal and systematic, on academia-business liaison. James Buchanan and Murray Weidenbaum, two names that appeared in the hearings I collected, are prime examples of theoretical crusaders against government spending and regulations who have been found to have connections with or backing from the business community.[35] Notwithstanding examples of academic-business liaison and cases where pioneering academic ideas provided powerful ammunition for the conservative movement, it is, however, an extremely difficult undertaking to characterize the role that universities have played in the American power structure systematically. As G. William Domhoff suggests, both the

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[34] To identify the political leanings of economists who testified at hearings regarding issues of budget process reforms, ideally, the first thing we need to do is to come up with a list of ideological phrases, *specific to* the topics of federal budget, budget process, and budget process reform, which are empirically proved to be capable of distinguishing left-leaning economists from right-leaning ones. Then using this list, we need to code each witness's hearing statement to determine their ideologies. This analytical process I just described, however, is extremely time-consuming and beyond the scope of my project. Future scholars might want to start by compiling this list of phrases. In a recent paper, Zubin Jelveh and colleagues proposed a method to compile a list of ideological phrases about macroeconomists. By using information on campaign contributions and political petition signatures of a sample of 2,000 economists, these three authors were able to determine the political leanings of these economists sampled. With this knowledge about actual ideology in hand, they then built an algorithm that discovered the relationships between political leanings and word choice in about 18,000 academic papers written by their sample of economists. They found that most left-leaning phrases include "post Keynesian", "credit union", and "federal funds", etc. Most right-leaning phrases include "free banking", "bank note", and "hedge fund", etc. Zubin Jelveh, Bruce Kogut, and Suresh Naidu, "Political Language in Economics," *Columbia Business School Research Paper No. 14-57* (2018)http://dx.doi.org/10.2139/ssrn.2535453.

[35] See Nancy MacLean, *Democracy in Chains: The Deep History of the Radical Right's Stealth Plan for America* (New York: Viking, 2017); John S. Saloma, *Ominous Politics: The New Conservative Labyrinth* (New York: Hill and Wang, 1984).

faculty and student bodies at many universities are quite diverse in their intellectual and political orientations. Perhaps, as Domhoff conjectures, only those experts from universities who work for think tanks or consult for policy discussion groups are relevant to the corporate side of the power equation.[36] Compared to the scarcity of evidence mapping the connections between academics and the corporate power, there are now abundant records linking think tanks, particularly conservative think tanks, to the business community.

From the Committee for Economic Development, which "epitomizes the moderate postwar corporate elite,"[37] to identifiably right-wing think tanks such as the Heritage Foundation, the American Enterprise Institute, and the Cato Institute, all of which rather frequently had witnesses testify at the hearings I examined, we now have quite a complete historiography of how business-backed think tanks have evolved since the New Deal. However, despite some attempts to theorize think tanks' role in the American power structure,[38] we have yet to develop methods and measures conducive to studying think tanks and their connections to material interests systematically. The scholarly preoccupation with the Heritage Foundation, the AEI, and the Cato Institute, right-wing think tanks that "combine a strong policy, partisan or ideological bent with aggressive salesmanship"[39] might blind us to the fact that increasingly, think tank universe has become much more diverse, and that the ways individual organizations choose to operate are

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[36] William Domhoff focuses on "policy-discussion groups," defined as nonpartisan groups that bring together corporate executives, lawyers, academic experts, university administrators, government officials, and media specialists to talk about general problems. William G. Domhoff, *Who Rules America?: Challenges to Corporate and Class Dominance*, 6th ed. (Boston: McGraw Hill Higher Education, 2010), 88.

[37] Mizruchi, *The Fracturing of the American Corporate Elite*, 37.

[38] Andrew Rich wrote the most recent comprehensive study that does not rely on case studies to theorize the role of think tanks. In the opening Chapter of the book, he laments about the dismal state of literature that focuses on think tanks. He catalogs fewer than a dozen books published since 1970 focus on American think tanks, and only five of which are written by political scientists. No articles specifically about think tanks have appeared in the discipline's top journals in the past 30 years, nor in the major policy or sociology journals. Andrew Rich, *Think Tanks, Public Policy, and the Politics of Expertise* (Cambridge, U.K.; New York: Cambridge University Press, 2004).

[39] R. Kent Weaver, "The Changing World of Think Tanks," *PS: Political Science and Politics* 22, no. 3 (1989).

impermeable to simple generalization.[40] Additionally, it badly misrepresents the roles that think tanks play in economic vis-à-vis other issue domains such as social, cultural, and environmental issues.

What parameters of think tank activities and operations provide reliable clues for us to understand the relationships between think tanks and other actors involved in the policy process? Funding sources and donations that think tanks receive are perhaps one of the most intuitive sets of such measures. However, this approach has some problems. For one, think tanks nowadays rely on money from a wide variety of sources combined such as foundation grants, corporate donations, individuals, and government contracts.[41] In addition to the diversity in their funding sources, think tanks also receive money from donors on the left and right. Domhoff reports that, the Brookings Institution, widely perceived as a centrist (and sometimes mistakenly as liberal) think tank recently received generous sponsorship from Wall Street bankers for its Hamilton Project.[42] Another example involves the Center on Budget and Policy Priorities which is recognized in D.C. as one of the most prominent anti-poverty groups. While I was serving as a research intern there, I got to know (by accident) that the Center has been receiving funding from Peter Peterson who has been for years propagating austerity and myths of the Social Security insolvency in his fear-mongering campaign “fix the debt”. And finally, from an outsider

[40] Ibid.

[41] There are not only variations in the kinds of funding sources that different think tanks draw on. As time goes by, there are also changes in the methods that think tanks use to raise money. For instance, Brookings used to enjoy a certain financial stability thanks to the annual support from the Ford Foundation (which typically covers between 20% and 33% of its annual expenses) until 1978. After 1978, to compensate for this shortfall, the proportion of Brookings’ budget coming from individual and corporate contributions increased steadily. The Hudson Institute and the RAND Corporations traditionally drew their support from the government contracts. Comparatively speaking, overall federal government support of the RAND Corporations has remained far steadier over the years, though the end of the Cold War diminished the proportion of RAND’s government funding that comes from defense-related projects. Hudson adapting to changing sources of support, shifted its reliance on government contracts to cultivating corporate and individual support. See Rich, *Think Tanks, Public Policy, and the Politics of Expertise.*

[42] Domhoff, *Who Rules America*, 97.

researcher's point of view, it is hard to characterize donors' role in the management and daily operation of think tanks without conducting interviews and ethnographic work. How do donors' own political views shape the organization's research products? Do they primarily wield the veto power, or they actually set the agenda for managers and the rest of the staff?

Citizen groups are probably the most studied types of organizations among all the outside groups that are not organized primarily out of members' economic concerns. Using the definition of citizen groups offered by Scholzman and Tierney[43], I identified that around 10 percent of all the hearing participants were affiliated with a citizen group. These groups range from multi-issue umbrella organizations such as Americans for Democratic Action and American Conservative Union, to National Taxpayers Unions (NTU) and National Tax Limitation Committee (NTLC) that single-mindedly pursue specific policy goals.

I want to draw attention to NTU and NTLC, two prime examples of "an alliance between business and grass-roots constituencies that has produced the revival of fiscal conservatism".[44] The National Taxpayers Union, surpassing any other citizen group in having the most witnesses to testify at the hearings I analyzed, was at the forefront of encouraging local efforts to pass tax limitation measures like Propositions 13 in California. In favoring reducing the corporate income tax rate, lowering the capital gains tax, and ending the so-called double taxation of dividends, NTU successfully won support from the business community.[45] During an interview in 1982, the NTU chair James Davidson proudly admitted that small businesses were the prime supporters of

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[43] These two scholars define citizen groups as organizations that do not try to pursue selective benefits on behalf of their own members; rather, these organizations try to advance government policies and procedures that will benefit the public at large. Scholzman and Tierney, *Organized Interests and American* Democracy, 45

[44] Clarence Y.H. Lo, *Small Property Versus Big Government: Social Origins of the Property Tax Revolt*, 1st ed. (University of California Press, 1990).

[45] Ibid.

his organization[46]. The National Tax Limitation Committee was founded in 1975 by Lewis Uhler, a former member of the John Birch Society, who headed Ronald Reagan's tax reduction task force when he was the governor of California. Business was a key constituency for the National Tax Limitation Committee. Thirty thousand businesses, including forty listed in the Fortune directories of large corporations, contributed funds to the NTLC. And over one hundred business and trade associations were on record supporting the NTLC's balanced-budget amendment to the Constitution.[47]

The NTU and the NTLC combined, with their clear economic demands and consistent messaging, significantly outnumbered identifiably liberal citizen groups at hearings discussing changes to the congressional budget process. Noticeably among these few liberal groups, only the Americans for Democratic Action (ADA) represents the old-left concerns for the traditional economic equality issues. Other groups, like Ralph Nader's Center for a Responsive Watch and the National Organizations for Women belong to the new breed of citizen groups which Jeffrey Berry calls "postmaterialist" groups[48]. Unlike the ADA, these groups, representing the cadre of well-educated and affluent liberal elites, prioritize values like "aesthetics, morality, rights and other nonmaterial political objectives"[49] above the pursuit of economic gain or enhanced physical security. For the most part, the agenda of postmaterialist groups has focused largely on issues unconnected to the problems of the poor, the disadvantaged, or even the working class. It is very concerning to see that traditional liberal groups are increasingly crowded out by postmaterialist groups as Berry's study indicates unequivocally that "as the new left grew and

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[46] Ibid.
[47] Ibid.
[48] Jeffrey M. Berry, *The New Liberalism: The Rising Power of Citizen Groups* (Washington, D.C.: Brookings Institution, 1999).
[49] Ibid., 36.

grew, the old left was left increasingly isolated…It is the citizen groups of the right, and not of the left, who are more attuned to the interests of those on the lower runs of the economic ladder."[50]

By primarily focusing on groups with well-defined material interests such as business associations, labor unions, and anti-poverty groups, my project shies away from these complicated (sometimes covert) interconnections between these other types of organizations and material interests. In doing so, my project is likely to underestimate the representation and the clout that material interests have in congressional budget process reform. That being said, the anecdotal evidence and case studies that I introduced in this section should remind readers that, if anything, the measurement errors are probably much larger on the side of business interests than on labor unions and anti-poverty groups.

Appendix to Chapter 4
Testing the Potential Bias of Committee Chairs in Witness Selection

I select hearings that were held by the 97th, 98th, and 99th Congresses where the House and the Senate were controlled by Democrats and Republicans respectively to examine whether the party identification of the committee chair might influence his or her choices of witnesses. The concern is that the committee chair might be more inclined to invite groups and individuals that share his or her ideology and policy positions to testify at hearings. As a consequence, groups that the chair holds favorable opinions towards might be overrepresented, whereas groups whose preferences diverge from the chair might be absent. For instance, business associations might be more likely to testify before a Republican-controlled committee than a Democrat-controlled committee. On the other hand, it is also likely that since the committee chair might already, through other channels or previous hearings, get to know his and her allying groups' and individuals' opinions on the issue at hand, these groups might be absent from hearings.

In total, 34 hearings are selected. During the three consecutive Congresses, Democrat-controlled committees hold a total of 15 hearings, and Republican-controlled committees hold 19 hearings. Then, for each type of outside groups and organizations, I tally separately the total number of witnesses invited to hearings held by Democrat-controlled committees and Republican-controlled committees. The results are presented below.

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[50] Ibid., 57-59.

	Democrat-controlled committees	Republican-controlled committees
Farm Group	0	2
Business Association	**12**	**10**
Corporation	**5**	**6**
Labor Union	**3**	**3**
Civil Rights and Social Welfare Group	**1**	**2**
Professional Association	0	2
Citizen Group	2	6
Intergovernmental Group	2	5
Think Tank and Foundation	14	14
University	9	13
Private Citizen	6	0

As shown, differences do exist in terms of the type(s) of outside witnesses that are preferred by Democrat and Republican-controlled committees. However, without expanding the time frame of my study or collecting more observations, it is hard to adjudicate the significance of these differences. Nevertheless, when it comes to business associations, corporations, labor unions, and civil rights and social welfare groups – types of outside interests that this project is most interested in, Democratic chairs and Republican chairs invited almost identical proportions of witnesses from these types of organizations to testify.

Chapter 5 Empirical Findings and Analysis II: Analyzing Groups' Preferences over Reform Issues and Proposals

In the previous chapter, I have established that outside groups and interests were both present and active in the discussion of changes to the congressional budget process, and among all the groups involved, I have found that business interests consistently maintained a high level of engagement. In this chapter, building upon the patterns of group participation in hearings, I answer the question of what these outside interests wanted, or what motivated their participation by analyzing statements indicating groups' preoccupations with particular aspects of the budget process and articulations of their preferred proposals. As I expected, groups' preferences were generally informed by their stakes in spending and tax policies, as well as by their views of government's role in managing the economy. There are instances where groups' preferences expressed at public hearings or in written statements do not appear to align with their self-interest. Nevertheless, I later look at factors that might induce groups to behave in ways defying their own interests.

Table 5-1 shows whether the evidence that I collected is consistent or inconsistent with my expectations regarding groups' preferences. By "consistent", I mean that the preferences expressed by groups at hearings or through materials submitted for the record (which I adjudicate as genuine using the four basic rules outlined in the "Data and Methods Chapter"[1]) corroborate the hypotheses. Dividing the number of hypotheses (with each row in **Table 5-1** constituting a

[1] Recall the four basic rules are 1) same preference articulated by a certain group consistently over time is more likely to be genuine; 2) same preference articulated by a certain group in front of different committees is more likely to be genuine; 3) preference articulated at earlier stages of legislative decision-making are more likely to be close to a group's genuine preferences; 4) preference articulated at hearings that do not have bills attached are more likely to be genuine.

hypothesis) where the evidence is consistent by the total number of hypotheses I have proposed, my predictions are found to be correct 71% of the time.

Table 5-1 Groups' Preferences over Reform Issues and Proposals: Predictions vs. Outcomes

Issue Title	**Prediction Groups/interests expected to be vested in the issue**	**Outcome Groups/interests expressed their preferences on the issue**	**Prediction Groups' preferences over reform proposals**	**Outcome**
Balancing the Budget	Labor Unions	Yes	Labor unions are more likely to oppose measures that impose a balanced budget requirement.	Consistent
	Groups representing the poor	Yes	Groups representing the poor are more likely to oppose measures that impose a balanced budget requirement.	Consistent
	Businesses	Yes	Businesses in general are more likely to support measures that impose a balanced budget requirement.	Consistent
	Banking, housing and insurance industries	Yes	Banking, housing and insurance industries are more likely to endorse a statutory balanced budget requirement than a constitutional amendment.	***Inconsistent***
Spending and/or tax limitations	Labor Unions	Yes	Labor unions are more likely to oppose measures that impose limitations on spending.	Consistent
	Groups representing the poor	Yes	Groups representing the poor are more likely to oppose measures that impose limitations on spending.	Consistent
	Businesses (in general)	Yes	Businesses in general are more likely to support measures impose spending and/or tax limitations.	Consistent
			Businesses in general are more likely to support measures that impose limitations on social spending.	Consistent

Spending and/or tax limitations (continued)	Banking, housing, and insurance industries	Yes	Banking, housing, and insurance industries are more likely to be receptive to tax increases to reduce budget deficits.	***Inconsistent***
"Zero-base budgeting"	Labor Unions	***Missing***	Labor unions are more likely to oppose ZZB.	***Inconclusive***
	Groups representing the poor	***Missing***	Groups representing the poor are more likely to oppose ZZB.	***Inconclusive***
	Businesses	Yes	Businesses are more likely to endorse ZZB.	Consistent
Multi-year budgeting	Labor Unions	Yes	Labor unions are more likely to support multi-year budgeting.	Consistent
	Groups representing the poor	Yes	Groups representing the poor are more likely to support multi-year budgeting.	Consistent
	Businesses	Yes	Businesses are more likely to oppose multi-year budgeting.	***Inconsistent***
Resolution and Reconciliation	Labor Unions	Yes	Labor unions are more likely to oppose making the first resolution binding, and attaching reconciliation instructions to the first resolution.	Consistent
	Groups representing the poor	Yes	Groups representing the poor are more likely to oppose making the first resolution binding, and attaching reconciliation instructions to the first resolution.	Consistent
	Businesses	Yes	Businesses are more likely to support making the first resolution binding, and attaching reconciliation instructions to the first resolution.	Consistent
Interbranch relations	Labor Unions	Yes	Labor unions are more likely to oppose measures that enhance the President's role in deficit-reduction.	Consistent
	Groups representing the poor	Yes	The poor are more likely to oppose measures that enhance the President's role in deficit-reduction.	Consistent

Interbranch relations (continued)	Businesses	Yes	Businesses are more likely to support measures that enhance the President's role in deficit-reduction.	***Inconsistent***
Tax Expenditures	Labor Unions	Yes	Labor unions are likely to support measures subjecting tax expenditures to the budget process.	Consistent
	Groups representing the poor	Yes	Groups representing the poor are likely to support measures subjecting tax expenditures to the budget process.	Consistent
	Businesses (in general)	Yes	Businesses in general are likely to oppose measures subjecting tax expenditures to the budget process	Consistent
	Small businesses, high-tech and labor intensive sectors	Yes	Small businesses, high-tech and labor intensive sectors are more receptive to measures subjecting tax expenditures to the budget process.	Consistent*
Loans and loan guarantees	Labor Unions	Yes	Labor unions are likely to oppose limiting government credit activities.	***Inconsistent***
	Groups representing the poor	Yes	Groups representing the poor are likely to oppose limiting government credit activities.	***Inconsistent***
	Businesses	Yes	Businesses are likely to support limiting government credit activities.	***Inconsistent***
Public enterprises	Labor Unions	Yes	Labor unions are less likely to support measures that return off-budget public enterprises back on the budget.	***Inconsistent***
	Groups representing the poor	Yes	Labor unions are less likely to support measures that return off-budget public enterprises back on the budget.	***Inconsistent***
	Businesses	Yes	Businesses are more likely to support measures that return off-budget public enterprises back on the budget.	Consistent

Trust Funds	Labor Unions	Yes	Labor unions are more likely to support moving trust funds off the budget.	Consistent
	Groups representing the poor	Yes	Groups representing the poor are more likely to support moving trust funds off the budget.	Consistent
	Businesses	Yes	Business are more likely to oppose moving trust funds off the budget.	Consistent
Capital Budgeting	Labor Unions	Yes	Labor unions are more likely to endorse capital budgeting.	Consistent
	Groups representing the poor	Yes	Groups representing the poor are more likely to endorse capital budgeting.	Consistent
	Businesses	Yes	Businesses are more likely to oppose capital budgeting.	Consistent
Budget Timetable	None of the groups	None	None	Consistent

When it comes to the issues of "budget treatment of tax expenditures", "budget status of trust funds", "capital budgeting", I have not only found evidence suggesting that labor unions, anti-poverty groups, and business interests have stakes in these issues, but I have also correctly predicted the directions of these groups' preferences. As I indicated in **Table 3-1**, these three issues are all linked to how certain programs and portions of the federal budget should be treated and controlled. Through maneuvering how programs are treated in the federal budget (most often, by moving programs off the budget or returning the previously excluded programs onto the budget), legislators could make certain programs more or less vulnerable to future cutbacks or termination. Outside groups clearly understood this. As the return of massive peacetime deficits began to require explicit recognition of who would pay for the additional amount either through receiving fewer benefits or paying higher taxes, the clashes between groups over securing the favorable budget status of their preferred programs and policies heightened.

Labor unions and anti-poverty groups insisted that tax deductions, exclusions, credits and exemptions – various types of tax expenditures that "serve to redirect resources to particular sectors, groups or activities"[2], are costly and inequitable, and "pushing the federal deficit higher and higher."[3] They complained that "the public is made aware on numerous occasions of the cost of programs that benefit people, such as food stamps, public assistance, CETA, but there is very little publicity that is given to how much revenue is lost by way of tax credits, exemptions, deductions, et. cetera."[4]

On the other hand, representatives affiliated with the business community tended to be extremely protective of the off-budget status of tax expenditures, though not all business sectors were in favor of excluding tax expenditures from the budget process as I elaborate later in this chapter. Downplaying the fact that they were the major beneficiaries of these tax law benefits,[5] business representatives claimed that subjecting tax expenditures to the similar review like other direct spending programs would "increase the uncertainty in the Tax Code," and ultimately it would hurt business and capital formation.[6]

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[2] U.S. Congress, House, Committee on Rules, *H.R. 4882, to Amend the Congressional Budget Act of 1974*, 97th Cong., 1st sess., 1981 (statement of Ray Denison, director, Department of Legislation, AFL-CIO), 187.

[3] U.S. Congress, House, Committee on the Judiciary, *Constitutional Amendments Seeking to Balance the Budget and Limit Federal Spending*, 97th Cong., 1st and 2nd sess., 1982 (statement of Althea Simmons, director, Washington Bureau, NAACP), 648.

[4] U.S. Congress, House, Committee on Rules, *Sunset, Sunrise, and Related Measures*, 96th Cong., 1st sess., 1980 (statement of Althea Simmons, director, Washington Bureau, NAACP), 479.

[5] Business Roundtable, for example, claimed that "the major 'beneficiaries' of 'tax expenditures' are… the typical hard-pressed middle- and lower-income taxpayers." U.S. Congress, House, Committee on Rules, *Federal Spending Limitation Proposals*, 96th Cong., 2nd sess., 1980 (statement of Theodore F. Brophy, chairman and CEO of General Electronics on behalf of The Business Roundtable), 357.

[6] U.S. Congress, House, Committee on Rules, *H.R. 4882, to Amend the Congressional Budget Act of 1974*, 97th Cong., 1st sess., 1981 (statement of Richard W. Rahn, vice president and chief economist, U.S. Chamber of Commerce), 318.

As politicians aspiring to bring about "change" must first confront the deficit, the politics of national policymaking shifted attention away from the merits and limitations of individual programs to the broader, more abstracts arguments about the appropriate scope of government in allocating economic resources.[7] The debate around the budget status of federal trust funds (the Social Security Trust Fund and the Highway Trust Fund being the ones most often discussed during this period) illustrates this point.

Business interests tended to claim that these programs which ate up a large portion of the federal budget were extremely costly and inefficient. They held the opinion that,

> "Possibly if the Social Security System had never been established, private pension plans would have grown faster and larger, workers would have saved more through private channels during their working years and therefore their retirement income from sources other than Social Security would be higher than it is today."[8]

In the eyes of businesses', trust funds are the epitome of the federal government's fiscal irresponsibility. In his criticism of the Social Security Trust Fund, William Niskanen serving as the chief economist at Ford Motor Co. contended that,

> "These trust funds create an illusion of fiscal integrity by accounting mirrors, and any fiscal rule that excluded these funds would divert the pressure for increased government spending into increasing the level and scope of these trust funds." [9]

Labor unions and anti-poverty groups, on the other hand, pointed out that every year "prompted, perhaps compelled, by the economics of the federal deficit, we are literally sorting through the roles and the responsibilities of the federal government, and we are choosing the

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[7] Pierson, "The Deficits and the Politics of Domestic Reform".

[8] U.S. Congress, Senate, Committee on Government Operations, *Government Economy and Spending Reform Act of 1976*, 94th Cong., 2nd sess., 1976 (statement of Richard L. Lesher, president, U.S. Chamber of Commerce), 444.

[9] U.S. Congress, Senate, Committee on the Judiciary, *Balancing the Budget*, 94th Cong., 1st sess., 1975 (statement of William Niskanen, chief economist, Ford Motor Co.), 70.

government we want program by program, policy by policy." Social Security must be set aside from this perennial political debate because it is a promise to the American people, and there is no argument that Americans deserve the benefits they have earned that are set by law.[10] In addition to invoking the notion that Social Security representing the federal government's prior commitment should be insulated from political tides, unions and groups representing the poor also tended to emphasize the accomplishments of Social Security Trust Fund in reducing poverty and ensuring people's economic security.[11]

The fact that I have found groups with different economic orientations and fiscal preferences indeed diverged in their endorsements of proposals that modify the rules of the congressional budget process is a significant blow to studies that conceive of changes to formal rules and structures of political institutions as completely benign.

Additionally, I have also successfully predicted that groups' divergence would not happen on the issue of "budget timetable"— an issue that has more to the internal workings of Congress and less to do with government's role in the economy or its fiscal policies. During the time period studied, this issue was centered on how to coordinate the budget, authorizing, and appropriations committees so as to accelerate the pace of Congress' legislative activity.

In stark contrast to the "budget timetable", the issue of "budget resolutions and reconciliation" generated heated discussion between labor unions and anti-poverty groups on one side, and business interests on the other. Appearing to be simple procedural matters, budget

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[10] U.S. Congress, House, Committee on Budget, *Back to Basics: Social Security Off-Budget and Independent*, 99th Cong., 1st sess., 1985 (statement of John Harris, assistant to president, American Federation of Government Employees), 16.

[11] e.g. U.S. Congress, House, Committee on Rules, *Sunset, Sunrise, and Related Measures*, 96th Cong., 1st sess., 1980 (statement of Kenneth Young, director, Department of Legislation, AFL-CIO); U.S. Congress, House, Committee on the Judiciary, *Constitutional Amendments Seeking to Balance the Budget and Limit Federal Spending*, 97th Cong., 1st and 2nd sess., 1982 (statement of Gerald W. McEntee, international president, AFSCME).

resolutions and reconciliation are the major mechanisms through which Congress enforce its budget decisions. As deficits ascended as a symbol of politicians' spendthrift behaviors, members of Congress increasingly preferred procedural mechanisms that could bundle unpopular legislations and decisions such as spending cuts in a single vote as voting on these bills individually was politically unappealing. Budget resolutions and reconciliation provided just such procedural devices.

Not long after the passage of the Congressional Budget Act, Congress began to drop the second resolution – which was mandatory under the CBA – and attach the reconciliation instructions to the first resolution. By doing so, according to the expert analyses written during the same period, Congress was able to enact spending reductions and make changes to the existing laws quite easily. Reconciliation, these experts pointed out, had been attached undue importance (which was unanticipated when the CBA was conceived) in becoming an effective device to facilitate changes and cost savings in entitlement and other spending programs.[12]

Consistent with my expectation, business interests welcomed with great enthusiasm proposals that would make official the practices of making the first budget resolution binding and eliminating the mandatory second budget resolution. Chamber of Commerce, which ranked "reconciliation" and "resolutions" as one of the five most important issues in the budget process reform,[13] asserted that,

> "The mandatory Second Budget Resolution now written into law has proven with experience to be largely duplicative, too time consuming and logistically unworkable."[14]

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[12] See Congressional Research Service, Library of Congress, "An Introduction to the Spending and Budget Process in Congress" and "Issue Brief: The Budget Process in Congress".

[13] Three other top issues include multi-year budgeting, credit budget, and off-budget spending. See U.S. Congress, House, Committee on Rules, *Congressional Budget Process*, 98th Cong., 1st sess., 1983 (statement of James A. Clifton, director, federal budget policy, U.S. Chamber of Commerce), 74.

[14] Ibid., 77.

Recognizing the convenience and effectiveness of reconciliation in enforcing spending cuts, the Chamber further recommended,

> "Strengthening the reconciliation process by formally expanding its scope to include all direct spending programs, not just new direct spending programs."[15]

Labor unions and anti-poverty groups, on the other hand, opposed dropping the second resolution and attaching reconciliation to the first resolution as they believed that,

> "the concept that beginning the annual Congressional Budget Process with a vote on aggregate totals for deficit and spending is a strategy for containing federal spending without regard for individual program worthiness."[16]

The controversy around the issue of "budget resolutions and reconciliation" and the indifference toward the "budget timetable" shared by groups with different economic interests show rules and structures that have profound impact on the policy-making process and the distribution of outcomes are more likely to invite the influence from outside interests eager to shape rules and structures to their likings.

In addition to the aforementioned four issues where I have correctly predicted that business interests would diverge from labor unions and groups representing the poor in their favorite reform solutions, on the issues of "balancing the budget" and "spending and/or tax limitations", the hearing testimonies and written statements I collected have also confirmed my expectations that the business community *in general* differ from unions and anti-poverty groups in their views towards deficit-reduction measures, though compelling evidence pointing to the division

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[15] Ibid.

[16] U.S. Congress, House, Committee on Rules, *Federal Spending Limitation Proposals*, 96th Cong., 2nd sess., 1980 (statement of Dr. Rudolph Oswald, director, department of research, AFL-CIO), 397.

between banking, housing and insurance industries and other industries did not emerge as I hoped.

With a 71% rate of success, the theories and predictions that I proposed are hit-and-miss on the issues of “zero-base budgeting”, “multi-year budgeting”, “interbranch relations”, and “budget status of public enterprises”.

Though I have found evidence to be consistent with my hypothesis that businesses are more likely to endorse the implementation of “zero-base budgeting”, it failed to demonstrate that labor unions and anti-poverty groups are vested in the same issue. Following the rule that I proposed in the “Data and Methods Chapter” regarding how to deal with missing observations, I deem the outcome of hypothesis testing in these two cases inconclusive.

Though I have successfully predicted the directions that their preferences would go for either businesses or their competing groups for the rest of the three issues, “multi-year budgeting”, “interbranch relations”, and “budget status of public enterprises”, I was not able to establish that the expected divergences of preferences between businesses on one side, and unions and anti-poverty groups on the other, did take place.

On only one issue (out of twelve issues on the reform agenda), “budget status of loans and loan guarantees”, all my hypotheses regarding groups’ preferences failed.

I devote the rest of the section to discuss how I interpret the instances where evidence deviates from my predictions. For each of the reform issues where evidence does not corroborate my expectations, I will first provide a brief review of what the issue is about, and what the central conflict is which I expect to drive groups with different underlining preferences apart.[17] I

[17] For a more detailed discussion, refer to **Table 3-1**.

will then point out where the deviations happen, and discuss possible explanations for why groups' articulated preferences did not appear to reflect their underlining fiscal policy preferences. In exploring possible explanations, I am particularly mindful of the fact (discussed extensively in previous chapters) that hearings and other public statements permit strategic behaviors of outside groups and individuals. Groups' preferences articulated at hearings, in particular, are also *induced* by a multitude of factors that are oftentimes within the control of committees that organize hearings. These factors include who else is testifying at the same hearing, how much time is allocated to each witness, the order of witness testimonies, and what gets to be discussed. In searching for why deviations happened, I look for the presence of such factors that might lead groups to act in ways that defied their self-interest.

Balancing the budget & tax and spending limitation

I originally conceived "balancing the budget" and "tax and/or spending limitations" to be two separate issues on the agenda of congressional budget process reforms, as the former can be implemented without the latter. However, what I have found while analyzing hearing testimonies and legislative proposals is that these two issues were often addressed simultaneously. Whenever a balanced budget proposal was discussed, measures to either limit spending or limit tax increases (or a combination of the two) were often thrown into the mix as well. The fact that these two issues were oftentimes conflated is not without significance. For the majority of the advocates of a balanced budget, their biggest fear was that to reduce deficits and achieve a balanced budget, Congress and the President would allow taxes to increase so as to compensate for what they saw as the "excessive" spending.

Supporters of a balanced budget requirement usually upheld the view that Congress could not resist the temptation to tax and spend as it has an innate and systemic bias towards excessive taxes and spending.[18] The congressional budget process established by the Congressional Budget Act of 1974, according to them, notwithstanding enhancing budgetary control through tying expenditure to revenue decisions, was not fully equipped to curb persistent deficits. Congress, therefore, should seek a stronger form of control, either through having an explicit balanced budget requirement in the CBA, or stronger yet, imposing a constitutional amendment of a balanced budget. The benefit of the statutory approach is that it would be more flexible than a constitutional amendment, since the law could be modified more easily by enacting amendments to adapt to changing circumstances. Besides, a statutory requirement could become effective quickly, as opposed to a constitutional amendment which would take a lengthy period of time to be ratified. However, critics of the statutory approach contended that the very flexibility afforded by the statutory approach destroys its teeth and utility as Congress can always waive or reject the rules of a previous Congress, or can overturn a statute. A constitutional amendment, unlike a statute or rule, can only be overturned by another constitutional amendment. This binding feature is the only means to ensure the much desired balanced budgets.[19]

Among all the issues on the reform agenda that seeks to modify congressional budget rules, “balancing the budget” is perhaps the one that is the most controversial and arouses the most

[18] For a serious scholarly treatment of the institutional origin of budget deficits, refer to works affiliated with the Virginia School of Public Choice scholars such as James Buchanan and Gordon Tullock. See James M. Buchanan, Charles K. Rowley, and Robert D. Tollison, eds., *Deficits* (New York: Basil Blackwell, 1987). A closer reading of hearing testimonies often reveals remarkable similarities between the language used by advocates of a balanced budget and those used by scholars of the Virginia School.

[19] For a detailed review of statutory and constitutional approaches to a balanced budget, and problems raised from implementing these two approaches, refer to Congressional Research Service, Library of Congress, "Congress and a Balanced Budget Amendment to the U.S. Constitution."

responses from outside groups and individuals. During the period my project is set against, a total of 13 hearings (that is 18% of all the hearings selected for this project) touch upon this issue, with 31 different organizations/groups expressing their views. Business interests, in particular, are represented by a large array of firms and organizations. Not only do peak associations such as the Chamber of Commerce and the National Association of Manufacturers frequently have their witnesses testify and issue statements, representatives from small and locally-based organizations and firms also flock to Congress eager to have their views to be heard.

One of the many factors that contribute to the high saliency of balancing the budget is that many states have in their state constitutions a balanced budget requirement.[20] And when a policy or rule initiative is considered at the federal level, the experiences of states that have implemented similar measures are considered by members of Congress as valuable.[21] The business community clearly understands this point. During this period, we see local businesses and associations from states such as South Carolina and Arizona[22] come and testify. In their testimonies, these local business community representatives usually explain how under the constitutional requirements of a balance budget their states are able to maintain an environment favorable to businesses.

In comparison to the diversity seen in the business community vocalizing their positions on the issue of balancing the budget, the engagement of labor unions and groups representing the

[20] A report issued by the Government Accountability Office in 1985 points out that 49 states have balanced budget requirements with 44 states having constitutionally based requirements and another 5 states having statutorily based requirements. See U.S. Government Accountability Office, "Budget Issues: State Balanced Budget Practices," GAO/AFMD-86-22BR (Washington, D.C. 1985).

[21] Refer to literature on bottom-up Federalism and policy diffusion.

[22] South Carolina operates under a state constitutional requirement of balanced budget since 1895. Arizona enacted a constitutional spending limitation in 1979.

poor on the same issue is almost entirely confined to the leading national organizations in their respective advocacy networks. Even with organizations such as AFL-CIO and NAACP that boast local chapters and branches nationwide, they appear to make no efforts matching those of the business community to incorporate a more localized perspective to their testimonies. It is perhaps worth exploring in the future research which type of testimonies lend more credence to the legislative debate at hand – the ones given by national organizations providing an all-encompassing perspective or the ones given by organizations and individuals that approach the same issue from more localized angles. Speaking from my experience of working at a national advocacy organization that coordinates a network of state and local partners, one of the key strategies of effective lobbying employed by seasoned policy advocates, is to demonstrate to legislators that the policy proposals have localized effects on the lives of those legislators' own constituencies.

The differences in styles and strategies of participation at hearings between business interests and their competitors are only superficial once we get to see the fundamental differences underlining how businesses vis-à-vis unions and anti-poverty groups conceive of, and frame the issue of balancing the budget. Do the budget deficits actually pose a problem that warrants any actions? How severe are they? Who or what is responsible for persistent budget deficits? As I will show later, on almost every single one of these questions, the opinions and beliefs held by businesses are drastically different those of labor unions and anti-poverty groups.

Consistent with my expectation, labor unions and groups representing the poor consistently oppose any measure, be it statutory or constitutional, that requires a balanced budget annually (See **Table 5-1**). Additionally, these groups in general hold unfavorable opinions toward enacting limitations on spending, although not all groups are explicit about whether defense spending should be treated differently than social spending. Only four organizations (which constitute 30% of all the labor unions and anti-poverty groups testifying), the United Automobile Workers, International Association of Machinists and Aerospace Workers, the National Urban League, and the National Education Association, make pleas for reducing defense spending at hearings.[23]

Although business interests are more concerted in their demand for a balanced federal budget than labor unions and anti-poverty groups, when it comes to what the best means of implementation of a balanced budget requirement is, whether through amending the Congressional Budget Act, or amending the Constitution, differences exist within the business community. But these differences appear to have dissipated over time.

Before 1982, only 58% of the business representatives testifying at hearings or submitting statements for the record said they preferred a constitutional amendment for a balanced budget, but by 1987, 83% said they approved of such a measure. The convergence of opinions within the business community was largely attributed to the dissipation of widely-shared concern that a constitutional amendment is politically infeasible and impossible to ratify in light of the fast-growing movements in states calling for a constitutional convention to consider a balanced budget amendment. To illustrate, let us take a look at the evolution of positions taken by the Chamber of Commerce. Among all the hearing testimonies and statements that I analyzed, the Chamber did not express their firm conviction that a constitutional amendment is the best means of implementation until 1984. Before 1984, though the Chamber's representatives never openly

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[23] U.S. Congress, House, Committee on Rules, *Federal Spending Limitation Proposals*, 96th Cong., 2nd sess., 1980; U.S. Congress, Senate, Committee on the Judiciary, *Proposed Balanced Budget/Tax Limitation Constitutional Amendment*, 98th Cong., 1st and 2nd sess., 1984 (statement of Linda Tarr-Whelan, director, government relations, National Education Association).

questioned the desirability of a constitutional amendment, they remain convinced that a statutory balanced budget requirement would yield the quickest results. Up till this time, the Chamber's official stand had always been that a statutory limitation followed by a constitutional limitation would combine quick results with long-term benefits.[24] Starting from a letter addressing the Senate Judiciary Committee in March 1984, we begin to observe a visible shift in the Chamber's position. In this letter, the Vice President and Chief Economist Richard Rahn contends that past statutory attempts to curb growth of budget deficits and expenditures all failed, and that a new set of fiscal norms and a stronger mechanism needs to be firmly established through a balanced budget/tax limitation constitutional amendment.[25]

The growing confidence in the feasibility of a constitutional amendment evident in businesses' testimonies and statements proves unlikely that banking, housing, and insurance industries would diverge from the rest of the business community in favoring a statutory requirement rather than a constitutional one (see **Table 3-1**). On the ground that these industries with their rabid fear of inflation and high interest rates would prefer to see measures that require a balanced budget implemented immediately, I expected that banking, housing, and insurance industries would be more likely to favor a statutory requirement. However, what I have found is that these industries eventually come around from opposing "any proposal to include in our

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[24] See statements of U.S. Chamber of Commerce in U.S. Congress, House, Committee on Rules, *Federal Spending Limitation Proposals*, 96th Cong., 2nd sess., 1980; U.S. Congress, House, Committee on the Judiciary, *Constitutional Amendments to Balance the Federal Budget*, 96th Cong., 1st and 2nd sess., 1980; U.S. Congress, Senate, Committee on the Judiciary, *Proposed Constitutional Amendment to Balanced the Federal Budget*, 96th Cong., 1st sess., 1980.

[25] U.S. Congress, Senate, Committee on the Judiciary, *Proposed Balanced Budget/Tax Limitation Constitutional Amendment*, 98th Cong., 1st and 2nd sess., 1984 (statement of Dr. Richard W. Rahn, vice president and chief economist, U.S. Chamber of Commerce), 217-2. See also U.S. Congress, Joint Economic Committee, *The Balanced Budget Amendment*, 98th Cong., 2nd sess., 1985 (comment of Richard W. Rahn, vice president and chief economist, U.S. Chamber of Commerce), 94.

Constitution a requirement that the federal budget be balanced"[26] to make the enactment of the balanced budget amendment a priority goal for themselves.[27]

It is worth pausing here to discuss what precipitated the convergence of support for a constitutional amendment within the business community. Remember the Article V of the Constitution describes two routes whereby a constitutional amendment can be proposed.[28] Amendments may be proposed either by the Congress with a two-thirds vote in both the House and the Senate, or by a convention of states called for by two-thirds of the state legislatures. During the late 1970s and early 1980s, although progress of introducing a constitutional amendment for a balanced budget is slow using the congressionally-initiated route[29], nationwide campaigns pushing states to call a constitutional convention were gathering momentum. By 1984, 32 of the required 34 states had already passed resolutions requesting a constitutional convention, and another 4 states have adopted resolutions requesting that Congress propose a deficit spending amendment, but have not themselves asked for a constitutional convention to do so.[30] It is very likely that this course of events emboldened and eventually convinced many people in the business community that a constitutional amendment for a balanced budget is not unattainable.[31]

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[26] U.S. Congress, Senate, Committee on the Judiciary, *Proposed Constitutional Amendment to Balance the Federal Budget*, 96th Cong., 1st sess., 1980 (statement of Richard W. Everett, vice president, Chase Manhattan Bank), 337.
[27] U.S. Congress, Joint Economic Committee, *The Balanced Budget Amendment*, 98th Cong., 2nd sess., 1985 (statement of Thomas D. Thomson, member, economic advisory committee, American Bankers Association), 80.
[28] Note that I am talking about proposing a constitutional amendment alone here. Amending the Constitution consists of both proposing an amendment and subsequent ratification. There are in total four ways in which the Constitution can amended.
[29] During the time period that my study is set against, 99. S.J.Res.225 is the only proposal of its kind that has gone the farthest in the congressionally-initiated process of proposing an amendment. It was able to reach the Senate floor for a vote, but was defeated despite a majority in favor, 66-34.
[30] For a list of states that had petitioned Congress for a balanced budget amendment, see Congressional Research Service, Library of Congress, "Congress and a Balanced Budget Amendment to the U.S. Constitution", 13.
[31] It is likely, however, that the causality between the momentum gained for campaigns demanding a constitutional convention and an increasingly emboldened and convinced business community is messy in reality as the leading

As I indicated earlier, advocates of a balanced budget requirement oftentimes demand spending limits or tax revenue limits, or a combination of both be added to the proposal as well. Consistent with my expectation, there exists a consensus among all the businesses testifying at hearings or submitting opinions through written materials that spending limits must be imposed in addition to a balanced budget requirement. Meanwhile, on whether tax limits should be imposed as well, or whether taxes should be allowed to increase to compensate for unbalanced budgets, there exist differences of opinions within the business community. However, the division does not appear to be visible between industries that are averse to budget deficits and those sensitive to additional tax burdens as I expected.

Recall I argued earlier that banking, housing, and insurance industries due to their rabid fear of devaluation and budget deficits that threaten the stability of currency would be more receptive to raising taxes to reduce deficits. This is likely to bring direct conflict of these industries with small businesses and high-tech, labor intensive sectors that care less about monetary stability but try to avoid additional tax burdens at all cost. And I suspect the conflict is likely to be particularly pronounced after the Reagan tax cuts went into effect in 1981 as the business community began to acknowledge that some kind of tax increase would be necessary.[32]

What I have found is that only four out of all the thirty statements made by business representatives on balancing the budget contain explicit concessions to tax increases. These four statements are made by the Council of State Chambers[33] and Ford Motor Co. in 1975, the

grassroots organizations of these campaigns such as the National Taxpayers Union have deep business connections as I reviewed earlier.

[32] Mizruchi, *The Fracturing of the American Corporate Elite.*

[33] There is evidence suggesting the Council of State Chambers (COSC) is an arm of the Chamber of Commerce that helps the top lobbyists for state chambers of commerce get on message about the national political agenda of the U.S. Chamber. Thus I coded the COSC's witness as a witness affiliated with the Chamber. See Calvin Sloan,

American Bankers Association and the National Association of Manufacturers in 1984. Among these four organizations, the ABA is the only representative of the banking, housing, and insurance industries. Not only do banking, housing, and insurance industries only rarely voice their support for tax increases, some of the representatives from these industries are quite determined in their rejection of any tax increases.[34] This position brings them in close alliance with small businesses, high-tech and labor-intensive sectors whose representatives uniformly oppose any kind of tax increases at the hearings and in the statements that I analyzed.

The lack of visible division between banking, housing, and insurance industries on one side, and other industrial sectors on the other side regarding whether tax increases can be tolerated to reduce the deficits probably can be attributed to the nature of these hearings that are centered on changes to budget rules rather than on specific policy questions such as what tax options (e.g. personal income tax, corporate income tax, capital gains tax) need to be considered for deficit reduction. I have found business representatives rarely use these hearings to express or defend their more nuanced preferences for tax options despite the evidence presented by other scholars that the question of who is going to pay the increased taxes created great conflicts between financial and nonfinancial businesses after it became clear some kind of tax increase would be necessary.[35]

Up till this point, I have used considerable amount of evidence to show that the issue of balancing the budget as well as the discussion of solutions to unbalanced budgets brings business interests in direct conflict with labor unions and groups representing the poor. This conflict, as I

"Unmasking the Chamber of Commerce Networks," *PR Watch* (April 5, 2016), Accessed on November 9, 2018, https://bit.ly/2PPSee7.

[34] e.g. U.S. Congress, Senate, Committee on the Judiciary, *Balancing the Budget*, 97th Cong., 1st sess., 1982 (statement of Paul Jones, senior vice president, Valley National Bank).

[35] Mizruchi, *The Fracturing of the American Corporate Elite*; Martin, *Shifting the Burden.*

said earlier, is mobilized by opposing sides that offer drastically different interpretations of the persistent budget deficits. By making claims about whether budget deficits pose a problem, how severe they are, and finally, who and what are responsible for deficits, businesses and their competitors seek to validate and invalidate the necessity for a balanced budget requirement. In the following paragraphs, I review some of the claims advanced by business interests to stoke fears about the budget deficits.

1. A "fiscal crisis"

We know that to capture the attention of public officials and the media, labels implying a strong sense of exigency such as "crisis" or "disaster" are often applied by groups with stakes in a certain problem to describe dire consequences if actions are not taken. As my evidence indicates, the business community was consistently stirring up the scare of budget deficits throughout the period I am studying. Furthermore, their efforts reach a visibly more concerted level after 1982 when budget deficits reached triple digits for the very first time (see **Table 5-2**). Prior to 1982, when business representatives talk about unbalanced budgets either in their testimonies or submitted materials, only 18% of the times do they describe the budget deficits as an urgent matter. However entering 1982, this percentage reaches 42%. From claiming "we are reaching a crisis point"[36] to deeming the huge present and projected federal deficits as "a clear

[36] U.S. Congress, Senate, Committee on the Judiciary, *Proposed Constitutional Amendment to Balance the Federal Budget*, 96th Cong., 1st sess., 1980 (statement of Jay Van Andel, chairman of the board, U.S. Chamber of Commerce), 300.

and present danger" to the economy[37], utilization of this type of rhetoric is common within the business community.

Table 5-2 Budget Deficit and GNP (FY1965 – 1987)

Fiscal Year	Budget deficit (in billions of dollars)	GNP	% deficit of GNP
1965	-1.6	695.5	0.2
1966	-3.8	724.1	0.5
1967	-8.7	777.3	1.1
1968	-25.2	831.3	3.0
1969	+3.2	910.6	-
1970	-2.8	968.8	0.3
1971	-23.0	1,031.5	2.2
1972	-23.4	1,128.8	2.1
1973	-14.8	1,252.0	1.9
1974	-4.7	1,379.4	0.3
1975	-45.1	1,479.9	3.0
1976	-66.4	1,640.1	4.0
1977	-57.9	1,951.7	3.0
1978	-48.6	2,091.3	2.3
1979	-27.7	2,357.7	1.2
1980	-59.6	2,575.8	2.3
1981	-57.9	2,885.9	2.0
1982	-110.6	3,069.3	3.6
1983	-195.4	3,401.6	5.7
1984	-175.3	3,774.7	4.6
1985	-211.9	3998.1	5.3
1986	-221.1	4235.0	5.2
1987	-149.7	4526.7	3.3

Sources: U.S. Bureau of Economic Analysis, *Survey of Current Business*. 1921 – 2014. https://fraser.stlouisfed.org/title/46 , accessed on March 4, 2019.

Labor unions and groups representing the poor, on the other hand, are vocal in their rejection of businesses' characterization of the fiscal situation. The remark made by Rudolph Oswald, director of department of research at AFL-CIO that "the large and continuing deficits in the

[37] U.S. Congress, Senate, Committee on the Judiciary, *Proposed Balanced Budget/Tax Limitation Constitutional Amendment*, 98th Cong., 1st and 2nd sess., 1984 (statement of the National Association of Wholesaler-Distributor), 289.

Federal budget are a matter of concern"[38] is the only instance among all the testimonies and statements I examine that a union and anti-poverty group representative gives a perfunctory nod towards the issue of budget deficits. Immediately after making this remark, Oswald doubles down on AFL-CIO's official position that forcing Congress to abide by arbitrary statutory and constitutional constraints are "blueprints for economic instability and social callousness."[39] To further defuse the sense of unprecedentedness fueled by only fixating at the digits of deficits, labor unions and anti-poverty groups tend to rely on different sets of measurements to capture the trends of budget deficits. They draw people's attention to the fact while deficits grew in size and increased in frequency, deficit spending as a proportion of the GNP remained at a somewhat constant level (see **Table 5-2**).[40] Meanwhile, citing the experiences of some other industrial countries like Germany and Japan, where deficits as a percent of their GNPs are four to six times as large as the U.S., unions and anti-poverty groups are trying to refute any argument that the budget deficits are anomalies.[41]

When it comes to budget deficits, the perception of whether a problem exists and actions are warranted not only depends on the measurements that people use to understand the reality and predict future trends, it also depends on how people choose to interpret experiences of the past

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[38] U.S. Congress, House, Committee on Rules, *Federal Spending Limitation Proposals*, 96th Cong., 2nd sess., 1980 (statement of Rudolph Oswald, director, department of research, AFL-CIO), 389.
[39] Ibid.
[40] Besides criticizing the contemporary debate which rarely tried to put the budget deficits into perspective, in the early 1980s, economists began extensively and directly questioned the adequacy of cash-flow budget deficit as an economic measure. For instance, Robert Eisner proposed to take into account that inflation distorts the growth of deficit spending and has significant impact on the value of outstanding government debt. When the deficits from FY1965 through FY1984 are adjusted for inflation, then much of the current dollar increase in deficit spending was less substantial than the unadjusted figures suggest. By the early 1990s, most economists agreed the budget deficit is deeply flawed as an economic measure. For a thorough review of the deficit debate spanning from the 1970s to the late 1990s, see Chapter 4 "The Modern Deficit Debate" in Daniel N. Shaviro, *Do Deficits Matter?* (Chicago: University of Chicago Press, 1997).
[41] U.S. Congress, House, Committee on the Judiciary, *Constitutional Amendments Seeking to Balance the Budget and Limit Federal Spending*, 97th Cong., 1st and 2nd sess., 1982 (material titled "Constitution and Economy in Jeopardy" submitted by the American Federation of State and Municipal Employees), 405-427.

four decades when deficits were tolerated. The business community in general seeks to revive budget deficits as an evocative symbol of government corruption and asserts that a balanced budget is a fundamental American value. Citing the Framers and the Presidents in the early 19th century such as Thomas Jefferson, John Adams, James Monroe and their repulsion for public debt, these business representatives argued that a balanced budget is part of America's "unwritten constitution", and that deficit financing during the post-depression era is just an aberration in U.S. history.[42] By defining a balanced budget as an unwritten principle embodied in the Constitution, it is only logical to enact a constitutional amendment to restore it to its rightful place.

By comparison, labor unions and groups representing the poor consistently reject a balanced budget as a time-tested truth or principle. Staunchly defending Keynesian deficit-financing, these groups argue budget deficits give Congress the flexibility to deal with boom-and-busts cycles. In a statement submitted to the House Judiciary Committee, NAACP's Washington Bureau director Althea Simmons writes,

> "That balanced budgets are viewed by some today as the manna to solve our economic woes does not mean that view will not change to that of past administrators and economists that budget deficits are indeed beneficial to stimulate economic growth in certain circumstances. The Constitution should not embody a specific budgetary approach which might be popular today but prove inappropriate in later years."[43]

The strongest dismissal of deficits and unbalanced budgets by these groups that I have come across in all the testimonies and statements comes from the American Federation of

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[42] See U.S. Congress, Senate, Committee on the Judiciary, *Proposed Balanced Budget/Tax Limitation Constitutional Amendment*, 98th Cong., 1st and 2nd sess., 1984 (material submitted by AFL-CIO), 217.

[43] U.S. Congress, House, Committee on the Judiciary, *Constitutional Amendments Seeking to Balance the Budget and Limit Federal Spending*, 97th Cong., 1st and 2nd sess., 1982 (statement of Althea Simmons, director, Washington Bureau, NAACP), 648.

State, County, and Municipal Employees that "much of the 'deficit' is merely an artifact of the federal Government's accounting practices."[44] This widely shared cynicism and skepticism about proposals to balance the budget reflects unions' and anti-poverty groups' deep concern that budget deficits are only a sham for slashing social spending.

2. "It's the process, stupid!"

When representatives from the business community speak about the causes of the deficit, 90% of the time they ascribe the persistent budget deficits to the reckless spending behaviors of the government.[45] However, their criticisms are by no means directed at individual members residing in Congress, as Thomas Thomson, representative of the American Bankers Association contends,

> "no one group or person is responsible for this sad record. All of the Presidents, Senators, and Congressmen who held office over that period are responsible. And the American people who elected them are responsible."[46]

Or as Nicholas Katzenbach, senior vice president and general counsel of IBM puts it,

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[44] U.S. Congress, House, Committee on the Judiciary, *Constitutional Amendments Seeking to Balance the Budget and Limit Federal Spending*, 97th Cong., 1st and 2nd sess., 1982 (material titled "Constitution and Economy in Jeopardy" submitted by the American Federation of State and Municipal Employees), 410.

[45] For instance, see U.S. Congress, House, Committee on Rules, *Federal Spending Limitation Proposals*, 96th Cong., 2nd sess., 1980 (statement of James D. McKevitt, director of federal legislation, National Federation of Independent Business); U.S. Congress, House, Committee on Rules, *Federal Spending Limitation Proposals*, 96th Cong., 2nd sess., 1980 (statement of Theodore F. Brophy, chairman and CEO, General Telephone and Electronics Corp.); U.S. Congress, House, Committee on the Judiciary, *Constitutional Amendments to Balance the Federal Budget*, 96th Cong., 1st and 2nd sess., 1980 (statement of Jay Van Andel, chairman, board of directors, U.S. Chamber of Commerce).

[46] U.S. Congress, Joint Economic Committee, *The Balanced Budget Amendment*, 98th Cong., 2nd sess., 1985 (statement of Thomas D. Thomson, member, economic advisory committee, American Bankers Association), 81.

> "our problems are not some lack of moral fibre on the part of elected representatives. Or some inadequacy on the part of voters who continue to elect persons who lack fiscal responsibility."[47]

Instead, the diagnosis of the persistent deficits, popular among many business representatives, is "a systemic bias" innate to the government with its bifurcated decision-making on spending and tax that leads to runaway spending and excessive taxation.[48] Furthermore, according to the same business representatives, the federal budget process established by the Congressional Budget Act of 1974 did little to correct this innate bias. The experience has shown that "the existing federal budget process cannot be depended upon to limit the growth of government"[49] as it contains serious defects. The problems of controlling the budget under the existing budget process, as asserted by William Niskanen serving as the chief economist at the Ford Motor Co. then, were a "consequence of the structure of the budget process" that did not provide incentives conducive to good budget decision-making.[50]

With the blame of persistent budget deficits cast by business interests upon the rules and process that govern budget decisions, it is only logical for them to demand institutional corrections and modifications to the Congressional Budget Act, or to go even further, to seek a more powerful form of control through the Constitution.

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[47] U.S. Congress, House, Committee on the Judiciary, *Constitutional Amendments Seeking to Balance the Budget and Limit Federal Spending*, 97th Cong., 1st and 2nd sess., 1983 (statement of Nicholas Katzenbach, senior vice president and general counsel, IBM), 372.
[48] U.S. Congress, Joint Economic Committee, *The Balanced Budget Amendment*, 99th Cong., 1st sess., 1986 (statement of Dr. Richard W. Rahn, vice president and chief economist, U.S. Chamber of Commerce), 91-93.
[49] U.S. Congress, House, Committee on Rules, *Federal Spending Limitation Proposals*, 96th Cong., 2nd sess., 1980 (statement of Theodore F. Brophy, chairman and CEO of General Electronics on behalf of The Business Roundtable), 350.
[50] U.S. Congress, Senate, Committee on the Judiciary, *Balancing the Budget*, 94th Cong., 1st sess., 1975 (statement of William Niskanen, chief economist, Ford Motor Co.), 69.

Similar to the stark differences observed between businesses and their competitors on whether the budget deficits warrant immediate actions, the question who and what is to blame for deficits drives a wedge between them as well. To begin with, representatives of labor unions and anti-poverty groups reject the premise of businesses' argument which is that the budget deficits are the result of the actions of spendthrift Congress, and that government spending is out of control.[51] Refuting businesses' claim that the budget process is broken, unions and anti-poverty groups often insist that Congress is already endowed with the means to solve fiscal problems. And after the "Reagan Revolution", these groups are particularly unified in their stances that the administration's tax cuts and the accelerated military build-up is pushing the deficits higher and higher.[52]

Zero-base budgeting

Among all the issues on the congressional budget process reform agenda, "zero-base budgeting" is the only issue where I fail to find labor unions' and anti-poverty groups' articulations of preferences, and to establish that these groups indeed had stakes as I expected (refer to the 2nd and 3rd columns for the issue of "zero-base budgeting" in **Table 5-1**). All business representatives, from peak associations to individual firms, were uniformly supportive of zero-base budgeting, which is consistent with my expectation. Among all the 74 hearings that I selected for my project, I can only find three hearings where business representatives (seven of them) expressed their opinions on zero-base budgeting. Despite the small number of

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[51] e.g. Statements of AFL-CIO and UAW at U.S. Congress, Senate, Committee on the Judiciary, *Proposed Constitutional Amendment to Balance the Federal Budget*, 96th Cong., 1st sess., 1980.
[52] e.g. Statements of NAACP and American Federation of State, County, and Municipal Employees at U.S. Congress, House, Committee on the Judiciary, *Constitutional Amendments Seeking to Balance the Budget and Limit Federal Spending*, 97th Cong., 1st and 2nd sess., 1983.

observations, I conclude the preferences articulated by these representatives were genuine, as these three hearings were held by the House Budget Committee, the Senate Government Operations Committee, and the House Rules Committee – three different committees, which makes it likely that the same preferences articulated by certain groups are sincere. Additionally, the fact that these three hearings were held earlier in the temporal sequence[53] makes it even more likely that businesses' preferences I observed were sincere.

Business interests, consistent with the expectation that they are more receptive to measures effecting spending cuts and reducing the size of government, found zero-base budgeting particularly appealing. Representatives from the business community tended to draw upon zero-base budgeting practices in the private sector and claim corporate practices were transferrable to the public sphere.[54] They tended to chastise the existing budget process for its deficiencies in curbing the continuation and expansion of existing programs, and believed that the zero-base budgeting would compel Congress to "weed out a number of outdated programs, consolidate other that duplicate or overlap each other and possibility close the door on backdoor spending."[55]

As to how and why the preferences of labor unions and groups representing the poor are missing from the hearings I collected, I propose one possible explanation. Let us take a closer look at the hearing held by the House Budget Committee on July 27-28, 1976. This one hearing, focusing exclusively on the issue of zero-base budgeting, should allow for a more thorough

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[53] The House Budget Committee and the Senate Government Operations Committee hearings are held during the 94th Congress, and the House Rules Committee hearing is held during the 96th Congress.

[54] Texas Instruments allegedly first started zero-base budgeting. Peter Pyhrr, who implemented zero-base budgeting in Texas Instruments, and later in the Georgia state government, was one of the most prominent advocates of zero-base budgeting in the business community. In 1976, he was invited by the House Budget Committee to educate members on corporate experiences of zero-base budgeting. See U.S. Congress, House, Committee on the Budget, *Zero-Base Budget Legislation*, 94th Cong., 2nd sess., 1976.

[55] U.S. Congress, House, Committee on the Budget, *Zero-Base Budget Legislation*, 94th Cong., 2nd sess., 1976 (statement of Richard L. Lesher, president, U.S. Chamber of Commerce), 143.

conversation, as compared to the other two hearings where witnesses are recorded to express their preferences for zero-base budgeting only by passing. Note that this House Budget Committee hearing was held right after the Democratic Convention of 1976 (which ran from July 12 to 15 in 1976), where Jimmy Carter won the Democratic Party's nomination for President. One of Carter's proclaimed achievements as the Governor of Georgia was to implement a zero-base budgetary system. I suspect the glaring absence of unions and groups representing the poor at a specialized hearing might be intentionally arranged by the hosting Democrat-controlled House Budget Committee, so that groups supposedly hurt by zero-base budgeting would not openly contradict the presidential-candidate.[56] While labor unions and anti-poverty groups were absent, committee members could also gauge the intensity of businesses' preferences and see how arguments against zero-base budgeting stood in light of arguments in favor of it.

Multi-year budgeting

Multi-year budgeting is advocated by its proponents as a way to lessen the frequency of congressional budget-related activities so that Congress can deal with other matters such as oversight, policy analysis, and non-budgeting legislation. However, judging by the expert analyses I have reviewed, proponents and opponents of multi-year budgeting diverge on whether adopting multi-year budgeting will in effect enhance or reduce Congress's control over specific programs as well as over the entire budget. Proponents argue multi-year budgeting will enhance the ability of budget makers to control the bulk of federal expenditures that are "relatively uncontrollable". Proponents also point out the major defect with single-year budgeting approach

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[56] Carter's nomination itself marked the beginning of the conservative shift within the Democratic Party.

is that it surrenders effective control over future budgets.[57] Critics, on the other hand, are particularly drawn to the possibility that with the reduced frequency at which Congress can review and modify existing programs under multi-year budgeting, some programs might in effect become permanent programs which are "better for beneficiaries … but are not necessarily better for government because they reduce legislative discretion."[58]

The most popular multi-year proposal during the time period I investigate is for a biennial budget. I expected, out of the concern that some programs would become practically permanent which runs contrary to businesses' general leaning towards limiting the size of the government, that businesses are more likely to oppose biennial budgeting, compared to labor unions and groups representing the poor. However, what I have found is that all these three types of interests appear to be on the same page with one another in favoring the adoption of a biennial budget for Congress.

How should we interpret this deviation from the hypothesis I originally conceived, and why doesn't the expected divergence between businesses and competing interests take place? Going back to the hearing testimonies and additional materials, I notice that all the statements made by groups on the issue of biennial budgeting are about one sentence long or less. What groups expressed through these brief statements was the endorsement of simply the *idea* or the *concept* of multi-year budgeting. They did not, however, delve into how exactly multi-year budgeting should be implemented. This lack of explanation behind groups' support most likely can be attributed to their not-yet-crystalized preferences during the time period of my project. It is symptomatic of the confusion around the debate of multi-year budgeting in general. Louis

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[57] U.S. Congress, House, Committee on the Budget, *Multi-Year Planning*, 96th Cong., 1st sess., 1979 (statement of Dr. Allen Schick, senior specialist, Congressional Research Service).
[58] Wildavsky, *The New Politics of the Budgetary Process*, 415.

Fisher, a seasoned budget specialist serving at the Congressional Research Service at the time, remarked that multi-year budgeting is often used with no set meaning. The general concept of multi-year budgeting can embrace a number of quite different legislative process, including the following: (1) multi-year authorizations; (2) multi-year appropriations; (3) multi-year budget resolutions; or (4) any combination of the above.[59] Unfortunately, Congress's past experiences provided little guidance to enlighten outside groups, members of Congress, or scholars about the effects of multi-year budgeting. Only a handful of committees had experimented with their versions of multi-year budgeting, but all were limited to including multi-year projections in their recommendations for budget resolutions.[60]

Interbranch relations

To curb the President's ability to circumvent Congress' allocative powers, the Congressional Budget Act established a new procedure for dealing with impoundments. Two forms of presidential impoundments were permitted – rescissions (i.e. permanent termination of budget authority) and deferrals (i.e. temporary delay of budget authority). Although it might appear the 1974 Act granted the President expanded authority to impound funds, it was contingent upon congressional approval – either implicitly through inaction in disapproving a proposed deferral, or explicitly, in affirmatively approving rescission proposals.[61] However, within a short period of time after CBA became law, mounting concern over the growing the budget deficit rekindled the

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[59] Louis Fisher, "Annual Authorizations: Durable Roadblocks to Biennial Budgeting," *Public Budgeting and Finance* 3, no. 1 (1983): 23.
[60] U.S. Congress, House, Committee on the Budget, *Multi-Year Planning*, 96th Cong., 1st sess., 1979 (statement of Dr. Allen Schick, senior specialist, Congressional Research Service).
[61] Congressional Research Service, Library of Congress, "Reform the Federal Budget Process: An Analysis of Major Budget Process Reform Proposals".

demand for the President to exercise more leadership in deficit reduction. Supporters for aggrandizing the President's authority in deficit reduction claimed that Congress lacks either the political will or the ability to make the spending cuts necessary to reduce deficits significantly. Their proposals either seek statutory changes to CBA by granting the President's enhanced rescission authority, or to take a step further, give the President line-item veto power to remove or reduce spending from an appropriations bill while approving the remainder.

Opponents worried that aggrandizing the President's role in reducing deficits would shift the balance of power toward the President, thus destroying the framework for presidential restraint established by CBA. The President might, through withholding funds and vetoing particular items in appropriations bills, be able to achieve his or her policy goals unfettered by Congress. In addition, Congress would have less reason to consider the collective consequence of its acts as congressmen do not have to put in the efforts to convince their constituents that a particular item is of low priority. In this way, granting the President more power would, in effect, help members of Congress to avoid fiscal responsibility by not having to publicly vote for cuts to popular programs.[62]

I expected to see labor unions and anti-poverty groups, worrying that an unfettered President might slash spending programs without giving the Congress the opportunity to consider, are more likely to oppose granting the President more power than businesses.[63]

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[62] Wildavsky, *The New Politics of the Budgetary Process*, 433-4.

[63] Of course, groups' preferences about whether or not to strengthen the hands of the President should also depend on which party is controlling and will be likely to control the White House in the near future. However, given that Republicans controlled the Presidency in the entire 1980s, and that Democrats increasingly moved to the right on the ideological spectrum, unions and anti-poverty groups might anticipate that the odds of having Presidents of either party who would wield their expanded authority to slash social spending were high.

From what I have analyzed, unions and groups representing the poor were indeed consistently opposed to giving the President enhanced impoundment authority and granting the President line-item veto. Consistent with my expectation, their opposition stemmed from their concern that the power to slash spending and cut programs would be centralized in the hands of the President, and the President would have the complete discretion in designating any funds as "excessive".[64] For instance, in a letter to the Senate Rules and Administration Committee, Lane Kirkland, the President of AFL-CIO expressed the grave concern that,

> "if the President had his requested line-item authority, he would no longer feel obligated to engage in a dialogue with the Congress…because the President could dictate which items he would accept and which he would reject regardless of the political and legislative balance that went into the legislation. The ability of individual Senators to secure appropriations and protect programs important to their constituents thus would be significantly curtailed if not eliminated altogether. The end result would be considerable damage to the entire appropriations process."[65]

The business community was not in complete agreement on whether or not more authority should be granted to the President in the budget process. The National Association of Manufactures, during the time period of my project, consistently assumed a skeptic role in this debate. In his testimony in front of the House Rules Committee on April 29, 1983, Charles Leppert, Jr., subcommittee chairmen for NAM's fiscal and monetary policy committee maintained that,

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[64] U.S. Congress, House, Committee on the Judiciary, *Constitutional Amendments Seeking to Balance the Budget and Limit Federal Spending*, 97th Cong., 1st and 2nd sess., 1983 (statement of Althea Simmons, Washington bureau, NAACP), 648.

[65] U.S. Congress, Senate, Committee on Rules and Administration, *Line Item Veto*, 99th Cong., 1st sess., 1985 (letter from Lane Kirkland, president, AFL-CIO to chairman Charles McC. Mathias), 211.

> "The NAM believes that the impoundment procedures contained in the Budget Act are adequate for providing congressional control over the impoundment of funds by the executive branch. We believe that it [the authority to rescind and defer] should not be used as a primary tool to reduce federal spending or deficit levels. Policy and program revisions to control the growth of federal spending must be accomplished through the authorization and appropriations processes, not through the impoundment of funds. Therefore, we do not advocate line item veto authority for the President."[66]

In the above statement, the NAM affirmed the original impoundment provisions contained in the CBA, and opposed bypassing Congress to effect spending reduction. This statement served to discredit the intentions of proponents for aggrandized presidential power in the budget process.

Noticeably, the NAM's position on the same issue was at direct odds with that of the Chamber of Commerce expressed at the same House Rules Committee hearing. Contrary to the NAM's affirmation of the CBA's provisions, the Chamber claimed the 1974 Act actually "considerably weakened the Executive Branch's ability to effect budgetary restrain."[67] Furthermore, the Chamber recommended "consolidating and simplifying the impoundment process by adopting for rescissions the same congressional procedure now used for deferrals" which reverts the burden of action on the Congress, and thus amplifies the President's impoundment power. The Chamber also recommended giving the President line-item veto power.

How to interpret the divergence between the NAM and the Chamber in their views of the interbranch relations in budget making? I speculate this might be indicative of a larger shift in

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[66] U.S. Congress, House, Committee on Rules, *Congressional Budget Process*, 98th Cong., 1st sess., 1983 (statement of Charles Leppert, subcommittee chairman, fiscal and monetary policy committee, the National Association of Manufacturers), 79.
[67] Ibid., 72

the legislative approach undertaken by the NAM. Recall that in Chapter 4, I reviewed the historical developments of the business collective action of three peak business associations during the 1970s and 80s. I highlighted the fact that the NAM was beginning to modify its conservative and extremist image in an attempt to separate itself from the Chamber, particularly under the leadership of Alexander Trowbridge. Tellingly, in a letter addressed to Senator Pete Domenici, Trowbridge, while reiterating the NAM's opposition to using impoundment power as a primary tool to control the growth of federal spending and granting the President line-item veto power, recommended that entitlements not be subject to presidential impoundment at all.[68] NAM's lenient position towards entitlements reflected in this piece of evidence appears to be consistent with the stance they took on social security in the fall of 1982. To solve the cumulative deficit estimated at $150 billion to $200 billion in the social security trust fund for the years 1983-1989, Trowbridge, who was appointed to President Reagan's advisory commission on Social Security, openly supported fewer benefit cuts and more tax increases.[69]

Putting the speculation about why the NAM held different views from the Chamber aside, some in the business community did have doubts about giving the President more power. They were generally skeptical, as the chief economist of Chase Econometrics cautioned that "line-item veto, I am dead set against. I don't think our system of government should put that much power in the hands of one individual."[70] The peril of granting the President more power is that how

[68] U.S. Congress, Senate, Committee on Banking, Housing, and Urban Affairs, *Honest Budgeting Act of 1983*, 98th Cong., 1st sess., 1983 (letter of Alexander B. Trowbridge, president, National Association of Manufacturers to senator Pete Domenici), 185-87.
[69] Levitan and Cooper, *Business Lobbies*, 17; Spencer Rich, "Possible Movement Seen on Social Security," *The Washington Post*, December 11, 1982. To put NAM's position into perspective, Robert Beck, chairman of Prudential Insurance Co., who also served on the commission circulated a plant by cuts in the annual cost-of-living adjustment, raising the retirement age gradually to 68 and reducing the basic level of benefits for future retirees.
[70] U.S. Congress, House, Committee on Government, *Reform of the Federal Budget Process*, 100th Con., 1st sess., 1987 (statement of Lawrence Chimerine, chief economist of Chase Econometrics), 8.

tools such as impoundments and line-item veto are going to be used is largely dependent on who occupies the White House. The goal of throttling the domestic expenditure is easily attainable under President Reagan who is interested in decreasing domestic spending and holding defense spending ransom, but it is not so if we have a different President who is interested in achieving just the other way around.[71]

Budget treatment of tax expenditures

Tax expenditures are defined in the Congressional Budget Act of 1974 as revenue losses attributable to provisions of the tax code that allow special exemptions, credits, or other preferential treatment.[72] In conferring benefits on some individuals and institutions, tax expenditures are comparable to direct federal spending. However, unlike direct federal spending, these tax laws are seldom reviewed by Congressional committees and offices, and administrative agencies[73]. Moreover, tax expenditures are generally enacted as permanent legislation, which makes them comparable to continuing direct spending under entitlement programs.[74]

The issue of tax expenditures has provoked intensive ideological controversies as at heart it is linked to the questions of whether tax expenditures entail social costs, and who should benefit

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[71] Wildavsky, *The New Politics of the Budgetary Process*, 430.
[72] Congressional Budget Act, Section 3(a)(3).
[73] In practice, tax expenditures are administered by IRS and analyzed by the Treasury Department. However, both IRS and the Treasury do not have staff dedicated individually to most tax expenditures and the resources allocated are so thin that evaluation is limited. “The bottom line is,” pointed out by Benjamin Harris and colleagues, “that tax expenditures face much less oversight and evaluation than discretionary and mandatory spending, despite comparable budget sizes. Tax expenditures lack the systematic and multilayered review established by other types of spending.” See Benjamin H. Harris, C. Eugene Steuerle, and Caleb Quakenbush, *Evaluating Tax Expenditures: Introducing Oversight into Spending through the Tax Code* (Washingtonm, D.C.: Urban-Brookings Tax Policy Center, July 10, 2018).
[74] U.S. Congress, Senate, Committee on the Budget, *Tax Expenditures: Compendium of Background Material on Individual Provisions*, 94th Cong., 2d sess., March 17, 1976, committee print 67-312.

and who should bear the costs.[75] In numerous instances, the goals of tax expenditures might be achieved through the use of direct expenditures or loan programs. However, tax and direct expenditures are not pure substitutes, as they can lead to quite different distributions of social resources and costs.[76] A report issued by the Congressional Research Service on May 22, 1980[77] finds that tax expenditures from investment-related provisions[78] are associated primarily with the high income group, whereas the consumption-and employment-related provisions with the middle income groups, and need-related provisions with the low income group. Even though it appears that different income groups can all find preferential treatment in tax laws, the same CRS report concludes that the overall system of tax expenditures benefits the high income group relative to the middle and the low income groups.[79]

In addition to systematic differences in the ways different income groups are benefited from tax expenditure provisions, there are significant variances within the business community in the distribution of selective tax incentives. Most of selective incentives created in the postwar period have aimed at increasing capital investment in fixed plant and equipment which tend to benefit large corporations, particularly firms with capital-intensive production processes whereby machines rather than workers are used to create much of the value added during production.[80] As

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[75] Schick, "Off-Budget Expenditure".
[76] Ibid.
[77] Congressional Research Service, Library of Congress, "Tax Expenditures".
[78] Investment related provisions include investment tax credit, capital gains, exclusion of interest on life-insurance savings, and exclusion of interest on State and local bonds. The largest consumption provisions include the deductibility of nonbusiness state and local taxes, the deductibility of mortgage interest and property taxes on owner-occupied homes. Employment related provisions include the net exclusion of pension contributions and earnings, and the exclusion of employer contributions for medical insurance premiums. Need related provisions exclusion of social security benefits, the exclusion of unemployment insurance benefits, EITC, etc.
[79] This conclusion is corroborated by Christopher Howard in his book *The Hidden Welfare State,* a book particularly looks at tax expenditures with social welfare objectives such as employer pensions, the Earned Income Tax Credit (EITC) and the Targeted Jobs Tax Credit (TJTC). By Howard's calculation, tax expenditures flow overwhelmingly to citizens with above-average incomes. Christopher Howard, *The Hidden Welfare State: Tax Expenditures and Social Policy in the United States* (Princeton University Press, 1997).
[80] Martin, *Shifting the Burden*, 36-37.

a firm's ability to use these selective tax incentives affects its tax burden, by 1980 capital-intensive manufacturers were paying much lower effective tax rates than labor-intensive and other sectors.[81]

Therefore, on the issue whether tax expenditures need to be limited through the budget process, I expected to observe two sets of divergences among groups and interests that have different experiences with tax expenditures. First, I expected to see labor unions and groups representing the poor, compared to businesses, are more likely to support measures imposing such limits. And second, I expected to observe small business and service sectors (industries placed in the Section IV) are more likely to demand equity in the distribution of tax incentives, and demand limiting tax expenditures enjoyed by capital-intensive and big businesses.

What I have found, as reported in **Table 5-1**, is that business interests, labor unions, and groups concerned with the poor all had their opinions heard on the issue of tax expenditures. And indeed, the latter two groups and business interests were on the opposing sides of this debate. Unions and anti-poverty groups were consistently supportive of measures that impose limits on tax expenditures. These groups regarded tax expenditures as loopholes and preferences that "rig the tax structure against workers" and the poor, and only benefit those in higher income brackets.[82]

On the issue of tax expenditures, organizations that coordinate business collective action, rather than individual firms, were the only outlets of business interests, which indicates that "tax expenditures" are an issue of a general nature which pertains to the entire business community.

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[81] See Ibid., 13, Table 1.3 Effective Tax Rates by Industrial Sector (%); Feld, *Tax Policy and Corporate Concentration*; Lugar, "Tax Incentives and Tax Inequities".

[82] See statements of AFL-CIO and NAACP at U.S. Congress, House, Committee on Rules. Sunset, *Sunrise, and Related Measures*, 96th Cong., 1st sess., 1980.

Aside from the peak associations like the Chamber, the NAM, and the Roundtable, three specialized trade and industry associations, the Interstate Natural Gas Association, the Machinery and Allied Products Institute, the Small Business Legislative Council were also present at discussion related to the budget treatment of tax expenditures. Notably, the first two organizations are from capital-intensive manufacturing, and the Small Business Legislative Council is widely seen as representative of the small business voice[83]. I have reviewed earlier that the problem with "general purpose" "all industry" peak associations like the Chamber and the NAM is that as different competing interests reside under their broad umbrellas, it is inevitable that sometimes the particular needs of specific industries are overlooked. Therefore, the fact that capital-intensive manufacturers as well as small businesses had to have their preferences articulated through their specialized associations independent from the Chamber and the NAM should be interpreted as important evidence that these industries have their unique stakes in the budget treatment of tax expenditures.

Business representatives at the hearings that I examined, in addition to voicing their vehement opposition to limiting tax expenditures, usually spent much of their time contesting the concept of tax expenditures as defined by the Congressional Budget Act. In their written statements, business representatives always used quotation marks around tax expenditures so as to convey their reservations about the validity of this concept.[84] They argued that the "tax expenditure" concept is "complex, fuzzy, and understood in part by only a small group of fiscal experts"[85]

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[83] Levitan and Cooper, *Business Lobbies.*

[84] The Machinery and Allied Products Institute, for instance, has to add a footnote in their written statement to clarify that they use the phrase "tax expenditures" in this presentation solely for ease of communication. U.S. Congress, House, Committee on Rules, *Sunset, Sunrise, and Related Measures*, 96th Cong., 1st sess., 1980 (letter of Machinery and Allied Products Institute to chairman Gillis Long), 746.

[85] U.S. Congress, House, Committee on Rules, *Federal Spending Limitation Proposals*, 96th Cong., 2nd sess., 1980 (statement of Theodore F. Brophy, chairman and CEO, General Telephone and Electronics Corp.), 357.

Questioning why some provisions in tax laws are classified as "tax expenditures" while others belong to "normal tax structure", businesses saw themselves vilified by the perversion of the language inherent in linking the words "tax" and "expenditure".[86] The sense of "unfairness" in businesses' claim that they felt particularly being penalized for receiving tax preferences, as conveyed by the following statements, is perhaps reflective of the perceived threat the business community felt during the 1970s and 1980s.

> "Examples of this arbitrariness abound. Graduated rates for individuals are not a 'tax expenditure,' but graduated rates for corporations are. The personal exemption is not, but the added exemptions for blind and aged persons are."[87]

> "Do Congressmen use the term 'tax expenditures' in talking with their constituents? Do those constituents believe that the income tax deductions and credits they receive for mortgage interest, property taxes… are essentially the same as Federal spending on defense, education or welfare?"[88]

The statements issued or articulated by capital-intensive manufacturers, in addition to sowing the seed of doubt about the validity of the concept of tax expenditures, conveyed strong defensiveness against claims that their tax preferences which are secured in the existing laws are rarely subjected to congressional reviews. For instance,

> "Any observer of U.S. federal government activity knows that the Internal Revenue Code probably receives more congressional attention than any other statute. Tax expenditures are

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[86] Ibid.

[87] U.S. Congress, House, Committee on Rules, *Federal Spending Limitation Proposals*, 96th Cong., 2nd sess., 1980 (statement of Dr. Richard W. Rahn, vice president and chief economist, U.S. Chamber of Commerce), 455.

[88] U.S. Congress, House, Committee on Rules, *Federal Spending Limitation Proposals*, 96th Cong., 2nd sess., 1980 (statement of Theodore F. Brophy, chairman and CEO, General Telephone and Electronics Corp.), 357.

> under constant surveillance… Oversight subcommittees review these 'expenditures' either regularly or as the need arises and special circumstances dictate."[89]

Overall, businesses were quite unified in their positions regarding tax expenditures. Twelve out of thirteen times when a business representative spoke about tax expenditures, he or she would oppose measures that seek to limit tax expenditures. The only one exception, which I will discuss in detail in the following paragraph, constitutes as the one and only piece of evidence that I came across that suggests the division existed between small businesses and other sectors regarding the treatment of tax expenditures.

This instance happens to a hearing titled "Sunset, Sunrise, and Related Measures" held by the House Rules Committee during the 96th Congress which discussed two legislative proposals (96 H.R.2 and 96 H.R.65) containing provisions that require periodic reviews and reauthorizations of tax expenditures in the budget process. The hearing was held over the course of five months totaling eight hearing days. Five different business organizations were either invited to testify or submitted materials for the record.[90] Among all these five organizations, the Small Business Legislative Council, not invited to testify, was oddly silent on provisions that are related to tax expenditures. The 10-page statement submitted by the Council focused exclusively on other provisions of 96 H.R.2 and 96 H.R.65 that pertain to periodic review and reauthorization of regulatory activities in the executive branch without even mentioning the phrase "tax expenditures" for once. Just to provide a comparison, other business groups dedicated 50% of their written statements on average[91] to discussing the demerits of the tax expenditures

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[89] U.S. Congress, House, Committee on Rules, *Sunset, Sunrise, and Related Measures*, 96th Cong., 1st sess., 1980 (letter of Machinery and Allied Products Institute to chairman Gillis Long), 748.

[90] These five organizations are the Business Roundtable, the National Association of Manufacturers, the Interstate Natural Gas Association, the Machinery and Allied Products Institute, and the Small Business Legislative Council.

[91] Calculated by dividing the column inches of each written statement dedicated to tax expenditures by the total inches of the statement.

provisions in these two bills. By making it clear that they would not lend their support for these two bills if tax expenditures provisions were not deleted, what these other groups were expressing was that they found the notion of controlling tax expenditures so repulsive that even other parts of the same bills providing for constant reviews of government regulatory activities, which were in line with their ideological predispositions towards smaller government, were not attractive enough.

In light of the intensity of other business groups' unified opposition toward tax expenditures provisions, the Small Business Legislative Council's glaring silence on the same provisions conveyed through written statements which are not constrained by the structure of hearings should be thus interpreted as them holding differing views from the rest of the business groups. However, instead of diverging from the rest of the business community publicly and openly, I suspect small businesses like SBLC, understanding that they were very much dependent on the help of the larger business interests to win many of its battles, might choose strategically to refrain from articulating their sincere preferences. This speculation is supported by Levitan and Cooper's observation that only on rare occasions do the small business lobbies advocate positions opposed by the big business interests.[92]

However, as I mentioned, the SBLC's silence on tax expenditures is the only instance I take as a strong indication of the internal fragmentation between small businesses on one side, and big businesses, capital-intensive industries on the other. This is why in **Table 5-1,** in the cell recording the outcome with respect to the hypothesis that small business and service sectors are more receptive to measures subjecting tax expenditures to the budget process, I add an asterisk

[92] Levitan and Cooper, *Business Lobbies*, 44.

behind *Consistent* to denote my uncertainty of how far this observation is applied to more observations.

Budget status of public enterprises & government credit activities

Public enterprises, or government corporations are the product of a dilemma facing many governments in the modern times that their citizens demand more services from the government but also exhibit growing level of distrust of government and bureaucracy.[93] Operating "on the fringe of government", these public enterprises are designed to avoid both the "alleged and genuine rigidities of regular government bureaucracies."[94] To enable such entities to operate more flexibly, they are usually not subjected to the same financial controls as are applied to core government agencies, and the transactions of a few public enterprises are excluded from the budget totals by law. However, as the number of public enterprises grew since 1960 and the line between the public and private sectors continue to blur, governments have a great deal of difficulty in deciding whether and how to intervene in the affairs of public enterprises. To make matters worse, operating with much confusion, many public enterprises in practice are disciplined neither by the market nor by the government budget.[95] The exposure of the financial difficulty faced with by the Federal Savings and Loan Insurance during the savings and loans crisis in the 1980s particularly drew people's attention to the state of public enterprises in America.[96]

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[93] Congressional Research Service, "Administering Public Functions at the Margin of Government".
[94] Ibid., 1.
[95] Schick, "Off-Budget Expenditure".
[96] Ibid.

During the time period of my project, much debate around public enterprises focused on whether or not off-budget status should continue being granted to a few public enterprises which included Federal Financing Bank, Federal Home Loan Mortgage Corporation ("Freddie Mac"), Federal National Mortgage Association ("Fannie Mae"), Student Loan Marketing Association ("Sallie Mae"), and Rural Telephone Bank. As the credit activities undertaken by these public enterprises were what drew serious scrutiny during this period, I will discuss them in conjunction with other government credit activities.

When government spends public funds only on their own operations, the budget deficit is an accurate measure of their participation in the credit markets. However, the reality is that in addition to paying for their own operations, the government also finances outside activity. When they do so through direct grants, the transactions are usually recorded as budget expenditures, but when they lend money to others through issuing loans and loan guarantees, the expenditure is often off budget.[97]

As the budget deficit in real terms reached unprecedented peacetime levels, proposals that sought to return government credit activities back on the budget were quite popular among those who believed the exclusion of credit transactions had led to understatement of the size of deficits and misrepresentation of government's impact on economic activity. Much more deeply, when the government makes or guarantees a loan, it also influences the availability of credit to other borrowers. Under certain conditions, it can significantly raise the cost of credit to those who cannot borrow from public sources or it might force some borrowers out of the market. Government loans have become a major means of assistance to groups ranging from business

[97] Ibid.

firms, to homeowners, to state and local governments. The reality however, is, as pointed out by Allen Schick, "although the declared purpose of many credit programs is to assist marginal borrowers who might otherwise be unable to obtain credit, they often provide funds to borrowers who would otherwise be willing and able to borrow at market rates."[98]

Therefore, the debate about credit activities is motivated by deep ideological disagreements regarding government's vis-à-vis private sectors' roles in (re)distributing resources, and pursuing a range of economic and political objectives. I expected to see businesses were more likely to support measures placing government credit activities and public enterprises on the budget as they generally prefer distributing credit and other resources through the market mechanism rather than through government, whereas labor unions and groups representing the poor were less likely to support similar measures.

As shown in **Table 5-1**, my predictions do not fare very well for any of the three types of outside interests, the reason being there were sufficient internal divisions within each type of interests regarding whether some credit activities and public enterprises should remain off-budget. The divisions, as I will discuss in the following paragraphs, were between those who had benefited from government loan and guarantee programs and those who had not, which my hypotheses failed to take into account.

Within the business community, the peak business associations – Chamber of Commerce, the National Association of Manufacturers, and the National Federation of Independent Business – were consistently in favor of placing government credit activities and transactions of public enterprises on the budget. These organizations claimed that credit activities conducted by the federal government put upward pressure on interest rates, and led to the "crowding out" of credit

[98] Ibid., 19.

by the public sector in capital markets. And consistent with my expectation, these peak associations concerned with the general welfare of businesses, had great doubt about government's ability to evaluate the credit worthiness of borrowers and the element of risk – two key functions according to them could only be performed adequately in the private credit market. A quote from the NFIB's testimony at a Senate Budget Committee hearing titled "Overview of Federal Credit" is illustrative of these concerns.

> "What happens here is that as the less creditworthy firms are rationed out of the marketplace by either the supply of credit or by the cost of credit, the Federal Government comes along and makes them creditworthy again by guaranteeing their debt which simply means that the next level of firm which also has to borrow and which are more creditworthy than the first are pushed out of the marketplace because the funds are not available."[99]

In contrast with the unified position taken by peak business associations that encompass a range of industries, businesses in the financial sector (including banking, housing, and insurance industries) were quite divided. Accounting for more than 45% of all the business organizations and firms that articulated opinions (combining testifying in front of a committee and submitting materials) on government credit activities, financial sector businesses appeared to be the most active participants on this issue. Considering government credit activities concern interest rates, the availability of credit, and the competition between public and private credit providers, the prominence of financial sectors is not surprising.

Big financial institutions such as Morgan Guaranty Trust Company (later acquired by JP Morgan Chase Bank in 2001), Solomon Brothers, Aubrey G. Lanston & Co. (a primary dealer in

[99] U.S. Congress, Senate, Committee on the Budget. *Overview of Federal Credit*, 97th Cong., 2nd sess., 1982 (statement of John J. Motley, deputy director of federal legislation, National Federation of Independent Business), 198.

Treasury Securities), and the First National Bank of Chicago, supported returning the off-budget credit activities onto the budget, and urged Congress to limit the growth of these programs. Dismissing off-budget credit programs as "creative accounting" employed by the government to spend and hide the actual size of budget deficits, Richard W. Everett, Vice President of the Chase Manhattan Bank warned if any expenditure limitation did not include the potential outlays connected with loan guarantees, people might soon be "startled to discover the wonderful things that loan guarantees can accomplish."[100] These big and prestigious financial institutions' preferences for subjecting credit programs to the budget process were shared by the industry's primary trade association, American Bankers Association.

Compared to these financial institutions, their small, local counterparts were fighting hard to keep budgetary control out of the very credit programs they had benefited from. What loan guarantee programs do, as explained by Eben Graves, chairman of a Connecticut-based investment firm, is to provide a guarantee on loans originated and priced by these local lenders who can then make longer-term capital available to small and rural businesses.[101]

On the other hand, however, it appeared the division also existed between financial institutions that were more active in the FHA/VA market (e.g. mortgage banks) and those that were less so (e.g. commercial banks). The Mortgage Bankers Association of America, the only national association for mortgage bankers,[102] was the most prominent voice against subjecting government credit activities to the budget process and against any across-the-board limitations

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[100] U.S. Congress, Senate, Committee on the Judiciary, *Proposed Constitutional Amendment to Balance the Federal Budget*, 96th Cong., 1st sess., 1980 (statement of Richard W. Everett, vice president, Chase Manhattan Bank), 339.
[101] U.S. Congress, Senate, Committee on the Budget, *Overview of Federal Credit*, 97th Cong., 2nd sess., 1982 (statement of Eben M. Graves, Jr., chairman, E.M.Graves & Co., Investment Advisory, Inc.), 416.
[102] According to *The Washington Post*, Mortgage Bankers Association's members include mortgage banking companies, life insurance companies, commercial banks, mutual savings banks, savings and loan associations, pension funds, mortgage Brokers, investment bankers. See Beth Schwinu, "Former Va Official Moves to Mortgage Bankers Association," *The Washington Post*, March 30, 1987.

on credit activities. Concerned that undifferentiated attacks on government credit activities would affect programs administered under the Federal Housing Association (FHA), the Department of Veterans Affairs (VA), as well as under the Government National Mortgage Association ("Ginnie Mae"), the Mortgage Bankers Association consistently advocated for the benefits of these program in providing the opportunity for, and affordability of, home ownership. They contended that subjecting credit activities to the lengthy budget crafting process was too cumbersome which only served to reduce the flexibility and responsiveness to economic forces afforded to these credit programs and public enterprises when they were first established.[103]

Interestingly, the division in the business community between beneficiaries of government credit activities and others who had not enjoyed the low cost of borrowing from the government was mirrored in the labor unions and groups representing the poor.

Echoing businesses' concern that government credit activities unfairly reallocated credit from some borrowers to others which aggravated the already tight credit market, labor unions and anti-poverty groups such as AFL-CIO, the American Federation of State, County, and Municipal Employees (AFSCME), and NAACP were consistently in favor of returning government loans and loan guarantees and public enterprises back on the budget.

For instance, at a hearing held by the House Judiciary Committee, witnesses from AFSCME and AFL-CIO condemned the practice of creating off-budget loan guarantees out of the concern that "private corporations being given subsidized loan guarantees to perform public functions now performed efficiently and effectively by the public sector."[104] Sharing businesses'

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[103] U.S. Congress, House, Committee on the Budget, *Control of Federal Credit*, 96th Cong., 1st sess., 1980 (letter of Mortgage Bankers Association of America), 162.

[104] U.S. Congress, House, Committee on the Judiciary, *Constitutional Amendments Seeking to Balance the Budget and Limit Federal Spending*, 97th Cong., 1st and 2nd sess., 1983, 402.

sentiments, these union representatives dismissed loan and loan guarantees as government accounting “schemes”.[105] Meanwhile at the same hearing, the witness affiliated with NAACP vocalized concerns specific to groups defending civil rights that applications for the loan and loan guarantee programs administered by government were replete with discriminatory practices. Citing a report issued by the U.S. Civil Rights Commission which found minority applicants for the loans and guarantee programs administered by the Farmers Home Administration (FHA) and Veterans’ Administration (VA) were not treated as favorably as non-minorities.[106] Another prominent civil rights group, the American Jewish Congress, was also a vocal critic of government loan and loan guarantee programs for the reason that these programs were seldom subjected to normal political controls.[107]

On the opposing side of the same issue, unions and anti-poverty groups whose constituents/members benefited from specific credit programs were generally in favor of maintaining the off-budget status of these programs. The Labor-Management Maritime Committee, a labor group composed of unions in the ship manufacturing industry was one of these organizations. Ship manufacturing industry, notably, used federally guaranteed loans and received financial assistance from program administrated by the Secretary of Commerce. The Committee contended that this program was currently under adequate congressional review and

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[105] Ibid.

[106] Ibid., 649.

[107] U.S. Congress, Senate, Committee on the Judiciary, *Proposed Constitutional Amendment to Balance the Federal Budget*, 96th Cong., 1st sess., 1980 (statement of American Jewish Congress); U.S. Congress, House, Committee on the Judiciary, *Constitutional Amendments to Balance the Federal Budget*, 96th Cong., 1st and 2nd sess., 1980 (statement of American Jewish Congress).

control, and by placing this program on the budget, it would be subjected to added layers of bureaucracy which would adversely affect the program's efficient operation.[108]

Objections to limiting the ability of federal agencies and public enterprises to issue, sell, or guarantee obligations were articulated by anti-poverty groups that were concerned with affordable housing as well. Groups like the National Housing Conference and the National Rural Housing Coalition that represented low-income and rural residents who benefited from government's allocation of capital to expand federally-assisted housing opposed establishing ceilings and targets for housing-related loans and loan guarantees programs. These assisted housing advocates were generally concerned that by limiting government credit programs with no regard for what purposes each program served, people with low and moderate income would suffer.[109]

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[108] U.S. Congress, House, Committee on Ways and Means, *Off-Budget Status of the Federal Financing Bank*, 95th Cong., 1st sess., 1977 (statement of the Labor-Management Maritime Committee), 48.

[109] See statements of National Rural Housing Coalition and National Housing Conference at U.S. Congress, House, Committee on Rules, *Federal Spending Limitation Proposals*, 96th Cong., 2nd sess., 1980; U.S. Congress, House, Committee on Ways and Means, *Budget Treatment of the Federal Financing Bank*, 98th Cong., 2nd sess., 1984.

Chapter 6 The Gramm-Rudman-Hollings Act: Who Won and Who Lost?

With groups' stakes in congressional budget process reform examined and their preferences over reform proposals identified in the previous chapter, I now move on to the final stage of my project which tackles the relative influence of different types of interests over congressional budget process reforms. Did outside interests eventually get what they wanted? Interestingly, in the case of the Gramm-Rudman-Hollings Act, the evidence suggests that though business interests appear to have shaped the general directions that the Act pursues, its specifics also made significant concessions to the interests of low-income and working-class Americans. I discuss how to interpret this finding in the second section of this chapter.

A. Summary of Findings

To assist my analysis, I have created **Table 6-1** in which I look at provisions of the Gramm-Rudman-Hollings Act of 1985 and its affirmation act of 1987 (shorthanded henceforth as "GRH" and "GRH II" respectively), and determine whether these provisions are closer to the preferences of business interests or those of labor unions and anti-poverty groups which I observed in hearing testimonies and other materials.

Table 6-1 GRH's Provisions and Groups' Preferences

Issues on the reform agenda	**Addressed by the GRH and GRH II**	**Divergence of Preferences Observed at Hearings**	**GRH's and GRH II's provisions**	**Closer to the preferences of**	
				Businesses	**Labor and the poor**
Balancing the budget	√	√	Provides for annual reductions in the budget deficit from FY1986 to zero in FY1991.	√	
Spending and/or tax limitations	√	√	Provides for the mandatory sequestration of funds if annual deficit targets are not met.	√	

"Zero-base budgeting"	X	X	-	-	-
Multi-year budgeting	√	X	Establishes multi-year deficit targets starting from FY1986.	-	-
Resolution and Reconciliation	√	√	Congress is scheduled to adopt only one resolution each year, and the resolution must contain reconciliation instructions.	√	
Interbranch relations	X	√	-	-	-
Tax expenditures	X	√	-	-	-
Loans and loan guarantees	√	X	Credit authority (direct and guaranteed loans) to be included in the budget.	-	-
Public enterprises	√	X	Places all off-budget entities in the budget.	-	-
Trust Funds	√	√	Removes social security from the federal budget, except for purposes of calculating the deficit in order to determine whether sequestration will occur.		√
Capital budgeting	X	√	-	-	-
Budget timetable	√	X	Accelerates the timetable for congressional budget action.	-	-

Of the 12 issues on the congressional budget process reform agenda, eight of them were addressed by the GRH and GRH II. As I alluded earlier in the "Data and Methods Chapter", groups' relative influence can be more reliably observed on issues where groups' preferences are in conflict than on issues where their preferences converge. Among the eight issues addressed by the GRH and GRH II, I have found business interests diverged from unions and anti-poverty groups in four of the issues: "balancing the budget", "spending and/or tax limitations", "resolution and reconciliation", and "the budget treatment of trust funds". Of these four issues, I have found the *general directions* of the enacted provisions were more in line with businesses' preferences rather than with the preferences of labor unions and the poor. However, once we scrutinize how the specific provisions were written, we find that the GRH and GRH II were not a clear and complete victory for the business interests.

To begin with, the GRH provided for annual reductions in the budget deficit starting from FY1986 with the goal of achieving a balanced budget in FY1991. Even though the GRH II revised and extended deficit targets established under the GRH, the goal of achieving a balanced budget in the end still remained and was reaffirmed. The evidence which I reviewed earlier clearly indicates that labor unions and anti-poverty groups had serious reservations about the concept and value of balanced budgets as they were worried that budget deficits are only a sham for slashing social spending. In comparison, business interests appear to embrace balanced budgets completely, though divisions existed as to whether statutory or constitutional means of implementation were feasible. By prioritizing achieving a balanced budget, the spirit embodied in the GRH and GRH II was more in tune with the business community. However, a multi-stage deficit-reduction plan executed over the course of six years seemed to defy the rhetoric of crisis stoked by some business representatives around the budget deficits. In addition, the fact that such a multi-year plan was implemented through statutes which could be overturned by future congresses set the GRH and GRH II up for failure.

The design of such multi-year accords which attempt to dictate the decisions and bind future congresses "present[s] Congress with a budgetary Catch-22," according to James Wallner after studying several budget process reforms including the GRH.[1] Such multi-year

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[1] James L. Wallner, "The Problem of Credible Commitment in Congressional Budgeting," *Journal of Policy History* 27, no. 2 (2015): 386.

budgetary agreements are unable to adapt to changing circumstances in the future if their enforcement mechanisms are too restrictive. However, lawmakers will be more likely to jettison the budgetary controls in the future if the enforcement mechanism cannot adapt to changing circumstances. Yet by overcompensating for this concern and making the enforcement mechanisms more permissive, lawmakers risk destroying the agreements' effectiveness in the first place.[2] What I have found is that the insights and remarks offered by scholars studying budget process reforms today were shared by critics of the GRH and GRH II when the bill was under consideration in 1985 and under revision in 1987 as well. The across-the-board sequestration appeared to be so stringent that many at that time believed the GRH wouldn't stick for long.[3]

GRH and GRH II mandated that if Congress and the president fail to reduce the deficit to the desired level, the result should not be the continuation of present policy, but the automatic imposition of a precisely determined set of spending reductions calculated to reduce the deficit to target levels. Although the GRH and GRH II appear to be consistent with the sentiments of businesses that deficit-reduction measures needed to be implemented from the spending side of the federal budget, how the spending reductions were eventually apportioned under these two reform acts calls into question whether businesses actually got what they wanted and by how much. For one, to ensure "fairness",[4] half the reduction was to

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[2] Ibid.
[3] Elizabeth Wehr, "Doubtful Congress Clears Gramm-Rudman Fix," *CQ Weekly*, September 26, 1987.
[4] "Fairness" here is purely a political concept. As Harry Havens, serving as the assistant comptroller general when the Gramm-Rudman-Hollings was negotiated, remarked, "'fairness' was crucial for any deficit reductions to be politically feasible." GRH's formula of allocating cuts evenly between defense and non-defense programs was largely a concession made by congressional conferees in exchange for the approval from Reagan. "New Rules, Same Old Deficit," *New York Times*, December 13, 1985; Harry S. Havens, "Gramm-Rudman-Hollings: Origins and Implementation," *Public Budgeting & Finance* 6, no. 3 (1986): 8.

come from defense programs, and the other half from nondefense programs. As I have pointed out earlier, although not all labor unions and anti-poverty groups were explicit in hearing testimonies and other materials about their desires for reducing defense spending, there are several groups did make such pleas. At the same time, under the GRH and GRH II, a number of programs and activities were exempted completely from sequestration. Notably, many of these exempted programs benefit low-income and working-class Americans directly.[5] They included:

- Social Security Benefits;
- Earned Income Tax Credit;
- Medicaid;
- Aid to Families with Dependent Children (AFDC)
- Supplemental Security Income (SSI);
- Women, Infants, Children (WIC) Nutrition Program;
- Food Stamp Program;
- Child Nutrition Program.

Overall, among all the reform issues addressed by the GRH and GRH II, business interests won a clear victory on the issue of resolution and reconciliation. On the two other issues "balancing the budget" and "spending and/or tax limitations", though it appears that the general directions in which the deficit-reduction provisions of the GRH and GRH II pursued were closer to the preferences of businesses, the enacted laws contained specifics that aimed to ameliorate their negative impact on low-income and working-class Americans.

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[5] Congressional Research Service, Library of Congress, "Gramm-Rudman-Hollings Deficit Reduction Process (P.L. 99-177) and the Department of Defense: A Summary Review,"by Alice C. Maroni and Robert E. Foelber, 86-7F (1986).

B. Discussion and Interpretation of Results: Why Business Didn't Score a Complete Victory?

How do we interpret the result that business interests did not win a complete victory in the enactment of GRH and GRH II? To answer this question, I draw insights from the literature on the sources of business influence which I have briefly alluded to in the "Data and Method Chapter".

As reviewed earlier, the classic literature of business influence falls into two schools of thoughts. The instrumentalists hold the opinion that business derives its power from its ability to staff government with business sympathizers and to exercise direct pressure on politicians through campaign contributions and lobbying efforts. The structuralists, on the other hand, believe that business occupies a privileged position which stems from the fact that the decisions of individual firms, when aggregated, have a profound impact on the state of the economy as a whole, and on the lives of people who reside within that economy. Politicians thus have strong incentives to maintain the profitability of private companies for fear of a deteriorating economy resulting from declining investment.[6]

In recent years, instead of vying against one another, scholarships of business's structural power and instrumental power have been increasingly converging. Scholars following both traditions now recognize that business influence is by no means stable; it depends upon particular features of the political and economic context. In the following paragraphs, I review some contextual factors that are associated with the period between 1985 and 1987 when GRH and GRH II were considered and eventually enacted by Congress. These factors, ranging from

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[6] This paragraph summarizes briefly the key arguments of instrumentalists and structuralists as reviewed in Hacker and Pierson, "Business Power and Social Policy".

performance of the U.S. economy to business's yet-to-be crystalized preferences over specific reform options, might shed light upon why business interests did not score a total victory.

The consensus among scholars who study the political mobilization of American business is that by the mid-1980s, business was less able to further the political gains it had achieved in the second half of the 1970s and the early 1980s.[7] David Vogel attributed this in part to the fact that the economy performed relatively well after the 1981-82 recession. Writing in the end of 1980s, Vogel proposed that the experience of the three preceding decades demonstrates business has tended to lose political influence when the economy was performing relatively well and has become more influential when the performance of economy deteriorated.[8]

Although 1981-82 marked the worst recession after the Great Depression, the economy recovered strongly and continuously after 1982. Between 1983 and 1987, the economy grew on average at 3.4% (compared to an average of 2.2% between 1974 and 1981), and inflation grew on average at only 3.8% (compared to 9.3% between 1974 and 1981).[9]

With the economy in strong recovery, business found itself unable to *enhance* its political effectiveness in areas like regulation and corporate taxes. By 1983, the Reagan administration had largely abandoned its promise to bring about major changes in regulatory policies. Corporate taxes were increased in both 1982 and 1986. But the relative political influence of business was not eclipsed by these setbacks. Vogel emphasized that after 1982, politicians from both parties continued supporting increased government assistance to industry with a level of enthusiasm that was unmatched fifteen years ago.

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[7] Mizruchi, *The Fracturing of the American Corporate Elite*; Martin, *Shifting the Burden*; David Vogel, *Fluctuating Fortunes: The Political Power of Business in America* (New York: Basic Books, 1988).
[8] Vogel, *Fluctuating Fortunes.*
[9] Ibid.

The political influence of business in the mid-1980s was also limited by the rising fragmentation within the business community. In the 1970s, when faced with what they saw as a threat to their existence, both large and small corporations, trade associations, and business organizations, forged a broad unified front against organized labor and state. This unity reached its climax with the passage of the Economy Recovery Act of 1981, the centerpiece of the "Reagan revolution". However, by the early 1980s, as government and labor were no longer capable of positioning themselves as constraining forces on business, individual firms, once having achieved their political gains, drifted off in different directions. The business community splintered along divisions between large and small business and between foreign-oriented and domestically oriented firms. As Mizruchi opined, ironically the political success achieved collectively by the business community led to the undoing the corporate elite itself. The fragmentation was exemplified in the 1986 tax reform where "a plethora of individual and small groups of firms lobbied separately for specific provisions to the law."[10]

The discussion so far points to the significant setbacks business interests experienced in elevating its privileged position in the mid-1980s which might in part explain their lot in the GRH and GRH II. While business's structural power was wanting, the instrumental aspects of business power did not appear to increase in relevance at least in the case of congressional budget process reform.[11] Hacker and Pierson argue that structural power is a signaling device, and by itself it does not dictate policy choices. Its importance is primarily reflected in setting the public agenda and in ruling out options that are particularly objectionable to firms. Instrumental

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[10] Mizruchi, *The Fracturing of the American Corporate Elite*, 8.

[11] Hacker and Pierson suggest while both instrumental and structural aspects of business influence are relevant, one or the other is often more significant in a particular time or place. Where one pathway fails, the other becomes more important. See Hacker and Pierson, "Business Power and Social Policy", 283.

power, in contrast, is often more relevant in determining the specific design of legislative proposals.[12]

I have emphasized in the previous chapters that one characteristic common to the statements made by representatives affiliated with the business community in addressing issues related to the budget process reform is their brevity. Oftentimes, they tend to endorse a concept such as "multi-year budgeting" without detailing what they think is the best way to implement this concept. In fact, this brevity and lack of elaboration is not uncommon to representatives affiliated with labor unions and anti-poverty groups. I suspect it largely arises from the fact that ten years after the enactment of the Congressional Budget Act of 1974, outside groups, just like legislators, were still learning what worked and what didn't as they went. Goal-oriented behavior does not entail that actors will automatically know all the alternatives that can facilitate the realization of their goals and interests – no matter how narrow these goals and interests are. Business interests also needed to take time to figure out what kind of arrangements in the budget process were conducive to their political and policy gains.

The fact that structural power does not dictate legislative alternatives leaves certain leeway for politicians and bureaucrats to exercise their own discretion. Policymakers can "construct" their responses to a perceived loss of business confidence and the prospect of disinvestment.[13] And they do not simply react passively to either changing economic conditions or interest group pressures. Politicians also have they own priorities and preferences, which are in turn shaped by both their ideology and their desire to be reelected.[14] During my interviews with former staff

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12 Ibid.

13 David Plotke, "The Political Mobilization of Business," in *The Politics of Interests: Interest Groups Transformed*, ed. Mark P. Petracca (Boulder: Westview Press, 1992).

14 Vogel, *Fluctuating Fortunes.*

members who worked for the House Democratic leadership when GRH was pending, I found most of my interviewees ascribed strong commitment to making good laws to the work they did in 1985. According to them, the Democrats in the House, seeing the enactment of GRH as inevitable, decided early on that their main objective should be minimizing the negative impact of GRH. Though people's recollection of events that happened long time ago might be subject to post-rationalization bias, the fact that provisions exempting low income and anti-poverty programs (which I listed on p.177) from the automatic sequestration were first introduced and firmly advocated by the House Democrats[15] at least can lend some credence to what my interviewees have told.

Thus far, my exploration of why business did not achieve a complete victory in GRH and GRH II rests on the assumption that the business interests are monolithic. However, because the circumstances of individual firms and industrial sectors are quite different, legislative initiatives often benefit some businesses at the expense of others. In these circumstances, the signal of disinvestment is likely to be mixed.[16] A closer look at individual sectors' experiences during these episodes of congressional budget process reform yields a much more complex picture.

Financial sectors which include banking, housing, and insurance industries appear to benefit more from the changes enacted under GRH and GRH II than other sectors. If the success whereby a group gets the issues in which they have high stakes addressed by legislations can reflect the group's relative influence, then having GRH and GRH II address the budget treatment of government credit activities and public enterprises, and having provisions written in their

[15] See Elizabeth Wehr, "House Oks Democrats' Budget Balancing Plan," *CQ Weekly*, November 2, 1985. the exemption of 10 poverty programs from the automatic cuts, according to House Democratic leaders, was "non-negotiable."
[16] Hacker and Pierson, "Business Power and Social Policy".

favor should count as a significant accomplishment to financial sectors, especially the large financial institutions. In Chapter 6, I showed the business community was indeed divided regarding whether or not government loans and loan guarantees and other credit activities should be subjected to the discipline of the budget process. Big commercial banks in particular vehemently opposed putting these activities and programs off the federal budget as they saw credit activities conducted by the government put upward pressure on interest rates, and led to the "crowding out" of credit by the public sector in capital markets.

I want to remind readers that "loans and loan guarantees" and "public enterprises", addressed by GRH and GRH II, are the only two issues on which I actually found evidence of fragmentation within the business community. Not only did big financial institutions have issues that were divisive within the business community onto the legislative agenda, but the final outcome was consistent with their preferences at the expense of other sectors. Knowing this, we should then interpret GRH and GRH II as a significant victory to the financial sectors.

Overall, by dissecting the conditions in which business's political effectiveness was configured, I was able to provide some interpretations of why rules did not change in the direction that completely benefited business interests at the expense of labor and the poor. The discussion I offered here is firmly grounded on the observation that the political influence of business is highly variable, and should encourage scholars to carefully chronicle the historical trajectories whereby outside groups' influence fluctuates.

Chapter 7 Conclusion and Final Remarks

I have found that outside groups did indeed participate in the activities and events that effected changes to the congressional budget process. Groups sought to shape the direction and the content of reform primarily because they had stakes in rules and procedures of the congressional budget process that have significant impact on the policy outcomes they care about. I have found the evidence pointing to groups' activities, together with evidence on their preferences for issues and proposals on the reform agenda and the finding of congruence between enacted reform measures and groups' preferences. My project presents a significant challenge to previous studies that assume politicians are the only relevant actors that animate changes to congressional institutions. By centering on the politically conservative responses of American businesses to the worsening economic conditions in the late 1970s and 1980s, I have found strong indications that groups' demands for structural changes in the budget process did hinge on their economic interests.

How much what I have found about outside groups' interest and engagement in shaping the congressional budget process are applicable to other types of rules and procedures?

Although budget rules and procedures might appear to present an easy case for detecting outside influence – since fights over the policy outcomes that are governed by such rules and procedures are often extremely contentious – the basic assumptions from which I developed my own theory can be broadly applied to many other types of structures. There are features associated with many rules and procedures, not exclusively to those governing budget making, that invite outside influence. One of the most important features is that rules and procedures have significant impact on policy outcomes that are politically contentious. A strategy of devising rules that favor certain policy outcomes can effectively protect them from political pressures and electoral tides. It is these general features that provide incentives for outside groups to stake out their structural demands. This kind of strategy is facilitated by the fact that ordinary voters are often oblivious to the connection between rules and policy outcomes, as to understand how rules and procedures work, to utilize them, and to change them so as to favor one's own interests all require extraordinary amount of knowledge, skills, and resources which ordinary voters can rarely afford. In the U.S., where inequalities are so pronounced, and the rules are so complex, opportunities for covert influence by the affluent and resourceful through shaping many kinds of rules and procedures are extremely common.

Identifying the general features of rules and procedures that often invite outside forces is the just beginning of an important research agenda. When are outside interests likely to be the most influential? How powerful are they relative to each other in shaping the structures of formal institutions? I have found that even as business's traditional constraining forces – organized labor and an activist state – were in decline, the rules changes enacted in the Gramm-Rudman-Hollings Act and its reaffirmation act did not completely benefit the business interests at the expense of the poor and working-class Americans.

What does this tell us about the absolute and relative powers of business and other interests a? Given the general structural advantages enjoyed by businesses in the capitalist economy, and the unparalleled resources they possess to exert direct influence on government decision makers, what can we say about structural and instrumental powers of various types of interests in general and at particular historical times? As I have emphasized in the earlier chapter, business's political effectiveness is conditioned upon particular features of the political and economic context. In the case of the Gramm-Rudman-Hollings Act, the strong recovery of economy after the 1981-82 recession and the increasing drifts between different parts of the business community might have rendered business's privileged position less important in determining its influence. Additionally, perhaps due to lack of a more refined identification of what they wanted from the congressional budget process, business interests, while succeeded in infusing their general sentiments against the budget deficit and government spending to the budget process reform, lost in stipulating the reform's specifics, which in turn created opportunities for politicians and bureaucrats to pursue their own priorities.

By setting my project against the late 1970s and early 1980s – a period characterized by the reshuffling of societal forces that have different policy demands, I have revealed the vulnerability of formal political institutions to outside influence. How do my research findings travel across different time periods? Of course, we need to conduct empirical research on a lot more cases and across a variety of historical contexts. The most insightful and interesting discoveries may come from studies that utilize archival sources and in-depth interviews with crucial players in each case. However, this kind of research design presents significant challenges in practice. Researchers not only risk getting lost in a sea of materials which are often self-serving, but also must confront the reality that "smoking gun" evidence pointing to the role that particular groups played is not always there. Here it is perhaps worth sharing my own experience while I was developing this project. I was delighted to find out that all three of the sponsors of the Gramm-Rudman-Hollings Act had bequeathed their personal papers to university libraries in the country.[1] As Phil Gramm was widely recognized to be the architect behind GRH, his papers naturally became the most interesting to my project. However, due to lack of funding,

[1] Phil Gramm donated his papers to the Cushing Memorial Library and Archives at the University of Texas A&M. Warren Rudman left his papers at Diamond Library at University of New Hampshire. Ernest Hollings donated his to the University of South Carolina library.

the Cushing Library at Texas A&M (where Gramm deposited his papers), had no catalog or finding aid for what was in this collection. The official status for this collection was (and still is) "closed pending processing".[2] The librarians at Cushing graciously offered to quickly go through the entire collection and take out anything related to the "federal budget", "deficits", and "Gramm-Rudman-Hollings Act"[3] before I came. However, as I arrived in College Station filled with much hope and excitement, I was not able to locate any valuable information that pertains to my project. Most of the materials that the librarians prepared for me were dated between the late 1980s and early 1990s – not the days leading up to the enactment of GRH. One of the librarians, who requested to remain anonymous, told me there had been some rumors going around that Phil Gramm ordered his aides to scrub from the Cushing collection anything that he preferred not to share with the public.

Experiences like this may not be unusual for researchers who seek to study political influence (especially covert influence) by outside groups and actors. The question that follows is, how do we continue to conduct research in the absence of crucial details?

I believe our best hope may come from figuring out the observable implications that directly flow from our argument. While designing our research, we should constantly ask "if this argument were true, what would I see in the real world?" and "what would I expect to observe in the available data"[4] and in published materials? Published materials – such as congressional documents and newspaper accounts – compared to archival and interview data, may generally offer less information about how events unfolded or who was involved in decision-making and

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[2] See "Phil Gramm" entry in the Biographical Directory of the United States Congress (1774 – Present) http://bioguide.congress.gov/scripts/guidedisplay.pl?index=G000365

[3] These are the key words and phrases that I provided to the librarians while they were conducting the search.

[4] Direct quotes from Barbara Geddes, *Paradigms and Sand Castles: Theory Building and Research Design in Comparative Politics* (Ann Arbor: University of Michigan Press, 2003), 38-39.

what their goals were.[5] But if utilized properly, these materials contain valuable evidence as well. The key is to identify the limitations of each type of sources, and to think critically how different forms of data help to answer the same research question.

In my own project, by carefully chronicling appearances made by groups at hearings, analyzing their statements regarding the issues and proposals in congressional budget process reform, and thinking about what was said and what was left unsaid by each group on such occasions, I was able to handle with confidence the potential problems of groups' strategic misrepresentations of their preferences. By triangulating hearing testimonies with hearing appendices – where a more diversified pool of groups and actors could contribute their opinions – I was able to verify the patterns of groups' participation and their articulated preferences.

To what extent do the findings regarding the reach of business influence in congressional budget process reform remain true today? We must recognize that there have been some developments in recent years that can better inform ordinary Americans about the nuts and bolts of the federal budget process. Particularly thanks to the technological advancements, now people can receive weekly newsletters and infographics with catchy titles like "Budget Busters: Pension Bailouts"[6] directly from the Budget Committees in their emails. There is no shortage of information out there for people to consume. Through my encounters with people from left to right working on issues related to the federal budget, I learned that more and more organizations recognize the importance of educating ordinary people as well as policymakers about budget matters. Many think tanks and nonprofits based in Washington, D.C. now list on their websites "the federal budget" as one of their issue priorities.

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[5] Julia E. Lynch, "Aligning Sampling Strategies with Analytic Goals," in *Interview Research in Political Science* (Ithaca: Cornell University Press, 2013), 36.

[6] House Budget Committee, "Budget Busters: Pension Bailouts", Newsletter, November 30, 2018.

However, despite this influx of information, the basic assumption of my theory probably remains correct today: ordinary voters know little and show little interest in knowing about the link between obtuse rules and procedures on one hand, and policy outcomes on the other. Attentive and knowledgeable watchers of the changes to the congressional budget process remain few.[7] And with more and more organizations eager to disseminate their research and messages about the federal budget and the budget process, it appears likely that the number of groups and actors involved who have big material and ideological stakes in the outcomes is much larger than 40 years ago.

Within Congress, interest in revamping the federal budget process has not subsided. In February, 2018, Congress established a new Joint Select Committee on Budget and Appropriations Process Reform that is charged with developing recommendations and legislative language to improve Congress's fiscal functioning.

The circle of experts forming around the congressional budget process reform remains tight. In the most recent reform initiatives, we come across a number of people who were very much involved in crafting reform measures back in the late 1970s and 1980s.[8] A number of issues and proposals floating around are hardly new, either. One of the most recent prominent proposalS to

[7] I found it quite amusing to hear people who work at the Concord Coalition and the Committee for a Responsible Federal Budget lament to me about how little the public and many members of Congress knew about the federal budget. Clearly campaigns that aim to misinform people and stoke their fears about the national debt and Social Security insolvency have a hard time in getting their messages across too.

[8] To name a few people here, William Hoagland, who served as a staff member and director of the Senate Budget Committee from 1982 to 2003, and participated in the negotiation over GRH, is now employed at the Bipartisan Policy Center. Steve Bell, who was chief of staff to Pete Domenici while GRH was negotiated in 1985, is also employed at the Bipartisan Policy Center. BPC, which was founded by former Senators Howard Baker, Tom Daschle, Bob Dole, and George Mitchell in 2007, is leading some serious initiatives to reform the congressional budget process. Charles Bowsher, who served as comptroller general under President Reagan, is now one of the board members overseeing the Committee for a Responsible Federal Budget. CRFB's board members also include Jim Jones (chairman of the House Budget Committee), James McIntyre (deputy director of the OMB under Carter), and Charles Stenholm (leader of the "Blue Dog coalition").

was written by Alice Rivlin and Pete Domenici.[9] Among their recommendations, issues like "capital budgeting" and "on- and off-budget status of trust funds" are still pursued and discussed with enthusiasm.[10] Recall that I found these two issues drove wedges between groups with drastically different economic stakes. With the shout that "the congressional budget process is broken" still heard on the Capitol Hill every now and then,[11] we know that the opportunities for interested groups and individuals to shape congressional budget process reform, by identifying problems that allegedly need to be addressed and by proposing solutions they favor, are still there. With a small group of people who been involved in budget process reform for a long time, and have been debating the same issues for forty years or more, the possibility that such a tightly woven issue network serves the interests of a select few may be high.

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[9] Alice Rivlin and Pete Domenici, *Proposal for Improving the Congressional Buget Process* (Washington, D.C.: Bipartisan Policy Center, July 2015).

[10] In a report published by the Congressional Research Service that identifies budget process reform proposals reported from committee, or considered on the floor during 2012, we come across bills that pertain to "biennial budgeting", "budget treatment of government credit activities", "budget status of tax expenditures", "budget treatment of public enterprises" – these old issues that were on the agenda 40 years ago. Congressional Research Service, Library of Congress, "Budget Process Reform: Proposals and Legislative Actions in 2012,"by Megan Suzanne Lynch, R42383 (2012).

[11] The National Budgeting Roundtable, a bipartisan group hosted at the Brookings of scholars and practitioners in the field of budgeting, maintains a list of the most recent statements by members of Congress, and working papers written by scholars on the subject of budget process. Many of such statements and the titles of papers contain the phrase "broken budget process". https://www.budgetingroundtable.com/budget-process-reform-in-congress/

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