

## BOOK REVIEWS

### **The New Politics of the Budgetary Process**

Aaron Wildavsky

Glenview, Ill.: Scott, Foresman & Co., 1988, 468 pp.

Aaron Wildavsky's 1964 book on *The Politics of the Budgetary Process* deservedly proved to be a classic. Other scholars had observed the decentralized "bottom-up" congressional budget process and saw only disorder. Wildavsky, however, observed that the results of this process seemed quite orderly: Budgets were usually approved on schedule (by June 30 in those years), and total federal spending was roughly equal to tax revenues except during wars and recessions. The major contribution of Wildavsky's "Old" *Politics* was to explain the mutual expectations, rules, and strategies that led this decentralized process to produce order without direction. In that sense, Wildavsky was the Adam Smith of the federal budget process. In addition, Wildavsky's writing was clear, lively, relatively free of professional jargon, and it reflected a "jeweler's eye" for institutional detail—making the "Old" *Politics* (through four editions) readable by both students and budget specialists with other professional training.

The set of conditions that made the "Old" *Politics* "work," however, has changed substantially. The more important of these conditions are the following:

- The erosion of the consensus for balanced budgets, associated first with the increasing influence of Keynesian economics, and later with the 1981 Reagan initiatives to increase defense spending and reduce tax rates.
- The rapid increase in "entitlement" spending, most of which is not subject to annual appropriations.
- The rapid increase and subsequent decline in inflation.
- The "democratization" of Congress, reflected in the erosion of seniority and the proliferation of subcommittees.
- And most important, the erosion of the consensus about what the federal government ought to do, as reflected in increasing disputes about the budget "base."

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The congressional budget process, in part in response to the above changes, has also been modified substantially. The Congressional Budget Act of 1974 established a “top-down” budget process, implemented by a comprehensive budget resolution developed by a new budget committee in each house, and supported by the new Congressional Budget Office. The Impoundment Control Act of 1974 severely restricted the president’s authority to impound spending for any purpose, authority that was further restricted by a 1983 court decision. And the Balanced Budget and Emergency Deficit Control Act of 1985 (popularly known as the Gramm-Rudman-Hollings Act) established a statutory deficit reduction schedule and procedures for implementing that schedule. These new processes were supposed to implement a “top-down” perspective on the budget, but they did not fully replace the “bottom-up” processes of the “Old” *Politics*.

Most of Wildavsky’s *New Politics* explains and evaluates these new processes. As a consequence, this is almost entirely a new book, although it fortunately includes an efficient summary chapter on Wildavsky’s insights about the strategies and calculations of classical budgeting. In contrast with the “Old” *Politics*, the theme of the *New Politics* is about direction without order. Although the new processes were designed to achieve better control of the budget totals, the outcomes of the budget process are now much less orderly. The federal budget has only rarely been approved on schedule (now September 30) despite a rapid increase in the share of congressional time addressed to the budget. Total federal spending and the deficit, until recently, increased at a rapid rate. And all participants are frustrated about both the process and its outcomes.

Wildavsky does not attribute these outcomes to the new processes but rather to what he perceives (I believe correctly) as an erosion of consensus about the appropriate role of the federal government. A good process can elicit a budget agreement when there is some consensus, but a change in the budget process cannot force a consensus that does not exist.

Wildavsky is appropriately skeptical about most recent and proposed budget “reforms”—specifically including program budgeting, zero-based budgeting, sunshine and sunset laws, capital budgeting, multiyear budgeting, and the line-item veto—primarily because they abstract from the politics of the budget process. On the other hand, Wildavsky has long supported a constitutional amendment to limit total federal spending and borrowing. With or without such an amendment, he strongly favors adoption by the House of the new Senate “offset” rule that requires that any committee proposal that exceeds the spending guidelines in the first budget resolution be paired with some specific spending cut or tax increase so that the combined proposal is deficit neutral. Use of this offset rule is the primary reason that the Gramm-Rudman process has been more effective in limiting total federal spending than anyone anticipated.

Wildavsky has some nostalgia for the "Old" *Politics*, but he recognizes that the current budget process is more complex and more frustrating primarily because the federal government is now more complex in ways that are not supported by a broad consensus. In contrast to those who propose "rationalist" reforms of the budget process, Wildavsky would not replace the politics of the budget process but would change the institutions and rules by which politics leads to agreement.

The *New Politics* is more complex and more difficult than the "Old" *Politics*, but that is because the world has changed. For those who want to understand the new politics of the budgetary process, however, Wildavsky's *New Politics* will be the definitive guide, both to the expected budget outcomes and the potential for improving this process.

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**World Tax Reform: A Progress Report**

Joseph A. Pechman, ed.

Washington, D.C.: Brookings Institution, 1988, 249 pp.

Tax policy is seemingly forever and everywhere in flux. Recent U.S. tax reforms have been part of, and have given further impetus to, an unusually active wave of international reform efforts. Joseph Pechman's *World Tax Reform* offers a useful country-by-country guide to the state of national tax systems and reform efforts.

The strength of this volume is that each of the contributing authors is well qualified to report on the status of his assigned country's tax reform efforts. Each country's report is well written, providing enough statistics to explain without overwhelming, and each report is accompanied by a discussant's paper providing another viewpoint. For a discussion of tax reform, the text is very readable overall.

The book is not without its flaws, however. Its main flaw is that it lacks balance in the range of views presented. Many of the authors have, to one degree or another, Pechman's strong preference for raising tax levels to fund social programs and for shifting the tax burden from less wealthy to more wealthy taxpayers and from labor to capital income. These are not the views that guide the current tax reform movement; they are the views that led to income tax systems badly in need of reform.

Increased social spending and the resulting increases in revenue requirements in the 1960s and 1970s led to ever-higher marginal income tax rates. Higher tax rates led to wide arrays of deductions, exemptions, and credits that reduced the growing distortions of economic decision-making created by the increases in tax rates. These tax abatements were perceived, and most often misperceived, as tax loopholes that led many taxpayers worldwide to believe their nations' tax systems were unfair and unnecessarily complicated.

The central theme of recent income tax reform has been to reduce income tax rates to create a more neutral tax code and thereby to reduce