

# Budget Politics, Part 2

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- ▶ Here, we will consider whether individuals who are “better” legislators are able to bring back more pork to their districts

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    - ▶ Version 1: female candidates are more reticent about entering politics unless they are of good quality (perhaps because they know they will face discrimination)
    - ▶ Version 2: female candidates try harder (perhaps because they know they will face discrimination)



# Budget Politics

- Anzia and Berry (2011):

**TABLE 1 Legislator Sex and Discretionary Federal Domestic Spending**

	(1)	(2)	(3)	(4)
Female	0.091 (0.043)**		0.12 (0.067)*	0.069 (0.033)**
Prefemale Trend		0.013 (0.008)		
Postfemale Trend		0.03 (0.012)**		
Republican	-0.001 (0.022)	-0.002 (0.023)	-0.079 (0.032)**	0.043 (0.033)
Majority	0.003 (0.028)	0.005 (0.028)	-0.042 (0.031)	0.025 (0.082)
Terms	-0.001 (0.003)	-0.001 (0.003)	0.002 (0.004)	0.009 (0.008)

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- ▶ Alternative mechanism: female legislators spend more time chasing pork at the expense of crafting policy

# Budget Politics

## ► Anzia and Berry (2011):

TABLE 3 Alternative Explanations

	<i>High-Variation Program Spending</i>				<i>Bills Sponsored</i>	<i>Bills Cosponsored</i>
	(1)	(2)	(3)	(4)	(5)	(6)
Female	0.085 (0.057)	0.055 (0.041)	0.093 (0.047)*	0.093 (0.046)**	2.84 (1.06)***	25.83 (13.09)**
Republican	-0.002 (0.022)	-0.01 (0.022)		0.004 (0.023)	0.91 (0.74)	-54.63 (7.90)***
Terms	-0.001 (0.003)	-0.001 (0.003)	-0.002 (0.003)	0.001 (0.004)	1.01 (0.14)***	-3.36 (0.99)***
Margin	0.002 (0.025)	0.003 (0.023)	0.005 (0.022)	0.005 (0.023)	2.2 (0.97)**	-14.32 (8.86)
Female * Margin	0.017 (0.100)					
Female * Republican		0.089 (0.081)				
Ideology			-0.086 (0.037)**			
Female * Ideology			0.107 (0.097)			

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- ▶ More generally, legislators have some agency in bringing spending to their districts
- ▶ Next up... does the U.S. government spend too much? And if so, what has Congress tried to do about it

# Budget Politics

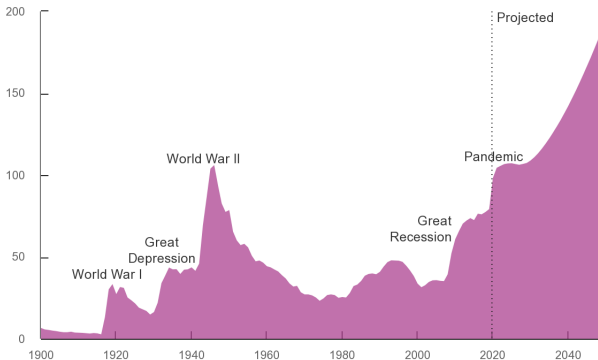
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# Budget Politics

## ► U.S. national debt as a percent of G.D.P.:

**Federal Debt Held by the Public, 1900 to 2050**

Percentage of Gross Domestic Product



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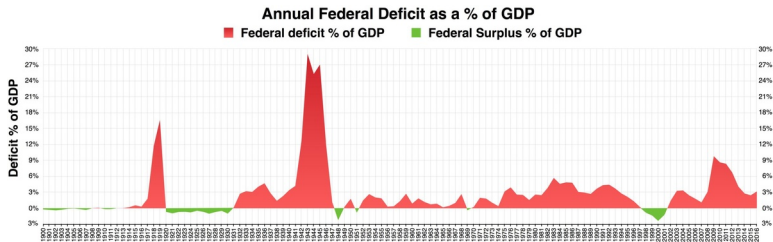
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  - ▶ Super-majority requirements for passing legislation that adds to the deficit (CBA of 1974)
  - ▶ The need to approve discretionary spending every year (CBA of 1974)
  - ▶ The presence of a debt ceiling



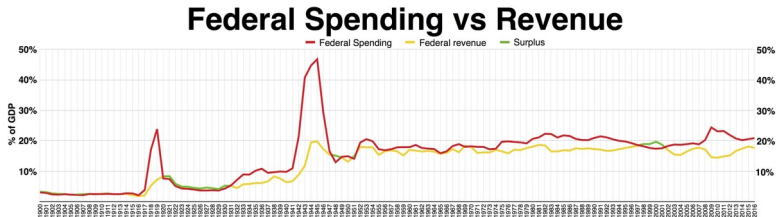
## Budget Politics

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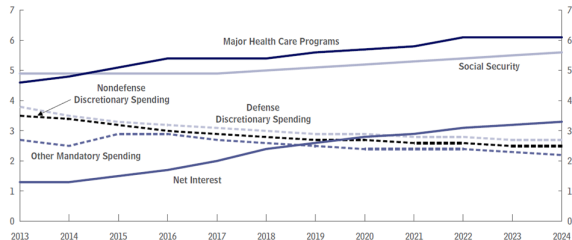


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## ► Spending:

### U.S. Federal Spending as Pct GDP

(Percentage of gross domestic product)

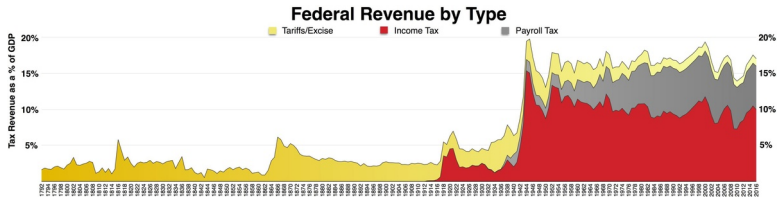


Source: Congressional Budget Office.

Note: Major health care programs consist of Medicare, Medicaid, the Children's Health Insurance Program, and subsidies offered through health insurance exchanges and related spending. (Medicare spending is net of offsetting receipts.) Other mandatory spending is all mandatory spending other than that for major health care programs, Social Security, and net interest.

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## ► Taxes:

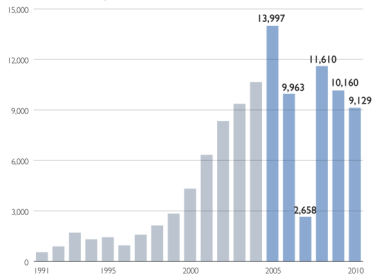


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## ► Earmarks:

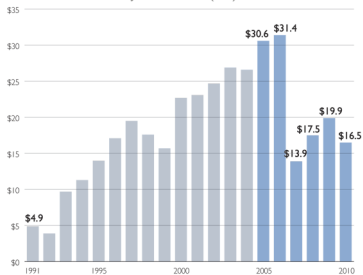
**The Number of Pork Projects Remains Near 10,000**

NUMBER OF PORK PROJECTS



**The Cost of Pork Projects Is Receding from Recent Record Highs**

IN BILLIONS OF INFLATION-ADJUSTED DOLLARS (2010)



Source: Citizens Against Government Waste, at [http://council.fcc.gov/site/PageServer?pagename=reports\\_porkbarereport](http://council.fcc.gov/site/PageServer?pagename=reports_porkbarereport) (April 27, 2010).

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- ▶ There could be an indirect effect...



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    - ▶ Would Trump tax cut be cutting spending if reconciliation process was not an option?

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    - ▶ Would Trump tax cut be cutting spending if reconciliation process was not an option?
  - It is possible that the reconciliation process is a pressure towards reduced deficits because it encourages deficit neutral bills

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  - In this sense, earmark reform may have an indirect effect in reducing government spending

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  - Earmark reform has reduced earmarks, but does not seem to have eliminated voting buying (e.g. The corn husker kickback, the Louisiana purchase, or the Murkowski deal were not earmarks)

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  - In theory, this could produce a pressure towards reduced spending

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- The range between 10 and 20 dollars is called the bargaining set
- If the seller offers the jeans for 14 dollars and you don't take it, you have lost 6 dollars and he has lost 4 dollars

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# Budget Politics

## ► Government shutdowns:

Year	Dates	Number of Days	President	Senate	House
1976	Sept30-Oct11	10	Ford	D	D
1977	Sept30-Oct13	12	Carter	D	D
1977	Oct31-Nov9	8	Carter	D	D
1977	Nov30-Dec9	8	Carter	D	D
1978	Sept30-Oct18	18	Carter	D	D
1979	Sept30-Oct12	11	Carter	D	D
1981	Nov20-Nov23	2	Reagan	R	D
1982	Sept30-Oct2	1	Reagan	R	D
1982	Dec17-Dec21	3	Reagan	R	D
1983	Nov10-Nov14	3	Reagan	R	D
1984	Sept30-Oct3	2	Reagan	R	D
1984	Oct3-Oct5	1	Reagan	R	D
1986	Oct16-Oct18	1	Reagan	R	D
1987	Dec18-Dec20	1	Reagan	D	D
1990	Oct5-Oct9	5	Bush 41	D	D
1995	Nov13-Nov19	5	Clinton	R	R
1995-1996	Dec15-Jan06	21	Clinton	R	R
2013	Sept30-Oct17	16	Obama	D	R
2018	Jan20-Jan23	3	Trump	R	R
2018	Feb9	1	Trump	R	R
2018-2019	Dec22-Jan25	34	Trump	R	R

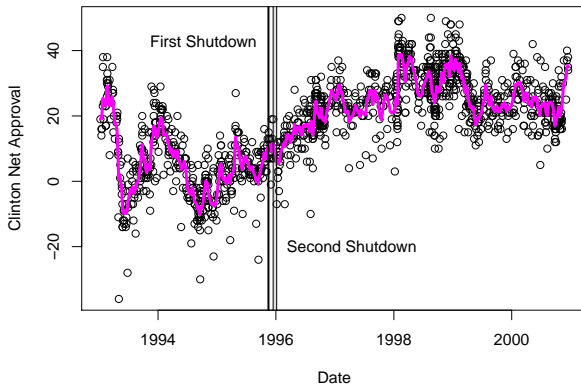
# Budget Politics

- The effect of government shutdowns on the economy (S&P 500 Returns):

Year	Dates	Days	Week Before	During Shutdown	1 Day After	1 Week After	1 Month After
1976	Sept30-Oct11	10	-1.6%	-3.4%	-0.8%	-0.2%	-2.6%
1977	Sept30-Oct13	12	1.6%	-3.2%	0.1%	-0.8%	2.7%
1977	Oct31-Nov9	8	0.8%	0.7%	1.9%	2.7%	0.7%
1977	Nov30-Dec9	8	-1.3%	-1.2%	0.0%	-0.3%	-4.2%
1978	Sept30-Oct18	17	0.7%	-2.0%	-1.2%	-3.2%	-6.7%
1979	Sept30-Oct12	11	-1.0%	-4.4%	-1.1%	-2.8%	-0.9%
1981	Nov20-Nov23	2	0.0%	-0.1%	1.6%	3.7%	0.6%
1982	Sept30-Oct2	1	-2.7%	1.3%	-0.4%	7.4%	11.1%
1982	Dec17-Dec21	3	-1.5%	0.8%	0.2%	1.9%	5.5%
1983	Nov11-Nov14	3	0.6%	1.3%	-0.7%	-0.3%	-2.0%
1984	Sept30-Oct3	2	0.3%	-2.2%	0.3%	-0.2%	3.1%
1984	Oct3-Oct5	1	-2.3%	0.1%	-0.3%	0.9%	3.6%
1986	Oct16-Oct18	1	1.6%	-0.3%	-1.2%	-0.2%	1.8%
1987	Dec18-Dec20	1	5.9%	0.0%	0.2%	-1.4%	-2.6%
1990	Oct5-Oct9	3	1.8%	-2.1%	-1.5%	-2.0%	0.3%
1995	Nov13-Nov19	5	0.7%	1.3%	-0.5%	0.2%	2.0%
1995-1996	Dec15-Jan6	21	-0.2%	0.1%	0.3%	-2.4%	4.0%
2013	Sept30-Oct17	16	-1.8%	2.7%	0.4%	1.3%	3.2%
2018	Jan20-Jan23	3	1.4%	1.3%	-0.3%	-0.8%	-2.3%
2018	Feb9	1	-8.4%	0.7%	0.7%	5.0%	5.5%
2018-2019	Dec22-Jan25	34	-8.1%	8.8%	0.0%	1.8%	5.2%
<b>Median</b>			<b>0.0%</b>	<b>0.1%</b>	<b>0.0%</b>	<b>-0.2%</b>	<b>1.8%</b>

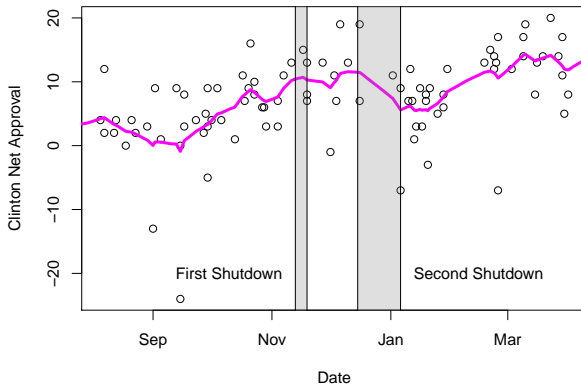
# Budget Politics

- Clinton approval during 95/96 government shutdown



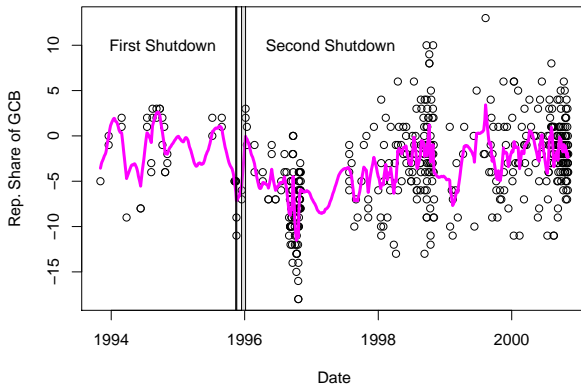
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- Clinton approval during 95/96 government shutdown



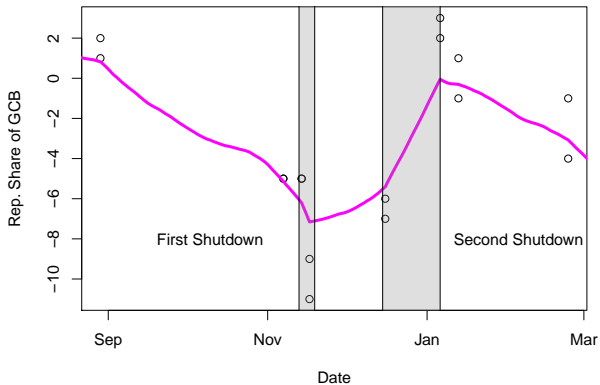
# Budget Politics

- Generic congressional ballot during 95/96 government shutdown



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- Government was shut down due to lack of funds



# Budget Politics

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## ► 95/96 Government Shutdown:

- Gingrich and Clinton were supposed to discuss the budget on a flight back from Yitzhak Rabin's funeral
- Clinton later backed out and Gingrich was reportedly asked to exit the plane from the back
- Gingrich said:

*This is petty, I'm going to say up front it's petty, but I think it's human. When you land at Andrews and you've been on the plane for 25 hours and nobody has talked to you and they ask you to get off by the back ramp... you just wonder, where is their sense of manners, where is their sense of courtesy? That's part of why you ended up with us sending down a tougher continuing resolution.*

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- Because of divided government, it was not a priori clear who would be blamed for the government shutdown
- If you say you want to shut down the government or if you say you are shutting down the government, you are more likely to be blamed
- If you give a petty reason for why you shutdown the government, you are more likely to be blamed

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  - Sometimes, a political reaction is necessary for one side to cave
  - The actual economic effects of government shutdowns are perhaps smaller than what one might think
  - The political effects are (at least) perceived to be large

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  - Option 1: If no budget is passed, last year's budget becomes this year's budget
  - Option 2: If no budget is passed, last year's budget, adjusted for inflation, becomes this year's budget
  - Option 1 would likely lead to less spending
  - Option 2 would likely lead to more spending than Option 1
  - The economic and political consequences of a government shutdown are taken out of the equation, so the bargaining set is determined solely by preferred levels of spending

# Budget Politics

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  - What are the economic effects of potential default by the U.S. government?
  - What are the political effects of potential default by the U.S. government?
  - Two debt ceiling crises occurred in 2011 and 2013



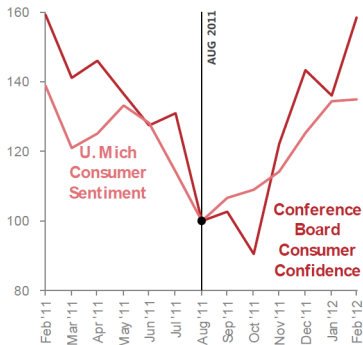
# Budget Politics

## ► Consumer confidence in 2011:

FIGURE 2

### Consumer Confidence

Index, August 2011 = 100



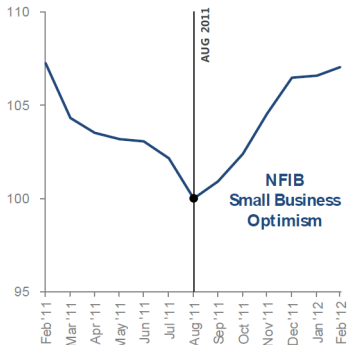
# Budget Politics

## ► Small business optimism in 2011:

FIGURE 3

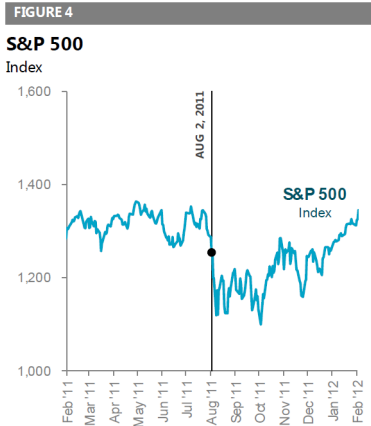
### Small Business Optimism

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# Budget Politics

- The stock market in 2011:



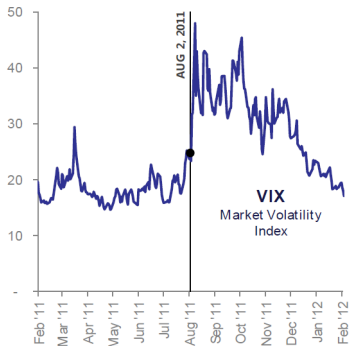
# Budget Politics

- Stock market volatility in 2011:

FIGURE 5

## VIX Market Volatility

Index



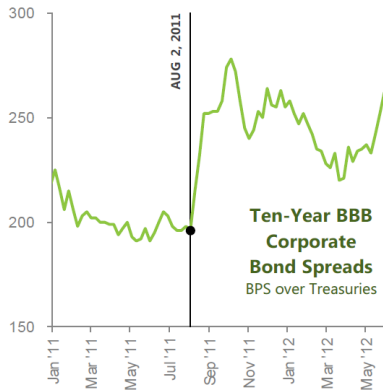
# Budget Politics

## ► Bond spreads in 2011:

FIGURE 6

### Ten-Year BBB Corporate Bond Spreads

Basis Points over Treasuries



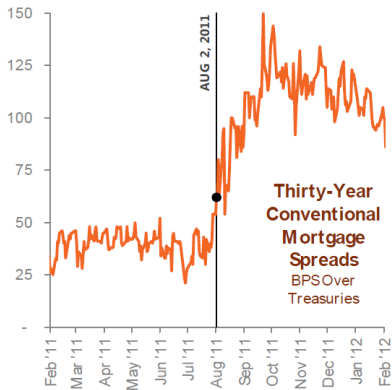
# Budget Politics

- Mortgage spreads in 2011:

**FIGURE 7**

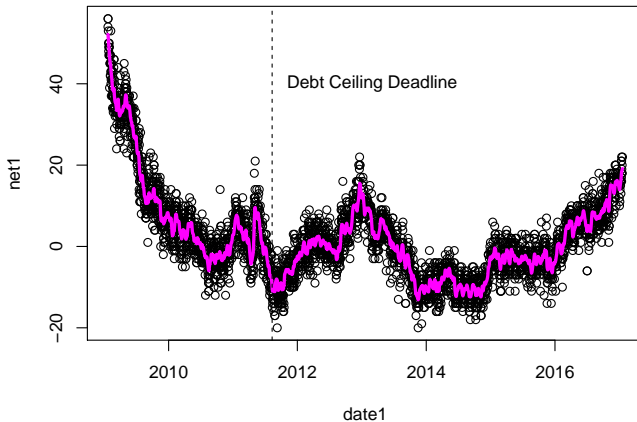
## **30-Year Conventional Mortgage Spreads**

Basis Points over Treasuries



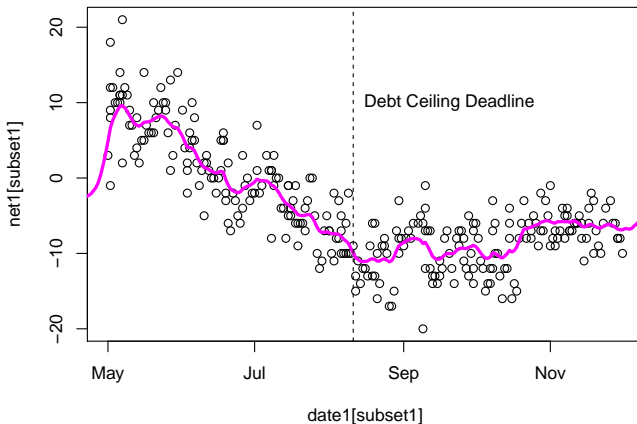
# Budget Politics

- Obama approval in 2011:



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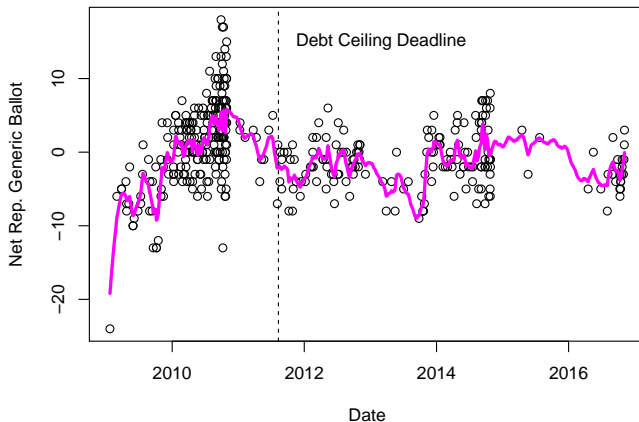
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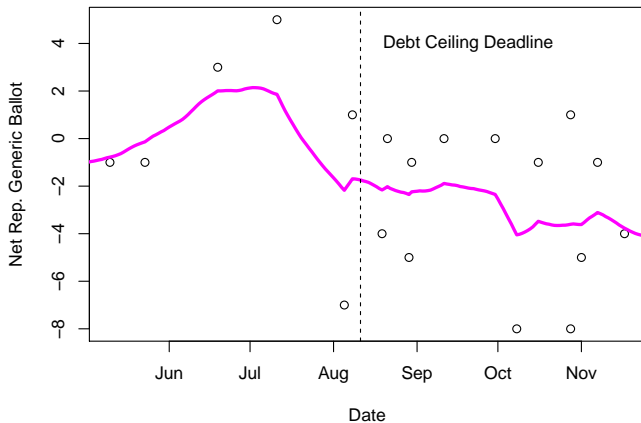
# Budget Politics

- Generic congressional ballot in 2011:



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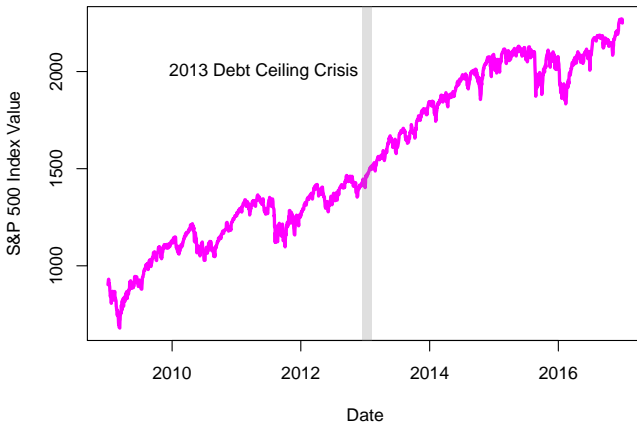
- ▶ Large negative economic effects of 2011 debt ceiling crisis
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- ▶ What about 2013?

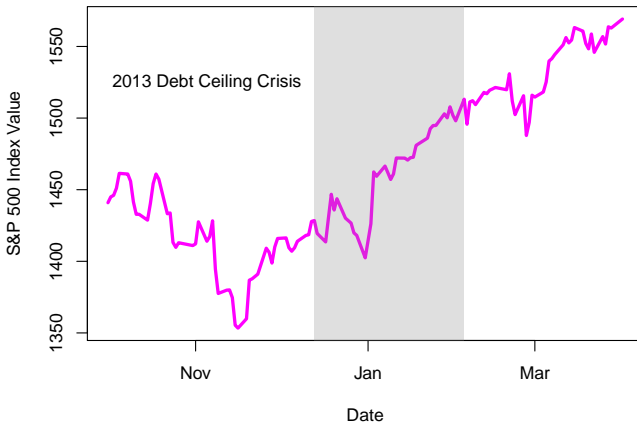
# Budget Politics

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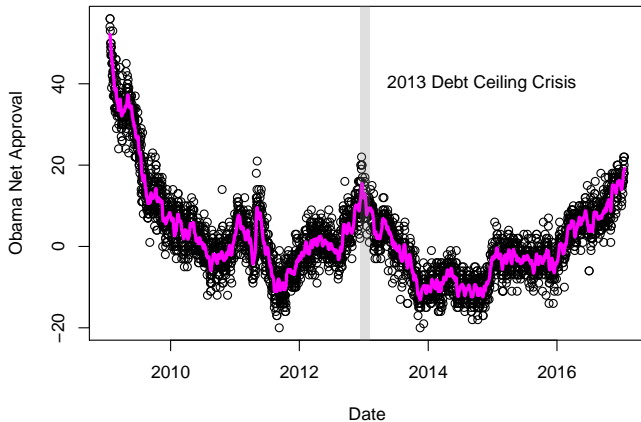
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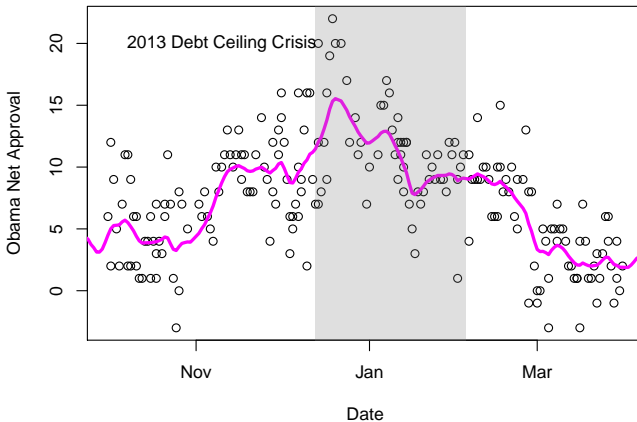
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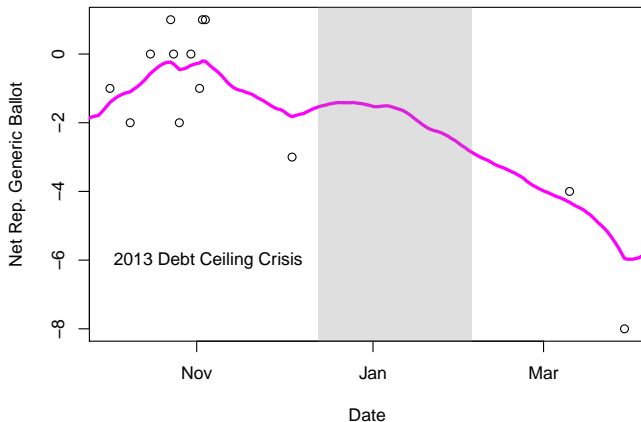
# Budget Politics

- Generic congressional ballot in 2013:



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- ▶ Obama approval went down, but Republicans were arguably blamed more
- ▶ Little negative consequences of 2013 debt ceiling crisis
- ▶ Higher cost of borrowing perhaps already reflects beliefs that U.S. politicians may sometimes do stupid things
- ▶ Debt ceiling seems to be poor bargaining chip (anybody who attempts to use it will likely be blamed and that blame will be apparent before the damage happens)

# Budget Politics

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  - Earmark reform—already done
  - Super-majority requirements for passing legislation that adds to the deficit—arguably helps
  - The need to approve discretionary spending every year—not the best way to reduce spending and simply creates some political uncertainty
  - The presence of a debt ceiling—not the best way to reduce spending and creates a possibility for major harm to the U.S. economy

# Budget Politics

- ▶ Next 'lecture': we will watch congressional debate on the 2002 campaign finance reform bill

## References

Anzia, Sarah F. and Christopher R. Berry. 2011. "The Jackie (and Jill) Robinson Effect: Why Do Congresswomen Outperform Congressmen?" *American Journal of Political Science* 55:478–493.