

The Illinois Budget Policy **TOOLBOX**



Overall Analyses

Broad interests, narrow interests, and the politics of the budgetary process

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Throughout the Illinois Budget Policy Toolbox, some analysts have described the depth of the financial crisis now facing the state of Illinois, while other analysts have laid out a variety of revenue and spending “tools” to address this crisis. So why do we continue to be in such a mess? Why can’t state policymakers simply pick up some of these tools and fix our problems?

To help answer this question, we can look at the politics of the state’s budgetary process in at least two respects. First, the Toolbox paper by Brian Gaines examines public opinion on various approaches to dealing with Illinois’ budget crisis.¹ Second, in this paper, I analyze the politics of the process from that the perspective of interests and groups.

¹Gaines, Brian. (2014). *Public opinion and political viability*. The Illinois Budget Policy Toolbox. University of Illinois Institute of Government and Public Affairs. Available at <http://igpa.uillinois.edu/budget-toolbox/content/public-opinion-and-political-viability>

Interests, not parties

State budget-making is nothing if not political, but not just in the sense of political parties opposing each other. If only it was that simple, budget-making would be relatively easy. No, budgetary politics are often as complex and obscure as anything ever found in the Byzantine Empire. At root, these politics are based on interests— who gets what and who pays for what.

Everyone has a multitude of overlapping interests in the budgetary process. For example, among other things, I have interests in the Illinois budget as an employee of the state, as a taxpayer and as a user of state highways, state parks, and other state services. The way the budget is shaped affects each of these interests, often in conflicting and complicated ways.

Groups of like-minded people often work together in politics. Political parties are groups of people whose goal is to win elections and put their co-partisans into office. They often use policy positions and accomplishments as tactics for achieving this goal, but they ultimately seek office for their members. On the other hand, a group of people sharing the same interest—what political scientists call an “interest group”— can also be involved in politics. But the goal

of an interest group is to achieve policy in line with its members' common interests. An interest group may get involved in elections tactically so as to pursue the policies it wants, but its ultimate goal is always policy. In this paper, I discuss interest-based politics to help understand budget politics.

Narrow vs. broad interests

Policy interests can be sliced and diced several ways. Mostly generally, budget politics are driven by the tension between narrow and broad interests.

One manifestation of this tension is familiar to every observer of state government—the difference between the interests of each legislative district and the interests of the state as a whole. State senators represent only 218,000 people, and state representatives only 114,000 people, out of a state of 12.9 million. As a result, the interests of a district that includes Rock Island County in the northwestern of the state may be very different than one that includes Saline County in the south or some piece of Chicago. Not only do people in these different parts of the state have different politics, they want and need different things from the state. For example, needs regarding “transportation policy” may involve interstate highways and freight rail lines in Rock Island, farm-to-market roads in Saline, and mass transit in Chicago. Balancing these transportation needs in the budget is no mean feat.

But if each region got as many state dollars as it wanted for education, public safety, and other spending categories, and even if these didn't conflict with one another, the result would lead to major budget bloat, overspending, and unpaid bills. This outcome would hurt the broader interests of the state by damaging the state's credit rating, making it less attractive for business relocation, and crippling its ability to recruit the best and the brightest people to work in public service. In this way, the narrow interests of the individual regions can conflict with the broad interests of the state as a whole.

This narrow-vs.-broad interest tension is clearly on display in conflicts between the legislature and the governor. Legislators are elected only by voters in their districts, so they typically pursue those regional interests. The governor has a statewide constituency, so he or she has the incentive to pursue the interests of the state as a whole. This is not to say that the governor's perspective is right and the legislature's is wrong. They just have different interests, and they act to pursue them accordingly.

Advocacy groups and interests

This tension of interests plays out in another even more pervasive budgetary context—the mobilization of advocacy groups. Political economist Mancur Olson argued that a fundamental mismatch arises between the organizational ability of narrow and broad interests.² He attributed this problem to the “logic of collective action.” Interests gain political power from organization and mobilization. They do this, for example, by hiring a lobbyist, developing a consciousness of shared interest among group members, and inspiring those members to act in the political arena.

Do narrow or broad interests have an advantage here? On the one hand, you might think that broad interests would be advantaged. After all, more people having an interest means more political clout. But on the other hand, remember that people have a variety of overlapping and competing policy interests. As a result, a person might ignore some minor interests in the pursuit of his or her other, more important, interests.

For example, suppose the dairy industry proposes a \$.05 tax on each gallon of milk to finance research on how to increase milk production. Every Illinois milk drinker would have an interest in opposing that tax, even if that interest was very small—a nickel per gallon would hardly be noticed. But the state's relatively few milk producers would have a very strong and common interest in passing this bill since it could increase their profitability. Because their common interest on this tax is so strong, milk producers might start up the Illinois Milk Producers Association, hire a lobbyist, and get busy at the statehouse to pass it. Yet consumers would have no major incentive for the mobilization of a parallel Illinois Milk Drinkers Association, nor lobbyists in opposition to the tax.

Interest politics and the state budget crisis

How does this dynamic affect Illinois policymakers' ability to solve our budget problems? First, it causes the state to overspend on narrow interests and underspend on broader interests. Broader interests simply have less mobilized and organized support. One of the most important broad interests of all Illinoisans is to get our state's fiscal house in order. But to do that, many narrow interests would have to be hurt. And those narrow interests will be pursued

²Olson, Mancur. (1971). *The logic of collective action*. Rev. ed. Cambridge, MA: Harvard University Press.

with greater vigor than broader ones like fiscal responsibility.

Consider this example. It has to do with taxing rather than spending, but the principles are the same for each side of the ledger. The state currently imposes a 6.25 percent sales tax on the purchase of general merchandise, which is “most tangible personal property.” So if you buy a \$100 alternator for your car, you’ll pay the state \$6.25 of sales tax. But many services that people buy are not subject to the sales tax in Illinois because they are not “tangible personal property” (even though they are subject to a sales tax in many other states). So if you took your new alternator to a mechanic in Illinois to install it for \$100, you wouldn’t pay any sales tax on the installation.

But now consider a revenue-neutral “tax reform” proposal to broaden the sales tax base in Illinois to include services and to reduce the overall sales tax rate.³ Economists assure us that this reform would be in the broad interest of Illinoisans because it is more efficient, fairer, and leads to less tax avoidance (like you driving from Quincy to Palmyra, MO, where the sales tax on your alternator would be only \$4.23). If the sales tax in Illinois was broadened and the rate reduced to at or below that of Missouri, there would be no incentive to make the purchase in Palmyra.

But who would advocate for that broad public good? If you save only \$2.02 on your alternator by driving all the way to Palmyra, how much would you care? Would you contribute resources to start an interest group that would advocate for this reform? For individual consumers, this interest isn’t large enough to activate them politically.

But your car mechanic has a very powerful, narrow interest to oppose the broadening of the sales tax base to include her services, so she has a good reason to get mobilized. Not only would she have to collect and report those additional taxes (a big hassle), her services become more expensive, which might reduce business. Multiply the new sales tax you would pay on your repair by her hundreds or thousands of customers every year and you can see the impact such a policy decision would have on her and on every other car mechanic. Add all the dry cleaners, barbers, massage therapists, and many other service providers in the state who would be narrowly affected, and you

can imagine the strength of the political mobilization against the broadening of the sales tax base.

The politics of the budgetary process

Comparing the politics of budget proposals that affect narrow and broad interests is instructive for understanding why Illinois is facing its current fiscal crisis and why it will be so hard to extricate itself from this predicament.

Consider a proposal that impacts very broad interests, such as a general increase in the income tax or an across-the-board cut in spending. Such a change could have a big impact on the state’s overall fiscal health, but probably only a small impact on the budget of any individual household or firm.

The groups that may have an interest in getting involved with such issues are those with the most general remit, such as umbrella groups like the Illinois Chamber of Commerce or the AFL-CIO. Likewise, the two political parties may pick up on this sort of issue so as to appeal to their broad constituencies and to differentiate themselves from their counterpart. As a result, broad interest issues often become polarized along party lines. While the impacts for individuals would be small, the breadth of such a change also often attracts wide media attention, so the fights over these issues are often played out in public. And since they are so public, individual legislators are afraid to misstep on these issues for fear of a “bad” campaign flyer being used against them in the next election. This fear further heightens the partisan nature of these battles, as party members flock together for political safety. Because of this dynamic, these broad interest issues are typically “kicked upstairs” for legislative leaders and the governor to hash out. Strong leadership is needed to overcome any broad or partisan opposition. As such, these are the issues that can define a gubernatorial administration—for good or ill.

On the other hand, budgetary proposals that are narrower in scope typically generate a very different type of politics. A proposal to broaden the sales tax to services or to cut spending to schools could be viewed as an attack on a relatively narrow interest. Of course, many budget policy changes are much narrower in scope, such as a new tax or fee on a particular industry or a targeted cut on an industry’s subsidy. And the politics of such narrow interest changes often exhibit the following particular characteristics.

³Giertz, J. Fred. (2014). *The sales tax*. The Illinois Budget Policy Toolbox. University of Illinois Institute of Government and Public Affairs. Available at <http://igpa.uillinois.edu/budget-toolbox/content/sales-tax>.

Narrow-gauged budgetary proposals can cause significant losses for a relatively small group of people or firms, so these proposals inspire the mobilization of politically active interest groups among those who would be hurt by them. So the Illinois Retail Merchants Association or even the Illinois State Bowling Proprietors Association might become active in fighting a broadened sales tax base. Broader interests that stand to gain by such changes would be less likely to get involved or even to organize at all. Interests on these issues often cross party lines, as a person from either party could own a bowling alley. Thus, the parties themselves tend to stay out of these fights. Due to the often narrow and arcane nature of these changes, the media and general public tend to ignore them. Likewise, governors and legislative leaders have more important things to do than to get involved, except perhaps tactically on occasion. Thus, the politics of these issues is very “inside baseball,” with lobbyists for each side working quietly in the capitol halls to carve out an advantage for the narrow interests they represent. For example, the lobbyist for the Illinois State Bowling Proprietors Association might work tirelessly to get bowling alleys exempted from any broadened sales tax. This effort would have a minor budgetary impact, so keeping the issue quietly behind the scenes helps the bowling alleys. Besides, the media, governor, and legislative leaders will not have time to track this minor issue.

Conclusion

Understanding the political dynamics inherent in the budgetary process helps us understand better the current fiscal crisis facing the state of Illinois and why solving it is so difficult. Narrow interests are advantaged in the budget process, and broad interests are disadvantaged. It is easier to pass a minor bill that helps a narrow set of firms or people than it is to pass a major bill that addresses broader public problems. And an accumulated endless number of narrow interests is often quite detrimental to the common good of the state. So if the milk producers and the bowling alleys and the dry cleaners each get just a little piece of the pie, the burden on the average taxpayer is overwhelming. But the average taxpayer—and the broad interest of the state—have little incentive to organize and represent themselves in Springfield. That is the role of our elected officials, but they are often seduced by the narrow interest forces, since these are the ones that they hear from most frequently and with the most urgency.

In short, editorial writers and pundits like us can easily

argue for the broad public good, but when their ox is being gored, each of them will fight for their narrow interests. Just ask the editorial writers what they would think about a tax on printer’s ink and newsprint to help balance the budget. Or ask us academics what we think of cutting state support of higher education. •

Further Reading

Gosling, James J. (2009). *Budgetary politics in american governments*. 5th ed. New York: Routledge.

Olson, Mancur. (1971). *The logic of collective action*. Rev. ed. Cambridge, MA: Harvard University Press.

Wildavsky, Aaron and Caiden, Naomi. (2003). *The new politics of the budgetary process*. 5th ed. Boston, MA: Longman.

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