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978-0-521-87731-2 - Fiscal Challenges: An Interdisciplinary Approach to Budget Policy

Edited by Elizabeth Garrett, Elizabeth A. Graddy and Howell E. Jackson

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FISCAL CHALLENGES

Fiscal Challenges: An Interdisciplinary Approach to Budget Policy brings together leading experts from a range of disciplines to explore the problems of budget policy. The authors, including top economists, political scientists, historians, psychologists, and legal scholars, together provide a unique, multidisciplinary introduction to the subject. In addition to an in-depth analysis of congressional budget procedures and the economics of federal deficits and debt, *Fiscal Challenges* explores important recent developments in budget policy at the state level and in the European Union. The goal of the volume is to offer readers wide-ranging perspectives on the many different academic disciplines and perspectives that bear on the evaluation of budgetary procedures and their reform.

Elizabeth Garrett is the Sydney M. Irmas Professor of Public Interest Law, Legal Ethics, Political Science, and Policy, Planning, and Development at the University of Southern California. She is also the Co-Director of the USC-Caltech Center for the Study of Law and Politics.

Elizabeth A. Graddy is a professor of public policy and political science at the University of Southern California and the Senior Associate Dean of Faculty and Academic Affairs in the University of Southern California School of Policy, Planning, and Development.

Howell E. Jackson is the James S. Reid, Jr., Professor of Law at Harvard University. His research interests include financial regulation, consumer protection, and federal budget policy.

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FISCAL CHALLENGES

AN INTERDISCIPLINARY APPROACH TO BUDGET POLICY

Edited by

ELIZABETH GARRETT

University of Southern California Gould School of Law

ELIZABETH A. GRADDY

University of Southern California School of Policy,
Planning, and Development

HOWELL E. JACKSON

Harvard Law School



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Preface

How should the government spend society's limited resources? What rules and procedures should legislative bodies and executive officers follow in making spending decisions? To what extent should the government limit itself to spending that can be financed through current taxes, and to what extent should the government rely on the issuance of public debt that will impose financial burdens on future generations? How can we tell if the government's deficits are too high and its public debts too large? What role can and should the general public play in monitoring or defining fiscal priorities? To what extent can constitutional or quasi-constitutional constraints on budget-making procedures improve a country's fiscal decisions? Can we depend on the judiciary to enforce constitutional or other restraints on fiscal policies?

These are deep and difficult questions, and no single academic discipline can provide complete answers. Undoubtedly, economics offers important insights into the implications of annual deficits and the accumulation of public debts. But one must also be versed in the study of political science and the behavior of complicated organizations such as legislative bodies in order to understand the impact and potential consequences of budgetary rules and procedures. The processes whereby the general public forms opinions about matters of public finance – rational and otherwise – also have a place in the study of budget policy. Even some knowledge of the principles of financial accounting is necessary in order to evaluate how the country's financial condition might best be summarized and communicated to broader audiences.

But theoretical understanding alone will never be sufficient to guide sound decision making on such matters. One must have an appreciation of the manner in which budgetary procedures have actually evolved in practice. A process as byzantine as the congressional budget procedures of the federal government can only be understood as an amalgamation of more than a century of innovations and reforms. Historical perspective is also valuable to understand the efficacy and likely ramification of budgetary policies. Over the years, reformers have adopted many procedures designed to rationalize the spending decisions across

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various governmental functions or constrain overall levels of spending. With surprising consistency, these reforms have failed to work as originally intended. To the extent that one envisions a role for the courts in policing budgetary outcomes – as, for example, may be the case for proponents of constitutional amendments requiring a balanced budget – consideration of the success of the courts in fulfilling similar functions in the past could be illuminating. Those who seek to make recommendations for future budgetary reforms without some appreciation of the lessons of the past proceed at their own peril.

Finally, a comparative perspective on experiences with budgetary reforms in other contexts can deepen our understanding of budget policy. Within our own country, the states have experimented with a host of budgetary reforms stretching back over many decades, and they offer a body of evidence that is potentially susceptible to useful empirical analysis. International comparative studies are also of potential interest to the serious student of budget policy. Recent developments in the European Union, where member states have in theory agreed to abide by specific fiscal guidelines, are an especially fruitful source of comparative study.

Our not unambitious goal in constructing this volume is to introduce the readers to these many different perspectives of fiscal policies. We have assembled a number of the world's most prominent scholars on budget policy and invited them to address the topic of a variety of disciplinary perspectives. Our authors include leading experts in economics, political science, congressional budget procedures, legal studies, public behavioral economics, governmental accounting, economic history, European fiscal affairs, state budgetary procedures, and federal–state fiscal relations. We have also attempted to provide methodological diversity, including theorists as well as practitioners, econometric empiricists as well as psychological experimentalists. Some chapters take a historical perspective on the evolution of budget policy, while others are chiefly concerned with issues of current policy. While the volume does not purport to offer the last word on any of these perspectives, we hope to provide readers with useful entry points on most of the major disciplinary perspectives relevant to the study of budget policy.

We also hope that this volume will stimulate greater teaching of budget policy in colleges and graduate schools as well as more research and scholarship on the subject. To facilitate classroom discussions, we include at the end of each chapter a series of questions and comments. In connection with the preparation of this volume, the editors also commissioned a series of 32 briefing papers setting forth literature reviews on various aspects of budget policy and including extensive bibliographies. These briefing papers, which were prepared by students at Harvard Law School, are available online at <http://www.law.harvard.edu/faculty/hjackson/budget.php>. The papers will be updated in the spring of 2008 and periodically thereafter.

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Finally, we owe thanks to many people who helped make this volume possible. Many of the chapters in this volume were initially presented at a conference held at the USC Gould School of Law and sponsored by the USC-Caltech Center for the Study of Law and Politics, the USC School of Policy, Planning, and Development through a grant from the James Irvine Foundation, and Harvard Law School. Betsey Hawkins provided expert administrative guidance at that conference and was invaluable in coordinating many months of work on the manuscript. Without her tireless work and good humor, this book would not have been possible. We appreciate the research assistance of the following students: Christopher Craig ('07) and Robert Porter ('08) of Harvard Law School as well as Jeffrey R. Makin ('07), Brent Tubbs ('07), Meegan Maczek ('08), Jennifer Wiegley ('08), Derek Lazzaro ('09), and Daniel Schwartz ('09) at USC Gould School of Law. We also appreciate the support we received from John Berger at Cambridge University Press.

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Jonathan Baron is Professor of Psychology at the University of Pennsylvania, where he teaches Judgments and Decisions and Behavioral Law and Economics. Baron is the author of several books, including *Thinking and Deciding* (1988, 1994, 2000, 2008), a widely used textbook, and he is Editor of the journal *Judgment and Decision Making*. He is a Fellow of the American Association for the Advancement of Science and of the Association for Psychological Science.

Cheryl D. Block recently joined the faculty at Washington University in St. Louis as a Professor of Law after many years on the faculty at the George Washington University Law School.

Michael J. Boskin is the T. M. Friedman Professor of Economics and Hoover Institution Senior Fellow at Stanford University. He is also Research Associate, National Bureau of Economic Research. An advisor to governments and businesses globally, Dr. Boskin also serves on several corporate and philanthropic boards of directors. He served as Chairman of the President's Council of Economic Advisers (CEA) from 1989 to 1993.

Richard Briffault is the Joseph P. Chamberlain Professor of Legislation at Columbia Law School, where he also is the Director of Columbia's Legislative Drafting Research Fund. His primary areas of research, teaching, and writing are state and local government law, election law, and property.

William G. Dauster is Deputy Staff Director and General Counsel for the U.S. Senate Finance Committee. He has served on Senate and White House staffs since 1986, including periods as Deputy Assistant to the President for Economic Policy and Deputy Director of the National Economic Council during the Clinton administration, as well as Democratic Staff Director for the Senate Budget Committee and the Senate Labor and Human Resources Committee. He has written three editions of a book called *Budget Process Law Annotated*.

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Elizabeth Garrett is the Sydney M. Irmas Professor of Public Interest Law, Legal Ethics, Political Science, and Policy, Planning, and Development at the University of Southern California. She is also the Co-Director of the USC-Caltech Center for the Study of Law and Politics (CSLP). She serves on the Board of Directors of the Initiative and Referendum Institute at USC. President George W. Bush appointed her to serve on the nine-member bipartisan Tax Reform Panel that released its final report in November 2005. Her primary scholarly interests are legislative process, direct democracy, the federal budget process, study of democratic institutions, statutory interpretation, administrative law, and tax policy. She is the coauthor of the fourth edition of the leading casebook on legislation and statutory interpretation, *Cases and Materials on Legislation: Statutes and the Creation of Public Policy*, and of the second edition of *Legislation and Statutory Interpretation*. She is the author of many articles and book chapters analyzing campaign finance laws, courts and political parties, various congressional procedures, judicial review of regulatory statutes, the initiative process, and the California recall. Before entering academia, she clerked for Justice Thurgood Marshall on the U.S. Supreme Court, and she served as legal counsel and legislative director for Senator David L. Boren (D-Okla.).

Tracy M. Gordon is an assistant professor in the School of Public Policy at the University of Maryland and an adjunct Fellow at the Public Policy Institute of California. Her research interests are state and local public finance, urban economics, and political economy. She holds a Ph.D. in public policy with a concurrent M.A. in economics from the University of California, Berkeley.

Elizabeth A. Graddy is a professor of public policy and political science at USC and the Senior Associate Dean of Faculty and Academic Affairs in its School of Policy, Planning, and Development. Her research focuses on the private-sector role in public functions, how industry and organizational structure affect performance, and how information asymmetry and uncertainty affect institutional design and effectiveness. These interests have led to numerous publications addressing the performance of public and private institutional arrangements, including private provision of public services, state budgetary processes, tort liability laws, licensing boards and regulatory outcomes, and hospital industry structure and performance. Her current work focuses on public–private alliances providing public services, community foundations and local governance, and state healthcare regulation. Professor Graddy is a past public member and vice president of the California State Board of Podiatric Medicine. She received her doctorate from Carnegie Mellon University.

Jennifer Bravo Grizard is a Master of Public Policy graduate of the University of Southern California, School of Policy, Planning, and Development.

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John Harrison is the David Lurton Masee, Jr., Professor of Law and the Henry L. and Grace Doherty Charitable Foundation Professor at the University of Virginia. His teaching subjects include constitutional history, federal courts, remedies, corporations, civil procedure, legislation, and property.

Howell E. Jackson is the James S. Reid, Jr., Professor of Law at Harvard Law School. His research interests include financial regulation, international finance, consumer protection, federal budget policy, and Social Security reform. Professor Jackson has served as a consultant to the United States Treasury Department, the United Nations Development Program, and the World Bank/International Monetary Fund. He is a member of the National Academy on Social Insurance, a trustee of the College Retirement Equities Fund (CREF) and its affiliated TIAA-CREF investment companies, a member of the panel of outside scholars for the NBER Retirement Research Center, and a senior editor for the Cambridge University Press series on International Corporate Law and Financial Regulation. Professor Jackson frequently testifies before Congress and consults with government agencies on issues of financial regulation. He is the coauthor of *Analytical Methods for Lawyers and Regulation of Financial Institutions* and the author of numerous scholarly articles. Before joining the Harvard Law School faculty in 1989, Professor Jackson was a law clerk for Associate Justice Thurgood Marshall and practiced law in Washington, D.C. Professor Jackson received juris doctor and master of business administration degrees from Harvard University in 1982 and a bachelor of arts degree from Brown University in 1976.

Thad Kousser is an associate professor of political science at the University of California, San Diego. His general research interests include legislative politics, policy making, and political regulation. His publications include work on the initiative process, term limits, reapportionment, campaign finance laws, the blanket primary, healthcare policy, and European Parliament elections.

Edward J. McCaffery is the Robert C. Packard Trustee Chair in Law, Political Science and Economics at the University of Southern California and Visiting Professor of Law and Economics at the California Institute of Technology. The author of many articles and several books, he recently coedited *Behavioral Public Finance* (Russell Sage Press) with Joel Slemrod.

Mathew D. McCubbins is the Chancellor's Associates Chair VIII in the Department of Political Science at the University of California, San Diego. He is the coauthor of six books. He is also editor or coeditor of eight additional books and has authored more than 90 scientific entries, with one winning the 1986 Congressional Quarterly Prize for best article on legislative politics and another winning the 2005 APSA SPPQ Award.

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Contributors

Juliet Ann Musso is an associate professor of public policy at the University of Southern California School of Policy, Planning, and Development. She has expertise in federalism and urban political economy, with specific research interests in intergovernmental fiscal policy, local institutional reform, and community governance.

Kaj Rozga is a graduate of the University of California, San Diego.

David A. Super is a professor of law at the University of Maryland School of Law. Before joining the faculty at the University of Maryland, Professor Super served as general counsel to the Center on Budget and Policy Priorities.

Adrian Vermeule is a Professor of Law at Harvard Law School. He was a professor at the University of Chicago Law School from 1998 to 2006. His interests include legislation and legislative process, administrative law, and constitutional law.

Jürgen von Hagen is a professor of economics at the University of Bonn and a Research Fellow of CEPR, London. He previously taught at Indiana University and the University of Mannheim, Germany. Von Hagen has been a consultant to the IMF, the World Bank, the Interamerican Development Bank, the European Central Bank, and numerous national governments.

John Joseph Wallis is a professor of economics, University of Maryland, and a National Fellow, Hoover Institution, Stanford University. His primary fields of research are the economic history of American government and the political economy of government promotion or retardation of economic development.

Barry R. Weingast is a senior Fellow at the Hoover Institution as well as the Ward C. Krebs Family Professor in the Department of Political Science at Stanford University. He is also a professor of economics, by courtesy, at the university. He was a Fellow at the Center for Advanced Study in the Behavioral Sciences from 1993 to 1994. Weingast is an expert in political economy and public policy, the political foundation of markets and economic reform, U.S. politics, and regulation.