

The Implosion of the Federal Budget Process: Triggers, Commissions, Cliffs, Sequesters, Debt Ceilings, and Shutdown

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Budgeting in the federal government recently imploded. The competing parties played repeated games of chicken in which they set short-term budget deadlines and established automatic procedures in hopes of outmaneuvering their opponents. They went to the brink of defaulting on the government's debt, and then shut down the government. This article recounts the history of this implosion and discusses what might have caused it. Budgeting's decline was certainly driven by partisan conflict. Yet budgeting's decline was also due to a dumbing down of aspirations for the process. Ironically, budget hawks contributed substantially to this when they endorsed "action-forcing mechanisms" that they hoped would constitute "credible commitments" to adopt sustainable budgetary policies. Even if their aspirations were partially realized, their logic was flawed and the collateral damage was substantial.

"Obama, Congress Must Reach Deal On Budget By March 1, And Then April 1, And Then April 20, And Then April 28, And Then May 1, And Then Twice A Week For Next Four Years"—Headline in *The Onion*, February 27, 2013

"So we're going to hit the debt ceiling then go off the fiscal cliff. I assume an anvil lands on us after that."—@pourmecoffee, December 26, 2012

INTRODUCTION¹

The tweeter Pourmecoffee's analogy of federal budgeting to the Roadrunner cartoons was apt. In his fruitless attempts to capture the "Super-sonicus-tastius" bird, the hapless Wile E. Coyote

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1. Thanks to reviewers for very helpful comments on drafts of this article.

(“Desertus operatus idioticus”) progresses in his choice of weapons from an anvil to increasingly complicated ACME products such as “Dehydrated Boulders,” “Tornado Seeds,” and “Earthquake Pills.” They all backfire on the hunter, whose face shows the “not again” feeling as he plummets to the desert floor, is squashed by the anvil, and suffers other indignities deserved by the too clever by half.²

Observers of federal budgeting on March 1, 2013 reasonably might have wondered if the evolutionary tree needed revision, to place Homo Sapiens closer to Wile E. Coyote. On that date, the figurative anvil did land: sequestration was ordered pursuant to the provisions of the 2011 Budget Control Act (BCA), as amended in the “fiscal cliff” deal enacted by the American Tax Relief Act (ATRA, enacted January 2, 2013). By then, as the headline from *The Onion* suggested, such last-minute confrontations had become routine in federal budgeting, so much so that it was difficult to call the process “budgeting” anymore.

Budgeting when practiced well enables governments to plan and control the allocation of their financial resources in light of policy priorities and the macroeconomic situation. By 2013, the parties and branches instead warred repeatedly over binary choices: whether to raise the debt ceiling or default, to pass appropriation bills or shutdown the government, and to allow or cancel scheduled tax increases and spending cuts. While leaders sometimes negotiated in private, they mostly worked to blame their opponents through media appearances and campaign-style events. The tradition in budgeting of splitting the difference was replaced with obstinance, especially by those advantaged temporarily from the current context. “Budgeting” became repeated games of “chicken.”

This period can be compared to the dynamic described in the classic *Budgeting in Poor Countries*, by Caiden and Wildavsky (1980). They documented a process of repetitive budgeting, in which countries went through the motions of preparing budgets on paper, which often turned out to be worthless because of revenue volatility. The treasuries then revised the notional budgets from month to month; if and when revenues came in, some lucky agencies learned they could spend, while others were left with the meaningless promises of an unrealistic plan.

Over the past decade, U.S. government agencies also engaged in much repetitive budgeting—but this was caused by the choices of politicians rather than necessitated by poverty. Many continuing resolutions preceded regular appropriation bills, in part because the Congress had not agreed on budget resolutions. Agencies regularly prepared for potential shutdowns, which crowded out time for anticipating and managing important policy challenges. These repeated uncertainties impaired the abilities of contractors, grantees, and public employees to provide public goods and services efficiently (Meyers 1997; Joyce 2012; Rein 2013).

The implosion period also featured bad policy choices. While long-term projections justifiably warn of unsustainable debt levels, the deficit reductions that were enacted in the name

2. Memories of these cartoons were refreshed by consulting http://en.wikipedia.org/wiki/Wile_E._Coyote_and_The_Road_Runner. In the real world, of course, coyotes are far from hapless.

of avoiding this risk were counter-productive. As the IMF observed in its 2013 Article IV Mission Concluding Statement,

On the fiscal front, the deficit reduction in 2013 has been excessively rapid and ill-designed. In particular, the automatic spending cuts (“sequester”) not only exert a heavy toll on growth in the short term, but the indiscriminate reductions in education, science, and infrastructure spending could also reduce medium-term potential growth. These cuts should be replaced with a back-loaded mix of entitlement savings and new revenues (International Monetary Fund 2013).³

HOW THE BUDGET PROCESS IMPLoded

A natural starting point for describing the implosion of budgeting are the years surrounding the millennium—when federal budgets had surprisingly shifted from red to black, when baselines showed surpluses as far as the eye could see, and when the Fed chair worried publicly about not having any Treasury securities in circulation.⁴ But as the next decade progressed, budgetary limits such as PAYGO rules and discretionary spending caps were abandoned, Vice President Cheney argued that “deficits don’t matter,” and baseline deficits returned. Then the Great Recession hit in 2007, and laws to rescue the financial system and stimulate the economy were adopted—all of which pushed the annual federal deficit above \$1 trillion. That was a big number, large enough to worry casual observers of federal finances.

In 2010, following the election of President Obama and with large Democratic majorities in the Congress, Democrats finally succeeded in enacting a comprehensive health insurance reform, informally known as the Affordable Care Act (ACA). Though the law had strong Republican antecedents, Republicans unanimously opposed the law, preferring to label it with a term they viewed as pejorative: “Obamacare.” House Minority Leader John Boehner well channeled their feelings with a concluding floor speech that explained his “no” position on the law by shouting “Hell, No!”

Especially after the 1989 rise of Newt Gingrich to the House Minority Whip position, partisan polarization in the Congress had increased substantially and asymmetrically, particularly in the anti-tax ideological rigidity on the Republican party (McCarty, Poole, and Rosenthal 2006). Grassroots opposition to the ACA and other factors helped Republicans coalesce into even more conservative Tea Party forces, who argued that the GOP had lost its way during a period of “big government conservatism” under President George W. Bush and earmark-supporting leaders such as Rep. DeLay. This mobilization helped Republicans retake the House in the 2010 midterm election (Skocpol and Williamson 2012), though the Democrats narrowly retained control of the Senate. The Republican minority in the Senate had already been following the playbook partially written by Democrats when they were in the minority—using filibuster threats and other procedures to prevent most legislative actions. By 2011 the Republicans’ harder stance ruled out many political compromises that would have been considered in the past, so

3. See also Ball, DeLong, and Summers (2014).

4. For a discussion of the Congressional budget process before this time, see Meyers and Joyce (2005).

much so to convert the Washington insiders Mann and Ornstein into trenchant critics of the Republicans (Mann and Ornstein 2012). Some Democrats suggested that “GOP” no longer stood for “Grand Old Party”—instead it was an acronym for “Gridlock, Obstruction, and Partisanship.”⁵

That characterization was taken as a point of pride by some GOP legislators; others claimed that Democrats were instead the barrier to compromise for refusing to recognize that the country had taken a sharp turn rightward in 2010. The Obama administration instead preferred to rely on the electoral message of 2008, and hoped for a recurrence in 2012. But the White House was also staffed by many moderates with experience in the deficit-reducing Clinton administration, and so was amenable to negotiation on a possible “grand bargain”—a comprehensive package of deficit reductions that matched spending cuts with tax increases. Along these lines, in 2010 President Obama created through executive order the National Commission on Fiscal Responsibility and Reform (nicknamed “Bowles–Simpson” after its co-chairs; hereafter “B–S”). It was based on a long-standing proposal by Senators Gregg and Conrad. The commission was charged with negotiating a deficit reduction deal, that if it was supported by 14 of 18 commission members, was informally promised votes on the floors of the Senate and House. A proposal by the chairs had provisions that were intensely disliked by members of both parties, and only eleven members supported it.⁶

During 2011, House Speaker Boehner engaged in a closed-door negotiation with President Obama over a large budget deal, but that negotiation failed. Republicans blamed the President for being an unfaithful bargainer, while Democrats pointed to the hold that the anti-tax “pledge” had on the Republican party (Bai 2012). Conservatives in the GOP were adamant that the debt ceiling not be raised absent compliance with their negotiating position of the “Boehner rule,” which would require a dollar cut in spending for every dollar increase in the debt ceiling. This would have produced very large spending cuts, which were odious to Democrats. Liberals preferred a “balanced approach” that would pair spending cuts acceptable to them with tax increases.

After pushing the government to the brink of default, the parties then compromised temporarily by enacting the Budget Control Act of 2011 (BCA)—though concerns about political intransigence still led Standard and Poor’s to issue a financially meaningless credit rating downgrade for the U.S. Government. The BCA raised the debt ceiling, cut discretionary spending by establishing 10 years of caps on defense and non-defense categories, and established the Joint Select Committee on Deficit Reduction (informally known as the “Supercommittee”).⁷ This committee comprised six senators and six representatives, equally split between the parties. The subsequent failure of the committee to propose a deficit reduction plan by simple majority vote triggered the BCA’s requirement that spending be reduced using the automatic process of

5. See also Gilmour (1995).

6. The opposition came from three House Republicans, two House Democrats, a Democratic Senator, and a former labor leader; voting in favor were the two chairs, three Republican Senators, two Democratic Senators, a House Democrat, and the remaining public members.

7. For details of this legislation, see Heniff et al. (2011).

“sequestration.” These triggered cuts applied to most discretionary programs and a subset of mandatory programs, based on the design and language of the 1985 Balanced Budget and Emergency Deficit Control Act (aka Gramm-Rudman-Hollings, or GRH), as amended.

Sequestration was not to occur until more than a year after Supercommittee inaction—at the beginning of calendar year 2013, the same time that tax cuts adopted during the Bush and Obama administrations were scheduled to expire. The combined effects of this “fiscal cliff” were projected by the Congressional Budget Office (CBO) to produce a mild recession in the first half of calendar 2013, adding to the unemployment misery of the not-so-great recovery from the Great Recession. After extensive public positioning against each other, Democrats and Republicans joined on the last day possible in the 112th Congress to pass the ATRA bill that delayed the sequester for two months and slightly changed its terms. ATRA also extended many of the tax cuts that were scheduled to expire, but tax rates for the top bracket were allowed to increase. Obama’s electoral victory had created a mandate for this action.

Obama had also taken advantage of the “reversion point”—the policy that would be in effect under current law if there was no action to change that law. That policy would return tax rates for all brackets to their Clinton-era levels, causing a tax increase that Republicans wanted to avoid at all costs. In contrast, the reversion point for nondefense discretionary spending favored Republicans, since they desired lower spending than Democrats did. While considering ATRA, some liberal Democrats wanted to go much further than Obama did, by diving over the cliff and letting all tax cuts expire (Khim 2012a, 2012b; Granholm 2012). Their logic was that after higher revenues were in place, legislators could then claim credit for adopting larger tax cuts; this might improve the Democrats’ bargaining position in any negotiation to reach a balanced compromise with Republicans.

To counter criticism that large tax increases would be a drag on the economy—a Keynesian argument liberals quickly made in opposition to spending cuts—some liberals suggested that the “fiscal cliff” was instead a “fiscal slope.” By this they meant that since any tax increases would be phased in and could be reversed within several months, the economic drag would not be that great. To the hill of metaphors with “cliff” and “slope,” one might add “fiscal bluff,” for Obama declined to go along with his party’s liberal wing on broader tax increases. On spending cuts his message also diverged from the liberal line—during one of the fall debates he mentioned that the sequestration cuts “won’t happen,” leading his supporters once again to wonder about his negotiating sophistication (Herb and Wasson 2012). They had hoped that the prospect of sequester cuts to defense would force conservatives to negotiate on taxes.

With the tax increase issue settled in the eyes of the GOP, attention turned back to spending. Congress had already enacted a six-month continuing resolution for FY13, meaning that the 12 regular appropriation bills would have to be enacted by the end of March. The sequester was now scheduled to occur at the beginning of March. And the practical debt ceiling—after Treasury exhausted its extraordinary measures for paying the bills—was likely to be reached in February. In that month, the “No Budget, No Pay Act” provided cover to those Republicans whose votes were needed to increase the ceiling—it threatened Senators with no compensation if they did not pass a budget resolution. The Treasury was permitted to borrow what it needed until May 19, when the new debt ceiling would be established at the level of borrowing on that date, after which

Treasury would again have to use what now could be called “routine extraordinary measures,” setting up another debt ceiling showdown in the fall.⁸

Guidance issued in July and September 2012 by the Office of Management and Budget (OMB) about the FY2013 continuing resolution had suggested that agencies should spend at the prior year’s rate rather than at a slower rate which anticipated further cuts from a 2013 sequester. Under the law, sequestration was to be applied at the “program, project, and activity” (PPA) level—and regardless of their relative values to the nation, each PPA was to be reduced by the same proportions that applied to the main categories of PPAs. When originally proposed, advocates of sequestration did not intend that this intentionally dumb approach would be implemented; rather, they hoped the threat of sequestration would stimulate action to make cuts in a more targeted fashion. To illustrate how dumb the sequestration cuts might be, in August 2012, Congress through the Sequestration Transparency Act required OMB to project how sequestration would affect spending accounts. But OMB’s report released in September did not provide detail on how much specific PPAs would be cut, though some department secretaries (e.g., LaHood of Transportation and Panetta of Defense) did publicize selected negative impacts.

OMB’s late February 2013 guidance on implementing sequestration gave agencies some significant leeway; on March 1, OMB issued the sequester order. The continuing resolution enacted three weeks later shifted some funds toward accounts such as defense operations and maintenance, but many legislators publicly claimed that the President and agencies had even greater flexibility to protect selected PPAs these legislators favored, contrary to both the sequester legislation and traditional appropriation practices.⁹ Some legislators even proposed that the President be given complete flexibility to transfer and reprogram funds, but defenders of the Congressional power of the purse won the day. The Obama administration also opposed that flexibility, in part because it would force the administration to choose the accounts to suffer deep cuts, which would focus blame on the administration (Weisman and Shear 2013). Additional evidence of Obama’s strategy of blame avoidance was the President did not present the Congress with his budget request until April, over two months after the statutory deadline—though in February, he had mounted a public relations campaign to warn of the sequester’s impact, such as by holding a campaign-style rally in Newport News, an area with heavy defense spending.

After the sequester happened, media variously reported that the impact: (a) could not yet be seen and that the public was not much concerned; or (b) was real and that the public was upset. The latter stories included that the National Park Service told visitors to “blame the sequester” for not plowing snow from the access roads to Yellowstone, and that Medicare patients were no longer going to be provided anti-cancer drugs by oncologists because of how sequestration interacted with a quirk in reimbursement policy. But the most visible case of sequester impact was the Federal Aviation Administration, which decided that all its staff, including air traffic

8. An example of the absurdity of using the debt ceiling as threat is the bill introduced by Rep. Brooks that would increase the debt ceiling only after the Congress sent a balanced budget constitutional amendment to the states. Under this amendment, a President would be empowered to take “such steps as are necessary” to avoid a deficit; failing to do so would be an impeachable offense (Kasperowicz 2013).

9. See, e.g., Ethridge (2013).

controllers, would be furloughed for up to 11 days through the rest of FY13. Though some legislators complained that the agency was using the well-known “Washington Monument strategy,” the frequently flying legislators passed the Reducing Flight Delays Act to grant the FAA business-class (but not first-class) budget flexibility. Other agencies, particularly those with less political influence (such as Head Start and low-income housing) stayed in coach. Most agencies announced many furlough days, to start in April after a required lag to inform their employees; some furloughs were canceled after agencies shifted the cuts to training, travel, maintenance, and contracts.¹⁰

As the impacts of the FY13 sequestration became more visible and disliked, attention turned to the questions of whether these impacts would be ameliorated in FY14, and which party had gained an advantage, or lost least, from the FY13 sequestration. Ezra Klein concluded that:

Cuts to programs used by the politically powerful will be addressed, but cuts to programs that affects the politically powerless will persist. It’s worth saying this clearly: The pain of sequestration will be concentrated on those who lack political power (2013).

Roll Call reported that:

Republican aides said the GOP has maneuvered the president into a corner. Aides believe the sequester will affect Democratic constituencies more deeply than Republicans’, and by adding defense-related bills into the continuing resolution, they feel they can pacify their own hawks longer than Congressional Democrats can keep in line their members who cherish social programs (Dennis and Newhauser 2013).

In mid-March, both the Senate and House passed budget resolutions for FY14; both included appropriation ceilings for defense that far exceeded the BCA caps. The House would offset the defense increases by cutting some nondefense appropriation bills by double-digit percentages from the previous year’s levels, and the Senate would offset by raising taxes. Enough Senate Republicans and the vast majority of House Republicans opposed appointing conferees on the competing budget resolutions unless the budget committee chairs first agreed on a framework that rejected any tax increases; the White House issued a threat to veto appropriation bills in the absence of a overall budget framework. So by the summer of 2013, the government was again facing an expiring debt ceiling, no budget resolution, and the possibility of a government shutdown because appropriation bills had not passed. This time the shutdown happened.

It is ironic that Republicans, whose party symbol is an elephant, had such a collectively poor memory of the two major shutdowns of 1995–1996. President Clinton had persuaded the public that Republicans wanted to eviscerate spending on “Medicare, Medicaid, education and the environment,” and the Republicans were blamed for triggering the shutdown. In 2013, many Republicans were convinced they were on firmer ground, as opponents of federal spending and taxing in general, and as would-be terminators of “Obamacare,” which in the abstract was not popular with the American public (Carney 2013). However, it was unthinkable that Obama

10. Jared Bernstein’s *On the Economy* blog had a useful compilation of sequester impact articles, e.g., <http://jaredbernsteinblog.com/sequester-watch-16/>.

would abandon his historic legislative achievement in exchange for ending a government shutdown, and Republicans were unable to maintain a persuasive message about their demands for acceding to a reopening of the government.

As the impasse continued, the House passed rifle shot bills to cancel shutdowns for favored programs and beneficiaries. Some establishment Republicans had not thought the shutdown was a smart tactic to begin with, and after several weeks of receiving more and more blame for the shutdown, the Republicans completely caved. They passed a short-term continuing resolution, increased the debt ceiling, and agreed to appointment of budget conferees. Influential Republican activist Grover Norquist advised that Republicans should “Keep the sequester and say that’s the win” (Krawzak 2013).

A negotiation between Budget Committee chairs Rep. Ryan and Senator Murray then led to the minimum possible deal. It increased appropriation ceilings for two years, split equally between defense and non-defense, offset by a range of minor savings mostly in mandatory spending in later years. The sponsors argued that the deal represented visible proof that the two parties could cooperate, as claimed by its formal title, the “Bipartisan Budget Act of 2013.” It almost exactly split the difference on the appropriation total between the March-passed House and Senate budget resolutions—having taken nine months to reach that point.

In sum, during this period of implosion, the parties reached only short-term agreements, and with great difficulty. Several attempts to delegate responsibility for designing a grand bargain of tax increases and spending cuts failed. The President and Congress came close to defaulting on the public debt; Presidential economic advisor Austin Goolsbee was correct when he said that this would have been “the first default in history caused purely by insanity.”¹¹ The outcome next worst to default did occur, though, when government was shut down over an appropriations impasse. Sequestration—once found wanting as a threat intended to motivate action—was reincarnated in hopes that it would work this time. The threat became real, but it produced large cuts to discretionary spending rather than stimulating a grand bargain with a more intelligent policy mix.

EXPLAINING IMPLOSION–PARTISAN POLARIZATION AND BEYOND

Among many citizens, who observed budgeting at a distance and with massive filtering by media, the budget (in)actions of recent years generated gut responses such as: “a pox on both their houses;” and “stop bickering, get back to work, and pass the budget.” These apartisan reactions were simplistic, but also justifiable. Budget norms had weakened to the point that most elected officials were not embarrassed when they failed to agree on a budget resolution or to pass appropriation bills on time. A more generous view was that the parties had legitimate policy differences, but the partisan positioning and ideological posturing that is to some degree necessary got out of hand—as implied by the “game of chicken” metaphor.

A more partisan interpretation lays most of the blame for the recent events on the Republican party and especially the intransigence of its Tea Party forces (Parker and Barreto 2013). Playing

11. Bellantoni (2011); see Kowalcky and LeLoup (1993) for a still relevant analysis of debt ceiling politics.

hardball, Republicans were more than willing to use a government shutdown in hopes of delivering the policy results they desired, and then taking sequestration as a consolation prize.

A third interpretation goes beyond the parties and points to how some budget experts validated and promoted extraordinary budget procedures as substitutes for a “regular order” that was not working well. Their assumptions about how these extraordinary procedures might work were optimistic, to say the least.

To sift through these views, it is helpful to expand the chronological narrative of implosion. Once it became apparent that the 2013 sequestration was going to shift from threat to reality, Republican rhetoric sought to convince the public that the blame for sequester cuts they disliked should be placed on President Obama. They publicized the hashtag “#Obamaquester,” and Speaker Boehner stated at a news conference:

Let me make clear: I don't like the sequester... I think it's taking a meat ax to our government, a meat ax to many programs and it will weaken our national defense,... That's why I fought to not have the sequester in the first place. But the president didn't want to have to deal with the debt limit again before his reelection (Sherman, 2013).

But the rebirth of sequestration was not the sole responsibility of the President; sequestration had many parents, including leaders of the GOP.¹² For example, in 2011, the House GOP leadership had supported sequestration in an internal document it produced to convince its Tea Party wing to support the BCA (Avlon 2013). And after the sequester, another internal strategy memo from Boehner claimed:

We made the decision to center the spending debate on sequestration rather than on the debt ceiling or legislation to keep the government running, denying the president the ability to hide behind straw men in his reluctance to control spending (O'Keefe, 2013).

To clarify, “sequestration” had come to mean two different things: to experts, proportional cuts triggered by failure of the Supercommittee or by excess spending above spending caps; and to non-experts, simply a policy of much lower government spending. To the Tea Party, the latter was not a bad idea whose time had come because of Obama's inaction, but rather a good idea that should never go away. Republicans were not alone in variously endorsing and repudiating sequestration. A fact sheet on the BCA from the Democratic Policy and Communications Center claimed as one of the law's highlights that it established “a proven enforcement mechanism that will compel painful spending cuts (50 percent defense/50 percent non-defense) that will force Congress to act” (Democratic Policy and Communications Center 2011). The reference to the “proven” mechanism was about the threat of sequestration, which Democrats had previously maintained was a failure under GRH.

The GOP had historically been more supportive of setting aggregate budgetary targets and then applying automatic procedures at specified times to cut spending to meet those targets. Some of its younger leaders, such as Representatives Hensarling and Ryan, had sponsored the

12. See Woodward (2013), for a version of the Republican argument, and Bernstein (2013), for a version of the Democratic argument. On the division within the GOP on sequestration, see Sargent (2013).

“Family Budget Protection Act,” that would use sequestration to cap discretionary and entitlement spending (Riedl 2004). By 2011, the Republicans’ approach had evolved into ten budget process reform bills, which are described in Box 1 (see also Carter 2012; Keith 2010).

Box 1. Republican House Budget Committee Budget Reform Proposals of 2011

1. The Legally Binding Budget Act would convert the concurrent budget resolution (which does not require the President’s signature) to a joint budget resolution (which does).
2. The Biennial Budgeting and Enhanced Oversight Act would change the timetable of budget submission, and enactment of appropriation bills, to every odd year. The even year would be reserved for passage of authorization bills.
3. The Government Shutdown Prevention Act would provide automatic funding to agencies should regular appropriation bills not be enacted by the beginning of the fiscal year. The funding level would be 99 percent of the previous year’s level, to be reduced by 1 percent every succeeding quarter.
4. The Expedited Line-Item Veto and Rescissions Act would allow the President to propose cancellation of individual provisions in enacted appropriation bills, and would require the Congress to take up-or-down votes on those proposals.
5. The Spending Control Act would set procedures by which the budget resolution would cap spending and the deficit as percentages of Gross Domestic Product (GDP), and would also set three other caps: for Medicare, for Medicaid and other health spending, and for other mandatory spending. Projected spending above the caps would be reduced by automatic cuts. The bill would also alter the pay-as-you-go (PAYGO) process; that process requires bills that increase mandatory spending and/or cut taxes to offset any resulting deficit increases by making cuts to other mandatory spending and/or increase other taxes. The reform would require offsets only for increases to mandatory spending (aka “CUTGO”).
6. The Balancing our Obligations for the Long-Term Act would apply the proposed Spending Control Act act over almost four decades. It would cap government spending at 20 percent of GDP for FY2030, FY2040, and FY2050. It also would require periodic projections of the long-term fiscal sustainability of the United States by the Government Accountability Office (GAO), the OMB, and the CBO.
7. The Baseline Reform Act would require that the budget baseline not increase discretionary spending for projected inflation.
8. The Review Every Dollar Act would sunset programs by limiting authorizations of new programs to seven years. It would require that spending reductions made to appropriation bills on the floor cause spending ceilings to be automatically reduced.
9. The Budget and Accounting Transparency Act would require the costs of federal credit programs be calculated using fair-value accounting, and would mandate studies on extending this practice to federal insurance programs.
10. The Pro-Growth Budgeting Act would require CBO to use dynamic scoring—that is, include macroeconomic feedback effects—when the effect on GDP would be greater than 0.25 percent.

Along with these bills, the House GOP emphasized several variants of bills that they maintained would “Cut, Cap, and Balance” (Republican Study Committee 2012) the general approach was to cap spending between 16.6 percent and 20 percent of GDP, prohibit revenue increases above current policy, and propose a constitutional amendment to balance the budget.¹³ The proposals numbered 5 and 6 in Box 1 would have led to automatic spending cuts that were larger than those implemented under the BCA. In the midst of the partisan blame game on sequestration, those bills were dropped from the process reform proposals the House Budget Committee made in 2013.

To justify its proposals, the HBC provided a useful history of the budget process (Ryan 2011a) and a detailed description of the current budget process and the proposed bills.¹⁴ As Clinton did during the previous shutdown, Republicans also relied on hyperbole—modern politicians excel at “message discipline,” the simplification of a policy stance into sound bite language and the extensive repetition of such phrases (Tringali 2009). So the House Budget Committee document “The Path To Prosperity” claimed that:

Despite the best intentions of budget reformers over the years, mechanisms for spending restraint have broken down over time, and the rules remain stacked in favor of politicians who want to spend more money (Ryan 2012, p. 71).

This message was consistent with the party’s popular sound bite that “the government has a spending problem.”

The incentives currently favor those who seek to increase government spending, and the result is a crushing burden of debt that is hurting economic growth today and threatening economic prosperity tomorrow (Ryan 2011b, p. 1).

Republicans made no mention of political incentives to cut taxes, which increase the deficit just as uncontrolled spending does. They also used the passive voice to hide the identities of all who had increased the deficit; Republicans wanted the targets of their message to infer that only Democrats were at fault, because the “mechanisms of spending constraint have broken down” (Smith 2007). The House GOP’s communications strategy was effectively coordinated with supportive advocacy organizations such as the Heritage Foundation, the Cato Institute, and the Mercatus Center, and with friendly media organizations. These organizations helped Republicans frequently emphasize to the public the accurate charge that the Democratic-controlled Senate had not passed a budget in three years (Brownfield 2012).

Democrats, in contrast, did not emphasize budget process reforms. Though Obama followed the practice of his predecessor by including in the budget’s *Analytical Perspectives* volume a

13. The Budget Control Act included a provision to require House and Senate votes on the constitutional amendment; in fall 2011 both bodies failed to muster the required two-thirds majority in support (Hart 2011; see also Kogan and Merrick 2011).

14. Committees often provide such materials, drawing on the experience of committee budget staff and on excellent support from the Congressional Research Service. The *Budget Bulletin* prepared by the Republican staff of the Senate Budget Committee has been an especially helpful source on technical aspects of the Congressional budget process.

chapter on process reform, he proposed mostly minor changes. The exception was a proposal to replace the BCA sequestration with a medium-term debt reduction process that would raise taxes through limitations on tax preferences (see also Ygelsias 2012). Among Democratic Representatives, a notable exception was Mike Quigley, who proposed a long list of informational reforms (Quigley 2010). The exception in the Senate was Senator Conrad, a long-time leader on the Senate Budget Committee (SBC). He alternated between defending SBC actions under his leadership and arguing that the process was broken. But rather than promote budget process fixes, with the exception of biennial budgeting, he advocated that a fiscal commission be delegated the responsibility to generate a grand bargain, and was instrumental in leading Obama to create B-S.

Like Democrats in office, most liberal advocacy groups criticized the GOP's budget process reform proposals rather than proposing extensive reforms that would further their policy goals. For example, OMB Watch, which emphasized transparency reforms, responded to the GOP proposals with a blog entry that merely argued that:

To improve fiscal policy outcomes – i.e., to ensure outcomes that better reflect national priorities – the budget process needs an easier path, one with fewer obstacles and more opportunities for public participation. Simplifying the budget process should be something both parties can agree on, but they are currently too busy manipulating the process for their own political advantage (2012).

The Center on Budget Policy and Priorities was much more reactive, providing bill-by-bill rebuttals of the GOP budget process proposals (e.g., see Kogan 2012; Kogan and Horney 2012; Van de Water 2012; Kogan, Greenstein, and Horney 2012).

The opposite view on the potential of budget process reform was held by deficit hawk advocacy groups, most notably the Committee for a Responsible Federal Budget (CRFB) and the Bipartisan Policy Center (BPC). These groups defined their stance as the “sensible middle,” arguing that “everything must be on the table” when budget policies were being considered. The BPC, under the leadership of former Senator Pete Domenici and CBO founding Director Alice Rivlin, developed a debt reduction plan that mixed tax increases and spending cuts, with higher taxes than B-S or the failed Obama-Boehner negotiation (Debt Reduction Task Force 2010). It framed this grand bargain approach as “shared sacrifice,” necessary to create fund solvency for major entitlements and fiscal sustainability for the whole of government. This stance represented what might be called the domestic form of “the Washington consensus” among many policy experts. A leading example was the 2010 report by the National Academy of Sciences and the National Academy of Public Administration that recommended that the country aim for a stable ratio of public debt at 60 percent of GDP (Committee on the Fiscal Future of the United States).

Both BPC and CRFB supported triggers that could force deficit reductions or enforce decisions to make deficit reductions. For example, the BPC, playing on the language of PAYGO and CUTGO, suggested Save-As-You-Go (SAVEGO) (Bipartisan Policy Center 2011). The Congress would establish a policy goal of keeping government debt as a sustainable ratio to GDP, and schedule automatic deficit reductions if legislation was not enacted to meet this goal.

The CRFB advocated for process reforms under the guise of the Peterson-Pew Commission on Budget Reform (P-PC), which was in its regular status the board of the CRFB—highly respected ex-directors of OMB, CBO, and GAO, retired legislators who held leadership positions on money committees, and influential ex-staff.¹⁵ The “Commission” was funded jointly by the Peter G. Peterson Foundation (a heavy-spending deficit hawk foundation driven by its eponym and ex-Comptroller General David Walker), and the Pew Charitable Trusts (a foundation attracted to ideologically moderate reforms of high political salience). One of the reports from P-PC, *Getting Back in the Black* (2010), suggested many process reforms. Its informational recommendations included shifting the focus of the process toward long-term fiscal sustainability, displays of tax expenditures with similar spending programs, and reorganization of the President’s budget to missions and objectives, informed by a system of national indicators. It also suggested a statutory requirement that the President’s budget comply with debt targets, expanded membership of the Budget Committees to give more influence to party and committee leaders, and automatic deficit reductions triggered by failure to meet targets at the conclusion of the regular process. Half would come from a surtax on revenues, and the other half from cuts to all spending, discretionary and mandatory.

The CRFB’s emphasis on triggered savings was revealed when in 2010 it criticized the AARP’s opposition to special commissions:

A special process, such as the Conrad-Gregg commission, may very well be the best mechanism to help avoid economic and fiscal catastrophe—and in turn the best way to save Social Security, Medicare, and the comparatively low tax rates we enjoy in the United States... So what productive ideas are they offering???(That’s the sound of crickets chirping you hear.)

This was in response to an AARP email message, which suggested that its members write their legislators with the following:

While I support balanced policies that would address the nation’s long-term debt, the fiscal taskforce established by the Conrad-Gregg amendment is not the answer. The issues that the fiscal commission is meant to address including taxes, health care costs and the long-term solvency of Social Security are among the most fundamental challenges we face as a nation. As such, they are issues the Congress itself, though its regular order, should tackle. An open debate is essential in a representative democracy... (2010)

Another important advocate of triggers and commissions was GAO Comptroller General Walker (e.g., see GAO 2006, 2008, p. 6). And in 2008, members of the Brookings-Heritage Fiscal Seminar released “Taking Back Our Fiscal Future,” which suggested that the big three entitlement programs (Social Security, Medicare, and Medicaid) be subjected to automatic cuts

15. See also Peterson-Pew (2009). For examples of criticism of this organization and its partner Fix the Debt see, e.g., Blumenthal and Grim (2013) and Confessore (2013).

should these programs exceed spending targets (Antos et al. 2008); it cited the delegation under the defense Base Realignment and Closure Commission as a model.¹⁶

Their logic about the need for and potential effectiveness of triggers was contested by a group affiliated with the liberal Center on Budget and Policy Priorities (Aaron et al. 2008). An even stronger criticism was made by Joe White five years later:

Who is to blame for this deficit brinkmanship? It may seem logical to finger Congressional “extremists.” In fact, Tea Party-oriented Republicans have recently shown the most enthusiasm for holding the nation’s credit and economic prospects hostage. Yet fiscal brinkmanship is nothing new, and it has been pursued at least as much by “centrist” budget hawks. Since the 1980s, a large segment of the Washington policy world has acted as if all other concerns are less important than shrinking the deficit, equating budgetary terrorism to “responsible government.”... Centrist budget hawks simply assume that how the deficit is reduced is far less important than reducing it. That is extremism. When they promote debt-ceiling crises and intentionally outlandish sequesters, they play an undemocratic and dangerous game (White 2013).¹⁷

This criticism is worth exploring in detail.

THE POLITICAL WON’T OF INCREDIBLE BUDGET COMMITMENTS

Advocacy of automatic or “action-forcing” budget procedures did not flow from a singular motivation. Robert Bixby of the Concord Coalition suggested one: “The harder the substantive choices, the more people start talking about process reform” (Montgomery 2012).¹⁸ Other motivations included animus toward selected entitlement spending, frustration with a broken political system, and patriotic desperation about the unsustainability of the country’s long-term finances. And while some supporters saw this approach as a clearly superior to the fractured “regular order,” others were ambivalent. For example, in 2010, Penner, a strong advocate of triggers, nevertheless testified that:

It is tempting to believe that if only we could come up with some clever budget rules, fiscal prudence would follow. Unfortunately, it does not work that way. The *desire for fiscal responsibility* [emphasis supplied] must come first. Then rules can be important in strengthening the efforts of those supporting fiscally responsible policies. They also can protect those who are fiscally responsible from the special interests that will inevitably oppose them (Penner 2011).

16. In the “Fiscal Wake Up Tour,” a joint public consciousness-raising project of the Walker, the Concord Coalition, and the Peterson Foundation, experts such as Doug Elmendorf were described as from the “left-leaning” Brookings Institution, which more accurately has a centrist perspective. Other notable work analyzing and generally supporting triggers was produced by Penner and Steuerle (2007), Posner (2009, 2011a) and the Pew-Peterson Commission (2011a, 2011b).

17. For a related but broader critique about “austerity,” see Blyth (2012).

18. See also Van de Water (2010).

Another endorser of triggers, Robert Reischauer, also argued that process reforms could at best have very limited effects:

Don't assume that budget process reforms—that is new procedures for making decisions about spending and revenues—can substitute for or create *political will* [emphasis supplied]. The solution to our fiscal problems will not be found in a balanced budget amendment to the Constitution, line item veto or beefed up rescission authority for the President, a joint rather than concurrent budget resolution, biennial budgets, discretionary spending caps or strengthened PAYGO rules. History has shown that if lawmakers do not want to rein in spending or raise taxes to curb deficits, no procedural reforms can make them do it. Congress and presidents have had no qualms about eviscerating or evading procedural requirements that have proven too politically costly. At most, such reforms can stiffen the backbones of lawmakers so they stay a course that has already been enacted or provide some modest political protection to those who are already committed to deficit reduction (Reischauer 2010, p. 2).

And Representative Ryan, despite being the advocate of numerous budget process reforms, similarly mentioned “political will”:

There is just one sufficient conditions for enforcing budget limits: the will of Congress to live within the budget it has imposed on itself. If Congress wishes to abide by the limits, the budget process and its enforcement provisions can work. If Congress does not have the political will to abide by or pass a budget resolution, the process cannot force Congress to exercise self-discipline. Enforcement provisions in the budget process can make it more difficult to exceed spending limits, and they can provide incentives to maintain fiscal discipline. But the process alone is no substitute for *political will* [emphasis supplied] (Ryan 2011a, p. 5).

Political scientists have observed that “political will” is a very ambiguous concept that has often been used “as a ‘black box’ or an ‘error term’—a default, exogenous explanation” (Persson and Sjöstedt 2012, p. 617).¹⁹ “Political will” in the budget process was sometimes taken to mean what Penner called “the desire for fiscal responsibility” and as what Ryan identified as acceptance of “self-discipline” regarding government finances. Another term used to justify triggers, delegation, and sequestration was “credible commitment,” though rarely with any reference to Douglass North or other proponents of the concept. The assumed relationship was that once elected officials chose to set deficit reductions targets in the law, and once they established procedures to stimulate those reductions, then those reductions were likely to occur. In part this would be due to politicians’ concerns about their reputations. As the P-PC argued:

The vow of fiscal prudence implies a consequence if the vow is broken. Policy makers are exposing themselves to political retribution if they violate their pledge, saying to voters: “if I break this rule, vote against me” (2011a, p. 6)

In contrast, the *Fiscal Future* report argued that:

19. See also Post et al. (2010); for an attempt to specify the term in relation to governance, see Malena (2009).

No one should expect any budget process to persuade legislators to endure severe political pain. But well-designed rules can nudge them in the right direction and can provide political “cover.” They can say that, contrary to their personal preferences, “The rules made me do it” (p. 191).

Note that the first quote assumes that citizens would reward acts of deficit reduction and punish the opposite, while the second quote implies that legislators want to avoid being blamed by citizens for supporting deficit reductions.

In practice, it is very difficult to design credible action-forcing triggers for budgets. Potentially triggered deficit reductions have to be disagreeable enough to stimulate preemptive action, but their implementation also can’t be so disagreeable that the previous “commitment” to allow them will be reversed. And they are unlike the typical contract between two private parties for which the promises of both sides can be monitored and then enforced using penalties imposed by an external authority. There is no such authority that can punish the Congress and the President for going back on their promises—these institutions make the laws, and they can change the laws they made.²⁰ They can convert “political will” into “political won’t.”

Some attentive columnists recognized this problem as budget hawks turned toward triggers and commissions. Ezra Klein wrote:

Lawmakers have a peculiar resistance to admitting the problems afflicting their institution. There needs to be a Conrad-Gregg entitlement commission because bipartisanship has broken down. In response, Conrad and Gregg are setting a higher bar for bipartisanship? It’s like trying the cure the flu by competing in a triathlon (2009).

Jonathan Chait used more outlandish comparisons:

... they’ve designed a process that creates new and higher supermajority requirements, on an issue where getting even 51 percent to sign on is probably impossible. And if that fails, maybe they’ll conclude the process was too easy. Next time they could also require the commission members to create a cold fusion reactor or retrieve a magical ring from inside a volcano (2009).

A particularly revealing version of the delegation and credible commitment argument was made a month after the BCA was enacted by Peter Orszag, Citigroup Vice Chairman and former OMB and CBO Director:

To solve the serious problems facing our country, we need to minimize the harm from legislative inertia by relying more on automatic policies and depoliticized commissions for certain policy decisions. In other words, radical as it sounds, we need to counter the gridlock of our political institutions by making them a bit less democratic... We need to jettison the Civics 101 fairy tale about pure representative democracy and instead begin to build a new set of rules and institutions that would make legislative inertia less detrimental to our nation’s long-term health... (2011)

20. Primo (2007). See also Crook (2009) and Binder (2012a).

Lacking space to give Orszag's normative position the analysis it deserves, this article simply observes that Orszag ignored the reality that deficit reductions from delegation have to be acceptable to the political forces that structure the most important incentives faced by politicians. Most politicians are obsessed with projecting how their current actions might be interpreted later, and they surely would forecast that the targets of triggered budget cuts would know who had taken aim at them. For example, if the CRFB's proposal for automatic tax increases was passed, the Americans for Tax Reform and the Club for Growth would be quite capable of blaming those who enabled the tax increases by agreeing to the causative procedure. If you are a GOP legislator who is willing to risk retribution for breaking the anti-tax pledge, your potential protection is not a trigger that "made you do it," particularly if you voted to create that trigger. Rather you need the ability to explain to voters why more taxes are necessary. If you project that a well-financed campaign from an anti-tax primary opponent will dominate your explanation (not a bad bet), then you should expect to sacrifice your electoral career after you vote to raise taxes. And if you are a Democrat who is tempted to cut entitlements in return for GOP acceptance of tax increases, you will not only fear punishment by your liberal base, but will also wonder whether anti-tax forces will lead many Republicans to defect from a deal at the first opportunity. A trigger will not greatly reduce your concerns about these outcomes.²¹

Some advocates of using action-forcing triggers to force a grand bargain ignored these risks of traceability and reversibility, but embraced reversibility once the programmatic consequences of sequestration became obvious. A year after the BPC proposed SAVEGO, its Task Force on Defense Budget and Strategy sensibly argued that:

After reviewing the evidence, we have concluded that the indiscriminate and irrational application of sequester cuts in 2013 will have adverse impacts on our military capabilities and readiness and economic vibrancy without significantly improving our fiscal situation. In short, the sequester is indefensible (2012, p. 1).²²

The BPC then recommended what it called "accelerated regular order"—when committees failed to propose deficit reductions, the President would be required to make across-the-board cuts to mandatory spending and tax expenditures. This again hopefully assumed that politicians were incapable of backward induction or were willing to junk strongly held ideologies such as the Republicans' complete opposition to tax increases (see also Binder 2012b).

After the failure of the Supercommittee, some deficit hawks started to repeat the metaphor of "kicking the can" when would-be action-forcing mechanisms didn't work. In what may be the strangest example ever of budgetary advocacy, the ubiquitous Peterson financed another effort called "The Can Kicks Back," which as a ploy to attract youth to his cause of reducing entitlement spending, produced a video of Senator Simpson dancing the popular "Gangnam

21. See Arnold (1992), on traceability. In fact, those targeted for the FY13 sequestration cuts knew beforehand, and sought to blame legislators who voted for the procedure during the 2012 election. See, e.g., Weisman 2012.

22. Similarly, Senate Armed Services Committee Chair Carl Levin, speaking of the difficulty of reaching significant deficit reductions in calendar year 2012, said "It's obvious to me that if something can't be worked out, you can't accept sequestration" (Krawzak 2012b).

Style.” Advocates of triggers relied on other metaphors to suggest that rules would somehow force action. For example:

“The system isn’t working,” Ryan said during a House GOP retreat in Baltimore last week, adding that the legislation would “assure the budget system has teeth” (Krawzak 2012a).

To be a more accurate metaphor, those teeth could be identified as removable dentures. Another common metaphor was a “straitjacket,” but my understanding of this product, limited to a Google search, is that do-it-yourself straitjackets are abnormal (in several respects). A third common metaphor was the “fail-safe,” but the reporter Major Garrett suggested the limits of that with an article titled “Didn’t Anybody See the Movie?” (2011).²³

Though perhaps some people had—or perhaps its superior *Dr. Strangelove*, which featured a doomsday machine that was intended to prevent catastrophe but in fact guaranteed it—for sequestration did happen. In the latter movie, an emotionally unbalanced General Ripper refers to Clemenceau when making an argument about delegation and triggers on real explosives:

He said war was too important to be left to the generals. When he said that, 50 years ago, he might have been right. But today, war is too important to be left to politicians.

Sequestration happened because another unbalanced perspective prevailed—in this case, about how to “budget” by using virtual triggers for a purpose they weren’t intended for. Republican Tea Party legislators took advantage of the sequester mechanism, since they favored non-selective cuts over politically plausible alternatives, and as the majority of the majority in the House, they had blocking power. Though the Ryan-Murray deal later reduced the effects of these cuts for FY14 and FY15, historically low discretionary spending caps are still in place from FY16 on. It seems likely that maintaining them will be politically impossible—but the parties have yet to identify a clear alternative.

CONCLUSION

While the CRFB has complained about the damages from sequestration—as if the process was created by immaculate conception—it still supported the doomsday logic long after sequestration happened. One of many possible examples that could illustrate this is shown in Figure 1, which is a “Fix the Debt” display from a CRFB blog entry (2013). To its credit, the group also had advocated more sensible reforms, particularly those that would make the budget more strategic. But it was so fixated on extraordinary procedures to force a grand bargain that it enabled the implosion of the budget process.

Given the destructive partisan politics of the time, it is probably the case that some of the implosion period’s mistakes would have occurred anyway. But what if all deficit hawks had emphasized the traditional approach to making the budget process credible—might implosion

23. Spoiler alert: in the movie, the “fail-safe” locations where strategic bombers were to stop unless they received orders to proceed to their wartime targets were not truly “fail-safe.”

FIGURE 1
An F for Sequestration Failure is Centrist Extremism

<h2>Making the Grade on Sequestration</h2>	
A	<p>To earn an A, Congress and the President must agree to a comprehensive debt plan that replaces the sequester with at least \$2.4 trillion of savings over the next decade. The plan should combine targeted spending cuts, entitlement reforms and comprehensive tax reform in order to put the debt on a downward path. An A+ would be awarded to a plan that keeps the debt on a clear downward path as a share of the economy for decades to come by making Social Security solvent and federal health spending sustainable.</p> <p>Bottom line: Younger Americans should feel a lot better about their future.</p>
B	<p>To earn an B, policymakers must enact a budget deal that fully offsets the sequester, on a permanent basis, with more targeted measures that primarily focused on the major drivers of the debt – health and retirement programs. A B+ would be awarded if the plan also sets up a formal process to secure additional savings to put the debt on a clear downward path.</p> <p>Bottom line: The \$2.4 trillion target remains within reach.</p>
C	<p>Replacing the sequester for one year – a cost of \$85 billion – with more targeted savings (no gimmicks allowed) deserves a gentleman’s C, but no better. Although it wouldn’t worsen the debt situation, it would also do nothing to solve our short and long-term fiscal problems. A C+ would be awarded if policymakers also set up a formal process to replace the full \$1 trillion-plus sequester with smarter savings.</p> <p>Bottom line: Voters should expect more than just a passing grade from Washington.</p>
F	<p>Kicking the can by delaying the sequester without any offsets gets a failing grade and demonstrates Congress is not serious about deficit reduction. Offsetting a sequester delay with gimmicks like reduced war spending should be considered cheating and lead to an automatic failing grade as well. And please, no more using timing shifts as revenue measures.</p> <p>Bottom line: It’s time to end the “debt denial” and re-take the entire course in responsible budgeting.</p>
I	<p>Letting the sequester kick in garners an incomplete grade. It’s true that sequestration will result in real spending cuts and deficit reduction, but these cuts are mindless and are unlikely to last. Even if they did last, the fact that they don’t tackle the drivers of the debt and end in 2021 means they’ll do little to improve the fiscal situation over the long-run.</p> <p>Bottom line: Incomplete courses mean one thing for students – no summer vacation. Washington needs to brace itself for a “sequester semester” in summer school.</p>

A = Excellent • B = Good • C = Satisfactory
 F = Failing • I = Insufficient / Incomplete



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have been prevented? Under this approach, budgets seek to address policy goals informed by economic and programmatic realities, are put forward in good faith to the Congress, are explained clearly, and are capable of being adopted and sustained because the public and its representatives believe in their worth. Political will in this form of budgeting entails the courage to assume electoral risks from having supported deficit reductions, and to reduce those risks by attempting to convince the public that specific deficit reductions are wise. It also involves attempting to build trust across the aisle so that the opposing parties can reach compromises over budgetary policy, in hopes of sharing both blame and credit. And it does require reforms to the current process to make it more likely to function well (see Meyers 2009; Posner et al. 2012). While this approach seems far from the current political reality, it is arguably the only sensible way to budget.

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