Serving Competing Principals: The Budget Estimates of OMB and CBO in an Era of Divided Government

ERIK J. ENGSTROM
SAMUEL KERNELL
University of California, San Diego

Battles over the federal budget have been at the heart of Washington politics over the past two decades. In assessing the potential consequences of fiscal policy choices, Congress and the president turn to the Congressional Budget Office (CBO) and the Office of Management and Budget (OMB) for spending and revenue estimates. While politicians carp about the partisanship of these agencies, previous scholarly research finds little evidence of bias. In this article, the authors systematically explore these estimates for signs of partisan bias. Specifically, the authors examine differences between OMB and CBO estimates of the president's budget since 1978 and find that agency differences are associated with party control of Congress and the presidency. During periods of divided government, when their principals may be expected to disagree most sharply about spending and taxes, these agencies' expenditure projections diverge.

Bill Clinton: "A real spending cut, a real revenue increase, a real deficit reduction, using the independent numbers of the Congressional Budget Office."

LAUGHTER

"Well you can laugh, my fellow Republicans, but I'll point out that the Congressional Budget Office was normally more conservative in what was going to happen and closer to right than previous presidents have been."[1]

Budget battles between the president and Congress have been annual events in Washington for the past two decades. A large, chronic deficit during these years posed difficult challenges to politicians who sought to avoid blame for the deficit while providing both the programs and tax relief desired by their constituents. To calculate the potential ramifications of their and others' proposals for shrinking the red ink while

1. From *NPR Morning Edition*, July 7, 1998 (Kenyon 1998). Clinton made the statement during a speech to congressional members during his first term.

Erik J. Engstrom is a graduate student in political science at the University of California, San Diego.

Samuel Kernell is a professor of political science at the University of California, San Diego. His most recent book is Logic of American Politics *(CQ Press, 1999) with Gary C. Jacobson.*

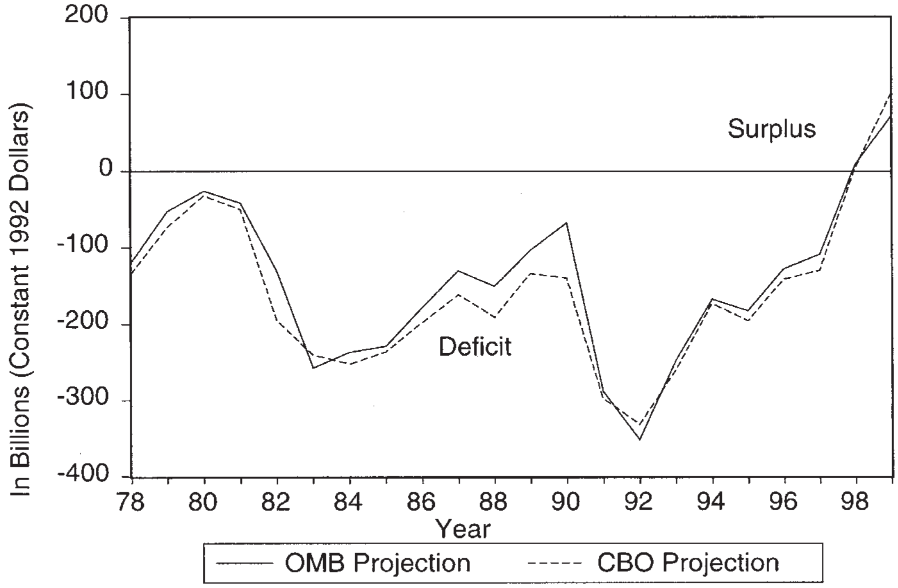

FIGURE 1. Office of Management and Budget and Congressional Budget Office Deficit Projections, 1978 to 1999.

preserving favored policies, presidents, members of Congress, and everyone else with a stake in the budget scrupulously examines the periodic spending and revenue estimates submitted by the two budget agencies: the president's Office of Management and Budget (OMB) and the Congressional Budget Office (CBO).

At first glance, OMB and CBO forecasts of the president's proposed budget (see Figure 1) appear to track each other fairly closely, suggesting that any disparities can be consigned to purely technical differences in the way these organizations gather and analyze economic data. These agencies have however, at times, provided their political principals with significantly different deficit forecasts with OMB offering the more optimistic estimates. Typically, these differences have encompassed the bulk of the discretionary dollars available for new programs and proposed changes in the tax code and have, therefore, mattered a lot to presidents and Congress as they have approached each other in their annual, nine-month-long budget game.[2] Understandably, much of these politicians' public posturing and private negotiation in recent years have concerned which agency's estimates to employ.

The greatest disparity in CBO and OMB deficit estimates occurred in 1990 (FY 1991) when CBO reestimated the president's budget to increase the deficit by $73 billion more than OMB had predicted a month earlier. The second largest difference occurred in 1982 (FY 1983) when the two budget agencies differed by $62 billion.

2. Health care reform illustrates how the fate of particular programs hinges on budget estimates. Mark Peterson (1998), detailing the politics surrounding Clinton's attempt to reform health care, states that "the administration needed the CBO's (Congressional Budget Office) cautious analysts to confirm that the Health Security Act could get to universal coverage with its proposed financing structure and without exacerbating the federal deficit" (p. 192).

From 1993 to 1998, CBO once again adopted a less optimistic view of the economy and the prospect of surplus. In each instance, CBO's more conservative position undermined some part of the administration's budget requests. Moreover, they all occurred during periods when one party controlled the White House and the other party controlled one or both chambers of Congress. Given their association with divided government, perhaps—as many in Washington have openly suspected in recent years—the agencies' disagreements on deficit forecasts contained political as well as economic calculations.

In this article, we examine these differences in OMB and CBO budget estimates for signs of partisan bias. We suspect that the combination of divided party control of government and sizable deficits during the past two decades—both of which constrain the quid pro quos through which diverse interests are traditionally accommodated—has tempted politicians to press their budget agencies for favorable estimates. Although both agencies voice allegiance to a professional creed that has them staying out of the political fray and providing politicians with objective advice, these dependent agencies might also be tempted to yield to their principal's pressure. The trends in Figures 1 and 2 reinforce this suspicion both in the systematic differences between agency estimates and in the fact that the largest spread occurs during periods of divided government. In the next section, we consider the capacity of each agency to resist political influence and various complaints that they have sometimes failed to do so. We then systematically examine the differences in OMB and CBO estimates of the president's budget since 1978 and find them associated with party control of Congress and the presidency.

Neutral Agents and Partisan Principals

Composed of teams of economists, accountants, and policy analysts, both organizations are mandated and designed to provide their principals with an objective appraisal of the budget and the economy. The OMB began life as the Bureau of the Budget (BOB) in 1921, charged with assisting the president in assembling an annual unified budget. Prior to the 1970s, the BOB largely succeeded in maintaining its status as a nonpolitical accounting agency. An organizational climate of "neutral competence," to use Hugh Heclo's (1975) expression, allowed it to provide presidents (and Congress) with the best, objective information available. By 1974, however, many members of Congress—especially Democrats—had come to question the objectivity of President Nixon's OMB (Berman 1979). Among its various budget reforms, the 1974 Budget and Impoundment Control Act created the CBO (Pfiffner 1979) to provide Congress with the same nonpartisan expertise OMB supplies the presidency. Among provisions intended to assure CBO's impartiality, the law proscribes CBO's sponsorship or endorsement of legislation or specific policy proposals. Via different institutional histories and organizational mechanisms, both agencies have been charged with following the creed of neutral competence.

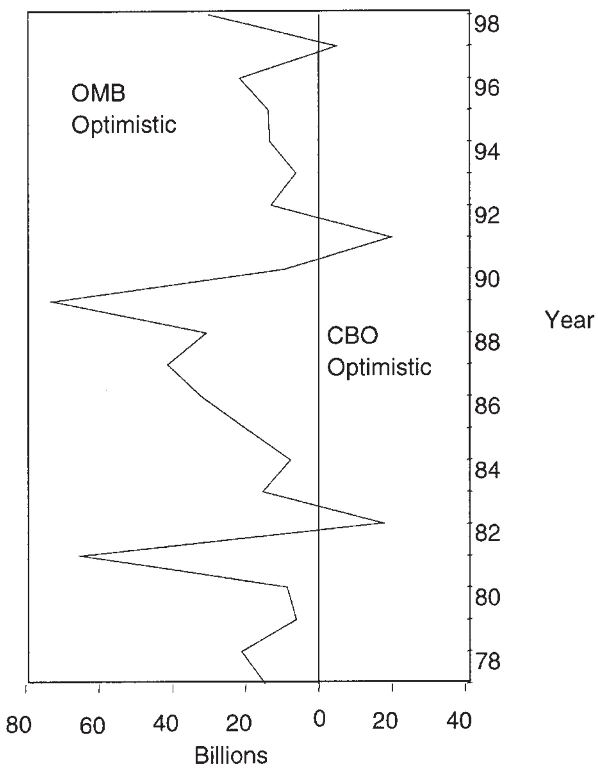

FIGURE 2. Differences in Congressional Budget Office (CBO) and Office of Management and Budget (OMB) Budget Estimates.

However much scholars might commend presidents and Congress to preserve their agencies as havens of nonpartisan expertise, one can easily imagine short-term considerations that might induce these politicians to try to influence their budget estimates. A new president entering office after campaigning on tax cuts will not want to hear from his OMB that those cuts would be fiscally imprudent. A Congress, intent on sizable increases in defense spending, will find CBO forecasts of high revenue and low expenditures more congenial with its legislative goals than the reverse prediction. Moreover, elected officeholders—especially presidents with term limits—may discount the institutional value of an agency's nonpartisan reputation. Such situations naturally pose a dilemma for the senior staff who run these agencies. Desiring on one hand to serve their political masters, they are charged on the other to maintain the organization's professional integrity.

Divided party control of government introduces special pressures on these agencies' capacity to provide objective expertise.[3] When a president of one party is locked in an essentially zero-sum game with the congressional leaders of the opposing party,

3. On the central role parties play in budget politics, see McCubbins (1991), Kiewiet and McCubbins (1991), and the articles collected in Cox and Kernell (1991).

each side will try to marshal supportive economic and budget forecasts to bolster its position over the claims of the opposition. Given the importance of budget projections for subsequent policy choices, CBO and OMB may face their greatest pressure to accommodate their principals when the political parties square off across the branches. Divided government introduces the prospect that, despite their institutional mandates, both OMB and CBO may be converted into "partisan number crunchers"—that is, resource agencies whose essential task is to generate information backing the policy preferences of their political principals.[4] In the opening passage to this article, one finds evidence that Washingtonians shared this view as they laughed at President Clinton's use of budget estimates from CBO, the other side's number cruncher, to support his budget proposal. It can be found as well in the concerns voiced by Senate minority leader Tom Daschle who in 1998 complained "Never in the past has any party dominated the CBO. . . . But more and more, it's looking like CBO is nothing more than an arm of the Republican Policy Commitee" (Kenyon 1998).[5] And OMB, of course, still resides under a nearly two-decades-old cloud that formed after its director (Stockman 1986) bragged how he fudged the numbers to strengthen his president's hand in negotiating with Congress.

Assuming that the political parties have substantially different priorities in the budgetary realm, one might reasonably suspect that so, too, will those whom these politicians appoint to head their budget agencies. Presidents and congressional leaders presumably select advisors who are in accord with their fiscal policy objectives. If this fails to produce the desired results, these politicians might resort to more direct methods of control. Occasionally, budget directors are dismissed or "taken to the woodshed" (Stockman, 1986), and rumor has it that one CBO director resigned shortly after the chair of the Senate Budget Committee made it known that his term would not be renewed at the end of the year. At times, congressional leaders have even resorted to direct threats. In 1998, House Republicans threatened the CBO with a reduction in its own budget unless it adjusted its "unduly conservative" revenue estimates (Taylor 1998). In a letter to the House Appropriations Committee, Speaker Gingrich warned, "The CBO must address this problem. If it does not, I believe we must review the structure and funding for the CBO in this appropriations cycle" (Stevenson 1998, A14). In the face of such pressure, might these budget specialists be swayed within the allowable boundaries of an imprecise science to help their principals make the best case possible for their budget position?

4. Heclo (1984), commenting on the early Reagan budgets, argues that "the numbers in the president's budget came to depend not simply on what the executive branch needed but also on what numbers and tactics would move Congressional outcomes in the desired direction" (p. 271).

5. Palazzolo (1999) describes how House Budget Committee chair, Republican John Kasich, tried to coax the CBO into casting aspersions on Clinton's FY 1998 budget plan: "Kasich's main strategic purpose during [a] February hearing with CBO Director June O'Neill was to get a qualified budget analyst to say the president's budget was not grounded in conservative economic assumptions" (p. 62).

Neutral Competence or Partisan Number Crunching?

Others have searched for political influence by comparing these agencies' estimates of the president's proposal with actual budgetary and economic outcomes (Blackley and DeBoer 1993; Kamlet, Mowery, and Su 1987; Miller 1991; Plesko 1988; Belongia 1988; Shumavon 1981). Systematic mispredictions are taken as an indication of bias. The conclusion of this research is that neither agency evinces clear, systematic patterns of bias. Yet, inferring the presence or absence of bias from this procedure is difficult, for it requires one to compare predictions based on a hypothetical policy—the president's budget—with an actual outcome that hardly ever matches it.

Plesko (1988, 486) sought to circumvent this problem by limiting his analysis to the early baseline comparisons of current policy.[6] (See the appendix for a fuller discussion of these estimates and when they occur in the budgetary process.) Plesko did not find much bias in these numbers, which is unsurprising since the fact that "the cake is already in the oven," as stated by one former CBO director, prevents these agencies from engaging in partisan number crunching. From 1979 through 1998, these baseline estimates differed by an average of $5.04 billion for expenditures and $2.58 billion for revenues.[7] Moreover, one can fairly question the relevance of baseline estimates to policy makers and, hence, its exposure to partisan influence. In contrast, the president's budget, as a hypothetical spreadsheet exercise, provides both greater opportunity and a more compelling occasion for these agencies to respond to the demands of their partisan principals.

To assess the possibility that deficits and divided government have eroded these agencies' capacity for neutral competence and converted them into partisan number crunchers, we therefore concentrate on the estimates of the president's budget proposal. Our dependent variables are the differences between the OMB and CBO's reestimates of the president's revenue, expenditure, and deficit projections. We then test these differences against the competing arguments of neutral competence and partisan number crunching. Neutral competence serves as our null hypothesis, predicting that differences between CBO and OMB estimates are either minimal or purely random. But, of course, as we indicated above, the notion of neutral competence is more than just a null hypothesis. It is the mandate of both agencies, and if fully subscribed to, differences in these agencies' estimates will not systematically differ over time.[8]

6. Shumavon (1981, 343-44) examines both the current services baseline and the estimates of the president's budget.

7. Naturally, the mean absolute differences are larger—$19.51 and $6.77 billion for expenditures and revenues, respectively—yet we do not find systematic partisan patterns to explain these differences. The mean absolute difference for expenditures under divided government is $16 billion (with a unified Congress), while during periods of unified government, it is $14 billion. For revenue, the mean absolute difference is $4 billion during unified government and $9 billion during divided government. (Source: U.S. Executive Office of the President, Office of Management and Budget [Various years]; U.S. Congressional Budget Office [Various years], *The Economic and Budget Outlook*.)

8. Any errors in estimating the budget will be the result of technical miscalculations and/or unforeseen changes in the economy. Former director of the CBO, Rudolph Penner, argues that, "The bulk of error in outlay

To the extent that we reject the neutral competence hypothesis, we suspect that differences will be the product of partisan number crunching. The partisan model assumes that the political parties have divergent policy priorities and that OMB is an advocate for the president and CBO for the majority party in Congress. If one or both agencies are subject and responsive to pressures from their political principals, then these agencies will produce different budgetary estimates when their principals' goals differ. Consequently, the partisan number-crunching hypothesis holds that OMB and CBO estimates significantly differ during periods of divided government while remaining statistically indistinguishable during unified government.

We generally know where the parties stand on fiscal policy, but this does not allow clear, consistent predictions about the direction of any bias between OMB and CBO. The positions the parties take in any given budget negotiation will reflect their strategic interaction. This could lead either party to under- or overstate the impact of its and the other side's policy preferences on the deficit. Consider a Republican president who wants to cut taxes facing a Democratic Congress. He might overstate current revenues as a basis for slashing taxes. Yet, a Republican president who wants to increase defense spending might conversely understate current expenditures to disarm charges that increases in defense spending will bust the budget. Similarly, Democratic presidents may understate current or projected expenditures to justify increases in social spending, or they may overstate the extent to which they are spending on constituency services (i.e., Social Security). Similarily, Blackley and DeBoer (1993, 220-21) suggest that estimates from Democratic presidents might be less biased than Republicans. Their rationale is that

> during the period under consideration Democrats always controlled one or (in most years) both houses of Congress. Democratic presidents may not have to bias their budget proposals as much as Republican presidents, since the Democratic Congress is likely to be sympathetic to the proposals of a Democratic president. (p. 220)

Limited in the predictions we can make about the direction of any bias, we shall focus instead on the absolute differences between CBO and OMB estimates.

Since our primary interest lies in the impact of divided government, we use categorical dummy variables to identify variations in partisan control: divided government with a split Congress (equal to 1 in calendar years 1981-86, 0 otherwise) and divided government with a unified Congress (equal to 1 in calendar years 1987-92, 1995-99; 0 otherwise).[9] Unified government (calendar years 1978-80, 1993-95) is represented in the constant. To control for the possibility that the differences between these agencies' estimates increase with real growth in the economy, we have

estimates is due to errors in economic forecasting. Technical errors are the main culprit behind forecast errors" (Penner 1982, 93).

9. We start the analysis in 1978 (FY 1979) due to lack of data availability for CBO prior to 1978.

10. The data for OMB's (Office of Management and Budget) estimate of the president's budget for 1978 to 1999 are from U.S. Executive Office of the President, Office of Management and Budget (Various years). The data for CBO are drawn from U.S. Congressional Budget Office (Various years), *An Analysis of the President's Budgetary Proposals*. Both figures from OMB and CBO were deflated using the implicit price deflator from the U.S. Department of

TABLE 1
Divided Government and Estimates of the President's Budget Proposals, 1978-1999

	Coefficients		
Variable	*Expenditure*	*Revenue*	*Deficit*
Constant	*30.11*	*–10.24*	*52.32*
	(23.11)	(21.08)	(27.13)
Divided government$_t$	20.28*	4.73	24.10*
	(9.61)	(8.77)	(11.28)
Split Congress$_t$	8.77	–1.30	7.59
	(8.97)	(8.19)	(10.53)
GDP$_{t-1}$	–.004	.003	–.008
	(.004)	(.003)	
	(.005)		
Adjusted R^2	.07	.05	.08
Durbin-Watson	1.92	1.57	2.51
Number of Obs.	22	22	22

*p < .05. Standard errors in parentheses.

also included lagged values of GDP as a control variable.[10] This gives us the following equation:

$$|\,CBO\ Estimate_t - OMB\ Estimate_t\,| = \beta_0 + \beta_1\,(Divided\ Government_t) + \beta_2\,(Split\ Congress_t) + \beta_3(GDP_{t-1}) + u_t. \quad (1)$$

Results

The results presented in Table 1 provide qualified support for the partisan number-crunching hypothesis. The coefficient on the divided government dummy variable is positive and significant in both the expenditures and deficit equations ($p <$ .05) indicating substantial divergence between the two agencies' estimates on expenditures and deficit. Although the split control of Congress dummy variable is not significant in any equation, its coefficients lie predictably between those of unified government (the constant) and divided government. Perhaps during FY 1981 through 1986 when Democrats ran the House and Republicans the Senate, the CBO, facing dual principals, was less constrained politically. The constant term in these two equations, representing unified control, is, as expected, not statistically distinguishable from zero. Moving from unified government to divided control leads to a divergence of more than \$20 billion in expenditure estimates and \$24 billion divergence for the deficit.

Commerce's *Survey of Current Business* (1992 is the base year). Current dollar GDP is drawn from the U.S. Department of Commerce's *Survey of Current Business* (April 1999, Historical Tables, p. D-36, Table C-1).

Interestingly, the bulk of the differences between estimates of the president's budget can be accounted for by differences in expenditures. As the results in the revenue equation in column 2 indicate, there are no systematic partisan patterns between OMB and CBO. None of the coefficients in the revenue equation are significant. Moreover, these differences are rather small. For example, only in 1990 is the difference greater than $20 billion. One explanation for the lack of divergence may be the existence of other sources, such as the Treasury Department, which also publishes revenue projections (Plesko 1988, 493).[11]

To summarize, these findings allow us to conditionally reject the null hypothesis that both agencies follow the tenets of neutral competence during divided government when Congress is controlled by a single party. Moreover, divided government appears to influence expenditure but not revenue estimates. The results suggest that the neutrality of the budget agencies is conditional. During divided government, when their principals may be expected to disagree most sharply, one or both agencies generate partisan estimates.

Conclusion

Agreeing on a unified annual budget is an inherently contentious enterprise from which Washington politicians do not appear ready to escape any time soon. Even the recent annual budget surplus has not thus far lessened the annual jousting associated with creating a budget. As the debate shifts from alleviating the deficit to "spending" the surplus, divided government suggests that Congress and the president will continue to disagree about the best course of action. If so, predictions about the budgetary consequences of policy alternatives, whether taxes or spending, will likely continue to be prominent features of these battles. The findings presented here suggest that when the preferences of the executive and legislative branches sharply diverge over dealing with deficits, the insulation of these agencies comes under threat. The issue, looking forward, is whether partisan disagreement over the surplus will seriously endanger neutral competence.

Appendix

The basic sequence of the U.S. budgetary process, and the role of Congressional Budget Office (CBO) and Office of Management and Budget (OMB) within it, follows the prescriptions contained in the Budget and Impoundment Control Act of 1974 and its subsequent revisions. In this act, Congress created a time line specifying junctures in the political process when each action in the process is to take place. The process, depicted below, begins in January when the CBO publishes its baseline estimate on the current state of the economy and budget. This estimate projects future revenues, expenditures, and deficit based on assumed economic conditions and no change in current policy (Schick 1995, 206). In late January or early February, the administration submits its annual budget to Congress. In accordance with its mandate, the OMB compiles the annual budget and estimates the government's revenues and expenditures if the president's requests were enacted. In addition, OMB publishes its own baseline estimates, frequently referred to as the current services baseline.

Following submission of the president's budget, CBO reviews this budget and releases a report *reestimating* the administration budget using CBO's own technical assumptions and economic projections. The next steps in the sequence are the familiar, formal steps of the budgetary process—Congress passes a budget resolution, the various omnibus appropriations bills and changes in the tax code wend their way through the House and Senate, and the president signs (or vetoes) a succession of bills that comprise the budget. While CBO and OMB continue to generate revenue and expenditure estimates in light of congressional action, their critical contribution to the budgetary process occurs in the early days when both the administration and Congress are establishing their priorities and planning strategy for the subsequent negotiations.

1. January	CBO publishes Baseline Budget (*Economic and Budget Outlook*)
2.January-February	Administration (OMB) submits budget to Congress no later than first week of February
3. February	CBO reestimates administration budget (*An Analysis of the President's Budgetary Proposals*)
4. April 15	Congress adopts budget resolution
5. May-July	House action on appropriations bills
6. July-September	Senate action and conference on appropriations bills
7. (September 15)	Second budget resolution (prior to 1986)
8. October 1	Fiscal year starts

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