PUTTING TRUST IN THE US BUDGET

In the United States many important programs are paid from trust funds. At a time when major social insurance funds are facing insolvency, this book provides the first comprehensive study of this significant yet little-studied feature of the American welfare state. Equally importantly, the author investigates an enduring issue in democratic politics: can current officeholders bind their successors? By law, trust funds, which get most of their money from earmarked taxes, are restricted for specific uses. Patashnik asks why these structures were created, and how they have affected political dynamics. He argues that officeholders have used trust funds primarily to reduce political uncertainty, and bind distant futures. Based on detailed case studies of trust funds in a number of policy sectors, he shows how political commitment is a developmental process, whereby precommitments shape the content of future political conflicts. This book will be of interest to students of public policy, political economy, and American political development.

ERIC PATASHNIK is Assistant Professor in the School of Public Policy and Social Research at the University of California, Los Angeles. He was previously Assistant Professor of Political Science and Lecturer in Law at Yale University. He has also been a Research Fellow at the Brookings Institution.

THEORIES OF INSTITUTIONAL DESIGN

Social scientists have rediscovered institutions. They have been increasingly concerned with the myriad ways in which social and political institutions shape the patterns of individual interactions which produce social phenomena. They are equally concerned with the ways in which those institutions emerge from such interactions.

This series is devoted to the exploration of the more normative aspects of these issues. What makes one set of institutions better than another? How, if at all, might we move from the less desirable set of institutions to a more desirable set? Alongside the questions of what institutions we would design, if we were designing them afresh, are pragmatic questions of how we can best get from here to there: from our present institutions to new revitalised ones.

Theories of institutional design is insistently multidisciplinary and interdisciplinary, both in the institutions on which it focuses, and in the methodologies used to study them. There are interesting sociological questions to be asked about legal institutions, interesting legal questions to be asked about economic institutions, and interesting social, economic and legal questions to be asked about political institutions. By juxtaposing these approaches in print, this series aims to enrich normative discourse surrounding important issues of designing and redesigning, shaping and reshaping the social, political and economic institutions of contemporary society.

Other books in this series
Robert E. Goodin (editor), *The Theory of Institutional Design*
Brent Fisse and John Braithwaite, *Corporations, Crime, and Accountability*
Itai Sened, *The Political Institution of Private Property*
Bo Rothstein, *Just Institutions Matter*
Jon Elster, Claus Offe and Ulrich Preuss, *Institutional Design in Post-Communist Societies: Rebuilding the Ship at Sea*
Mark Bovens, *The Quest for Responsibility*
Geoffrey Brennan and Alan Hamlin, *Democratic Devices and Desires*

PUTTING TRUST IN THE US BUDGET

Federal Trust Funds and the Politics of Commitment

ERIC M. PATASHNIK

CAMBRIDGE
UNIVERSITY PRESS

PUBLISHED BY THE PRESS SYNDICATE OF THE UNIVERSITY OF CAMBRIDGE
The Pitt Building, Trumpington Street, Cambridge, United Kingdom

CAMBRIDGE UNIVERSITY PRESS
The Edinburgh Building, Cambridge, CB2 2RU, UK www.cup.cam.ac.uk
40 West 20th Street, New York, NY 10011–4211, USA www.cup.org
10 Stamford Road, Oakleigh, Melbourne 3166, Australia
Ruiz de Alarcón 13, 28014 Madrid, Spain

First published 2000

Printed in the United Kingdom at the University Press, Cambridge

Typeset in Minion 10.5/12pt [CE]

A catalogue record for this book is available from the British Library

Library of Congress Cataloguing in Publication Data

Patashnik, Eric M.
Putting Trust in the US Budget: Federal Trust Funds and the Politics of Commitment/
Eric M. Patashnik.
p. cm. – (Theories of institutional design)
Includes bibliographical references and index.
ISBN 0 521 77174 9 (hbk.) – ISBN 0 521 77748 8 (pbk.)
1. Pension trusts – United States.
2. Social security – United States.
3. Infrastructure (Economics) – United States – Finance.
4. Budget – United States.
I. Title. II. Series.
HD7105.45U6 P366 2000
336.73–dc21 99–057404

ISBN 0 521 77174 9 hardback
ISBN 0 521 77748 8 paperback

For my parents,
Anne and Bernard Patashnik

Contents

Figures

Tables

Preface

The topic of this book – the role of trust funds in American national budgeting – lies at the intersection of public policy and political science. This is not an accident. My graduate training at Berkeley was in both fields. At Berkeley's Graduate (now Goldman) School of Public Policy, I studied the efficient and equitable design of public policies. After I returned to Berkeley for doctoral studies in political science (having spent two years as a legislative aide in Washington), I became interested in the historical and institutional context in which policymaking unfolds, and in the impact of past choices on present and future options. My interest in federal trust funds was originally stimulated by my inability to make sense of contemporary political debates over Social Security. I noticed that whenever lawmakers discussed the relationship between Social Security and the federal budget, they focused on the spending and income flows of the Social Security Trust Fund. But what was the significance of this arcane fiscal device? If, as I soon discovered, the Social Security Trust Fund was not money under the mattress, what governance roles did the device perform? Answering that question took me rather far afield – back to Social Security's adoption and very early development, and to other policy sectors, such as transportation, where the trust fund mechanism is also employed. The common thread was the attempt by current policy actors to put future budget actors under obligation. A study of the trust fund structures in the federal budget thus offered the chance to explore the US government's performance as promise-keeper.

Of course, promises must be paid for. As I began this project in late 1993, America's social insurance system was coming under scrutiny. If anything, the political debate has only intensified in the ensuing years. As

the baby boomers approach retirement, massive governmental bills are coming due. The prospect of trust fund "insolvency" focuses attention on the need for change, yet officeholders are reluctant to break faith with those who have paid into the current system. This book does not evaluate particular reform options, but its detailed case studies of the origins and development of the major trust funds provide essential background for an understanding of today's debates.

One of the most pleasant aspects of completing this book is that I can finally thank in print the many people and organizations that have helped me along the way. It seems fitting to begin by expressing my deep gratitude to Professor Eugene Bardach, whose late-night phone call convinced me to enter Berkeley's graduate program in public policy. Although Gene was not an official member of my dissertation committee, he has been a superb mentor – and treasured friend – ever since. Gene also provided extremely helpful comments on several chapters during my final push to finish this book.

When I migrated across the Berkeley campus from the Goldman School to the Political Science Department, I found an excellent adviser in Bruce Cain. His encouragement, insight, and wit made thesis writing far more enjoyable than it would otherwise have been. I learned a tremendous amount from Bruce about how to make the difficult transition from student to scholar. John W. Ellwood shared with me his extensive knowledge of American national budgeting. His stubborn questions forced me to clarify my arguments; and Henry Brady was a very helpful third-reader. Finally, I would be remiss if I failed to acknowledge the considerable influence on my intellectual development of the late Aaron Wildavsky. By the time I decided to write a dissertation on a budgeting topic – one that Aaron had identified in a brief passage as worthy of scholarly attention – he had passed away. But earlier in my graduate career I did get the chance to take his unforgettable seminar on political culture. I feel privileged to have known him.

The Brookings Institution afforded me a Research Fellowship in the Governmental Studies Program, an ideal setting in which to complete most of the research for this book. Kent Weaver made significant contributions to this study. He took the time to read both my thesis and some early conference papers, and offered extremely helpful, detailed suggestions for strengthening my analysis. I also received valuable advice from Sarah Binder, Allen Schick, Tom Mann, and Joe White. Also I am indebted to my fellow graduate students Gary McKissick, Carolyn Wong, and Julian Zelizer both for their many intellectual contributions to this project and for their companionship.

Over the years, Julian, a policy historian who shares my interest in the

politics of funding modern American government, has read and reread countless versions of my work. From my initial efforts to construct an argument to my final revisions, he has improved my thinking with penetrating insights of his own. Without his enormous help, this book would look much different.

Since coming to Yale in 1996, I have found a wonderful home in the Institution for Social and Policy Studies. Donald P. Green, the Institute's Director, created a tremendously stimulating environment that aided my work in significant ways. I would like to thank the Institute's talented staff, especially Pam LaMonaca, for all their support. I also wish to express my appreciation to Anthony Kronman, Dean of the Yale Law School, for providing me research support over several summers. And I am happy to give my special thanks to my Yale colleagues and good buddies Martin Gilens and Alan Gerber, whose friendship and lunch-time conversations have kept me grounded and (reasonably) sane.

Paul Pierson gave me excellent advice at a critical juncture in this project's intellectual development. I also wish to thank the scholars who reviewed this book for Cambridge University Press. Their criticisms and suggestions led to many substantive and stylistic improvements. As it happened, my most meticulous and insightful reader chose not to hide her identity. This gives me the opportunity to express my profound appreciation to Martha Derthick for giving me the benefit of her exceptional knowledge about American national government. Martha's sage advice helped me bring out the potential of this book. None of these scholars should be blamed for the remaining defects or mistakes; I alone am responsible.

I thank the Academy of Political Science for allowing me to use greatly revised material from an essay of mine published in *Political Science Quarterly*, vol. 112, no. 3 (1997). Many others also deserve thanks: Jack Citrin, John Cogan, Cathy Cohen, Tom Cuny, Coco Gordon, Michael Graetz, Colleen Grogan, Robert Katzmann, Al Klevorick, Jessica Korn, Martin Levin, Ted Marmor, Jerry Mashaw, David Mayhew, Mathew McCubbins, Roy Meyers, Pietro Nivola, Nelson Polsby, Robert Reischauer, Susan Rose-Ackerman, Irene Rubin, Mark Schlesinger, Stacey Schoenfeld, Ian Shapiro, Stephen Skowronek, Rogers Smith, Fred Thompson, Dan Tuden, Ben Wildavsky, and Ray Wolfinger. I conducted a number of interviews during the course of my research, and I would like to thank the congressional staff members, lobbyists, and executive officials who took the time to speak with me.

Robert Goodin has been an ideal series editor. He was enthusiastic about the project from the start, offered many useful suggestions for strengthening the manuscript, and was patient with me during the long

process of revisions. John Haslam guided the book (and me) through the editing process with a steady hand. And I received outstanding copy-editing, indexing, and production assistance from Anne Rix, Shirley Kessel, and Robert Whitelock.

This book is affectionately dedicated to my parents, Anne and Bernard Patashnik. They have believed in me even when I have doubted myself. I am deeply grateful for their love and support. When authors acknowledge their children in pages such as these, they often note the welcome distractions the kids offered from the hard chore of writing. My sons Michael and Josh provided many pleasant diversions, of course, but they also let me know, in their own way, that they are proud to have a dad who teaches and writes books. For this, and for the many other precious gifts they have given me, my heartfelt thanks.

My largest personal debt is to my wife Debbie Gordon. Since our days as graduate school classmates in Berkeley (thanks for that phone call, Gene!), Debbie has supported me in every way possible. I trust she knows how much our commitment to one another – and our life together – means to me.