

SYSTEMIC IMPROVEMENT IN THE FEDERAL BUDGETARY PROCESS

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Much has been written in recent years about methods and procedures which conceivably would reduce the problem of budgeting to a somewhat rigid science. Improvement in accounting systems, new advances in developing and understanding cost accounting and standard costs, plus the growing interest in organization and management analysis, have led many to believe the problem of budget planning and control can be solved by the development and application of principles as precise as those of applied science. As a result, there has been a proliferation of one-shot approaches which presumably offer hope for the effective accomplishment of governmental goals more economically and efficiently.

Although many of these have merit, some are valueless or are based upon misunderstanding. Generally speaking, all suffer from a lack of comprehensiveness. There is no single method or "gimmick" which will provide an easy path to better Federal budgeting. The approach to the problem must be comprehensive and must recognize the relationship of each procedural change to the whole pattern of the system.

Therefore, any attempt to discuss systemic changes in the Federal budget process must be placed in proper perspective. Assuming the objective of the budget process is effective planning and control of the use of resources made available to the Government to successfully accomplish its objectives, it must be recognized that organization or procedural changes in and of themselves will not achieve that end.

Budgeting is basically a judgment-making process. Primarily it involves a series of value judgments at every stage. It seeks answers to such fundamental questions as: What proportion of the total economy should be devoted to governmental activity? What functions should be performed by the respective levels of government in our Federal system? What are the relative values to be placed upon one public function as against another, or all others? What type of revenue structure should be established to distribute the governmental burden? What improvements in government organization structure, procedures, methods, and techniques will yield the most effective, economical, and efficient results? ¹

Any consideration of systemic arrangements or an evaluation of organization, methods, procedures, and techniques employed by the Federal Government in doing the budget job must recognize this

¹ U. S. Bureau of the Budget, *Budget Formulation, 1945*. This document sets forth five kinds of policy questions which are involved in the Federal budget: (1) What proportion of the whole economy should the Government comprise? (2) What should be the relationship between the Government's expenditures and its current receipts? (3) How should the burden of cost be shared? (4) What share of available funds should be used for each purpose? (5) How can the desired results be achieved at the lowest possible cost?

fundamental fact. For the judgment-making nature of the budget process presents at the same time both the governing rules for conducting it and the essence of the problems which must be overcome. At best procedural change can provide only the framework within which effective budgeting can be accomplished.

The dynamics of the problem resulting from human nature and the philosophical tenets which underlie its operation will always present an imponderable as in all cases of human administration. To bring about most effective budgeting, it must be understood that the problem is at least, if not more, one of human dynamics as it is one of mechanics.

It is within this context that the following discussion is offered. It deals with:

- (a) certain general concepts and aspects of the budget process;
- (b) specific features of budget structure and format; and
- (c) organization problems and selected procedures.

Observations regarding the validity of present arrangements or suggestions for change and improvement are presented.

DEFINITIONS

To promote clarity, it is advisable to set forth the concept of budgeting used herein and to identify the sense in which other terms employed in succeeding paragraphs are used.

Budgeting is recognized as the process by which a plan of activities (in this particular case that of the Federal Government) is formulated for a prescribed period of time; reviewed and adopted by Congress; and the management of the plan of activities previously approved in the form of a budget according to a schedule and at a cost within resources available.² It is the primary means by which the executive branch plans and controls the administration of Federal activities and the fundamental action taken by Congress annually in controlling Government programs and the utilization of Federal resources.

Other terms employed follow the normal vocabulary of Federal fiscal operations. They are those contained in the Budget Treasury Regulation No. 1, as amended by Circular A-34 of the Bureau of the Budget, Circular A-11 of the Bureau of the Budget, entitled, "Instructions for the Preparation and Submission of Budget Estimates," and other budgetary or fiscal documents.

GENERAL ASPECTS AND CONCEPTS

Many concepts underlying the budget process appear to need re-evaluation and/or change. Many are adequate in theory but deficient in practice. It is the purpose of this section to examine certain general features of the budget system and selected concepts which underlie them. It concerns itself with (a) the determination of budgetary requirements; (b) the role of the executive branch; (c) the role of the legislative branch, and (d) the role of public officials and employees.

² A. E. Buck, *Public Budgeting*, New York, N. Y., 1929, pp. 3-4; U. S. Bureau of the Budget, *Budget Formulation and Budget Execution Manuals, 1945-46*; Harold M. Groves, *Financing Government*, New York, N. Y., 1952, pp. 513-514.

Determining budgetary requirements

No mechanism for determining true "needs."—For many years it has been an inherent concept of Federal budgeting that a fundamental determination required is the development of the "needs" of the people of the Nation in order to select those which should be performed by government and the National Government in particular. From a purely theoretical standpoint this provides a convenient explanation of the contents of the Federal budget. However, it fails to recognize at least three important points. First, there is no adequate or standard mechanism for determining "need" in the public sphere, such as exists in the private economy. Second, it places emphasis upon the desires and wants as developed by interested individuals or groups, and not upon general welfare or the ability to support such requirements. Third, it stresses the development of such requirements by a presumably omniscient Federal bureaucracy.

This concept of budgeting thus often results in the development of glorified "wish lists" rather than programs of essential needs. It in effect directs Federal agencies to determine the needs of people in both the limits of this country and to some extent abroad. Further, it establishes in them the prerogative of ascertaining whether or not such functions should be performed by the National Government, the State or local governments, and other nations.

To assume that the first of these determinations should be unrestrained in character contributes materially to the constantly increasing cost of government and its claim on a major portion of the economy. It is recognized that some attempt to contain these alleged "needs" is accomplished through the use of the target figure process employed by the Bureau of the Budget. Nevertheless, this feature is to a great extent undermined when the budget reaches the legislative level, where no such basic decision is made.

Governmental needs must be related to limited resources.—Failure to cast the budget job in terms of accomplishing programs within limited resources magnifies the problem of controlling Federal spending. It must be recognized that virtually all items in the budget can be justified from one standpoint or another. It is not a question of their true value in most cases nor of the ability of some interested administrative unit or special interest group to develop sufficient statistics to support their inclusion in the budget. The problem to be overcome is to relate such recommendations to limited resources.

Establish the concept of budget ceiling.—Since there is no automatic mechanism for determining a public need such as there is in the private economy, it would seem wise to build into the conceptual framework of the Federal system a target level for the annual Federal budget which would provide for essential public services and a systematic reduction of the Federal debt. The primary need for such a concept is in Congress, although it should pervade all budget activity. Such a target should have as its objective the elimination of all budgetary items which are not truly responsibilities of the National Government, even though the same problem might be manifested in many regions of the country and be considered nationwide in character. Thus, it is not enough simply to apply the test of generality to the problem. One must go further and apply the tests of federalism—the spirit as well as the letter of the law in the Con-

stitution—the principles of a free-enterprise system and the possible impact of the budget on the total economy before including programs or activities in the Federal budget.

Unless substantial progress is made toward developing and utilizing such a concept in Federal budget operations, there is little hope for bringing about truly effective budget control. History is replete with illustrations showing that “needs” of the Federal Government are measured by elastic yardsticks and seems to be governed principally by the availability of revenue.

Role of the executive branch

Executive budget system sound.—Although there may be variances of opinion as to the advisability of an executive budget system as against a legislative or commission budget system, the executive budget system in a government based on the doctrine of separation of powers constitutes a fundamentally sound arrangement. As in all social organizations or institutions, there are weaknesses, but many of these are attributable directly to inherent difficulties in the separated powers theory itself.

By far and away the advantages of our executive budget system outweigh its handicaps. Structurally, it provides an intelligent framework for moulding proposals for Congress on public policy and enables the effective administration of public activities with both efficiency and economy. Both of these are functions assigned to the executive branch. Thus the role of the executive branch in the budget process, conceptually speaking, is that of developing a planned program of activities in dollar terms for a period of time ranging from 1 year to an indefinite term. Similarly, it requires the executive branch to effectively, economically, and efficiently administer approved budget programs as an inherent responsibility of the public trust which reposes in governmental officials and employees.

President's proposed budget properly subject to change.—There is a concept which has been built up over the years, as an outgrowth of both our constitutional and political systems, that the President's budget program as presented must be adopted by Congress with little if any change, lest the country be maltreated and the President “lose face.” Justification for this stand needs specious reasoning, for under our system of separated powers it is certainly the President's prerogative to submit to the legislative branch a proposed budget program of activities, but certainly it is not his right to have such a program accepted and implemented without change.

Value judgments differ between branches of government.—Obviously, with the inherent weakness in determining governmental needs described above, budget programs will, of necessity, contain some questionable requests. All of the estimates will reflect the sundry judgments of the governmental officials and employees who have presented them. They will embody the political, economic, and social philosophies of those who were responsible for building each individual part of the budget and the document as a whole. Similarly, it will have built into it the prejudices and interests of specialized groups who stand to lose or gain most by the budget determinations made. All of these, when combined into a budget by the President, contain the imponderables which are present in human activity as broad and far reaching as the making of the President's budget.

They are logically subject to reasonable examination and change. Adequate yardsticks to make decisions which are unchallengeable do not exist.

It is proper that the legislative branch give full and thoughtful consideration to budget proposals for the purpose of bringing its perspective into play. Certainly it will be, if the democratic processes are working properly, much more representative of the wishes of the people. This does not overlook the fact that there are inherent weaknesses in the present system of representation but this is no excuse for assuming that such vital determinations as those in budgeting should be transferred to the administrative structure in the executive branch.

The role of the legislature must be positive and penetrating. Under our system of government, exercise of judgment in determining related values can well be accepted as a substitute for that presented by the President in his budget without the assumption that a President has "lost face" in the exercise.

The role of the legislative branch

How can Congress make its budget review most effective?—If it is assumed the role of the executive branch is as described above; i. e., one of formulating programs and effectively, efficiently, and economically administering them, and that this process necessarily involves varying degrees of detail, with basic decisions being generated at each successive level in the hierarchy of the budget system, a logical question is raised as to what is the proper and most effective role for the legislative body. Is it the job of Congress to engage in a series of repetitive actions which invite a rehashing of detail which has been the subject of executive deliberations? Does it not have the same basic questions to answer in its budgetary decisions which face all those primarily engaged in the Federal budget process? If so, can an examination and approval of the Executive's proposals be effectively accomplished without reevaluating or redoing each action which has taken place preceding submission of the President's budget?

Should it concern itself rather with broad program levels and program relationships irrespective of the details which comprise or underlie each program? If the sum of the budget truly equals the parts, can Congress wisely decide on a sum without delving into such questions as to the consistency of the parts of the budget which comprise it?

It is the contention of this paper that it is not within the proper role of Congress to redo or reexamine each detail of the budget proposed by the President. To examine such detail line item by line item would not necessarily enhance its control but would actually impair it. The activities of the Federal Government are entirely too vast and complex for busy Congressmen or their staffs to attempt to second-guess each decision made by Federal administrators on the budget, even though each may be looking at the same problems from slightly different vantage points.

Gear congressional judgment to highest possible level.—Congressional value determination must be geared to the highest possible level consistent with effective evaluation. Its role in the budget process could most profitably be devoted to determining (a) the proportion of the total economy which should be devoted to conducting the Federal

Government; (*b*) determining the relative values of each major function and activity of Government in light of modern concepts and needs; (*c*) assuring that all possible detrimental effects to the economy have been removed from the budget programs which it approves; (*d*) evaluating each demand for a new public function to determine its propriety as a responsibility of the Federal Government as contrasted to having it performed by the States or local governments, or the private economy; (*e*) insuring that an equitable revenue structure is provided to cover, under normal conditions, a level of budget program it approves; and (*f*) reviewing the efficiency and economy applied to conducting Federal operations and insuring that the budget is used to remedy such deficiencies as may be found to exist.

Use "rule of exception" in examining detail.—All this is not to say that there is not need for a detailed examination of certain phases of budgetary activities. To the extent that an examination is required to understand a program, it must be made. However, such endeavors should be premised on the rule of exception. Unless the application of general yardsticks to each of the determinations suggested above reveal soft spots or areas which require more detailed examination, it seems inappropriate for Congress to delve into such detail.

Although there are several possibilities for reducing the need for congressional delving into the minutiae of executive budget decisions, there are at least two which offer substantial promise of reward. First, the proper organization and simplification of the budget and appropriation structure would be helpful. It should be designed to reflect more clearly (*a*) what funds are being requested for; (*b*) how much is being requested for some meaningful unit of end product, and (*c*) how in general terms it is proposed this be accomplished. Secondly, it would certainly be fruitful to direct efforts at the development of simple yardsticks for use in making the above decisions with rapidity and understanding.

Should appropriations govern pending congressional actions?—A practical difficulty manifest in the system of congressional control of the budget stems from different concepts on the function of appropriations in the legislative process. Should the annual review of budget proposals to accomplish Government programs be considered an action superior to previous determinations by Congress regarding the level or type of program to be carried on? This was pointed up in the first session of the 85th Congress when the economy bloc made its first sustained drive to cut appropriations. This occurred on the Labor-Health, Education, and Welfare bill and was characterized in remarks to the House by Representative Howard Smith:

Now, my friend says, "We have to appropriate this money because Congress authorized these things." Congress, I expect, makes some mistakes because Congress has not been above making mistakes in past years. But no previous Congress can bind this Congress to continue appropriations on matters that a previous Congress authorized or appropriated money for, if this Congress thinks it is in the best interest of the country to reduce those appropriations or to eliminate them. If you do not accept this as a theory of government, then you cannot do anything with these bills. You

cannot reduce them because they are going to keep on going up and up and up. You have to be willing to just face this issue and say this thing has got to be cut, these budgets have got to be reduced and these appropriations must be reduced, and we have to have the courage to stand up and do it and I hope that we will.³

Reviewing the function of budgeting in the governmental system, Congressman Smith's stand would seem most appropriate. The annual budget gives Congress an opportunity to review in realistic dollar terms the consequences of its previous work and the ability of the Nation to support its adopted policies. Thus, it would seem proper that, even though Congress may have passed by previous action certain formulas, adopted certain programs, or established certain levels of performance, it may in its budgetary considerations decide to change or modify its previous stand in view of current fiscal realities. To look at it otherwise presents a standing invitation to special-interest spending groups to circumvent the annual congressional review of Federal programs through the enactment of fixed formulas and programs outside usual budget controls. The ultimate of such a development would be a negation of budgeting.

Appropriations should be overriding.—In view of the notable rise in the amount of funds which have become relatively uncontrollable by normal budget processes, Congress should adopt the concept that appropriation actions are overriding except for payment of the obligations on the national debt or similar contractual responsibilities. Where the Government stands as benefactor to a special group of individuals through grants or gratuities, the level of appropriations voted should determine the amount of funds to be distributed and not some formula which may have been concocted many years previously and fixed in law.

The role of public officials and employees

Personnel with sound concepts and training essential.—Since budgeting is a dynamic, judgment-making process, personnel constitutes the most important ingredient in the budget system. The extent to which they are grounded in sound conceptual bases, and properly trained, will determine to a considerable degree the success of Federal budget operations.

Managerial concepts which place emphasis upon the wise application of men, money, and materials to accomplish objectives are only beginning to receive understanding in Federal operations. A broad concept of the budget process as a prime means for planning and controlling the use of such resources to meet public objectives effectively, economically, and efficiently is not found widely among managerial or technical personnel engaged in budgeting. In many areas the budget is conceived as an incidental adjunct of accounting which must be tolerated as a necessary nuisance. In some places there prevails the age-old outmoded belief that a budget is an accounting worksheet totaling estimates of what you think you can get for the next fiscal year. In other instances, the job of budget officers is regarded as existing simply to assure that the organization gets the "best deal" possible on funds.

³ U. S. Congress, Congressional Record, March 26, 1957, p. 3911.

To remedy these and other conceptual difficulties found among Federal personnel there must first be instilled an understanding on the parts of both managers and technical budget staffs of the broad and pervasive nature of Federal budgeting. It is important that there be an understanding of relationships of each part of the budget to the others, to the budget as a whole, and to the proper role of the Federal Government in the economy and society.

There must be developed also a sense of public trust which goes beyond the prolongation or expansion of particular interests and agencies. Much as a banker or guardian administering a trust fund must concern himself with the wise and prudent application of funds in behalf of the beneficiary, all employees should be made to realize that the resources with which their jobs are conducted are those of the body politic. They are held in trust by them and must be used with prudence and intelligence to accomplish their job with utmost economy and efficiency.

Need for broad budget training program.—Since soundness in judgment is susceptible of development through various techniques, the quality of the Federal budget process can be substantially enhanced by efforts properly directed. The orderly and planned development of improved judgment-making is something which is notably lacking, or at best carried on in a disintegrated and ineffective manner. It is true that there are several training programs of a limited or unpretentious character which deal with the problem and process of budgeting. But for the most part these are mechanistic in character, and their emphasis is primarily upon forms and procedures. Stress is upon the development of memory rather than upon the use of analytical judgment.

Several years ago the Bureau of the Budget prepared a series of staff papers in the form of budget formulation and execution manuals. The materials in these documents suggest the broad and penetrating approach which is required for a proper understanding of the role of budgeting in the Federal Government and in the economy. Although dealing in many respects with detailed methods of computing budget requirements, these materials stress as well the interrelationships between various management concepts and functions. To a lesser extent, they deal with the economic and social impact of the budget.

There are undoubtedly revisions in these materials which could be made because of the increased knowledge on the subject of Federal budgeting during the past 10 to 15 years. However, it is suggested that these materials be amplified, slightly reorganized, and used as a basis for the development of a standard set of training courses within the Government. This program should be directed by the Bureau of the Budget and be required of all key managers who participate actively in determining budgetary requirements or administering significant segments of the budget. This course should also be directed to all technical budget personnel and become a prerequisite to the appointment of employees and officials to budgetary positions. The impact of such training on the budgetary system in the executive branch could be tremendous. For although there are recognized exceptions, there are indications that the great bulk of Federal budgetary personnel has not been given any significant training in the broader aspects of the budgetary process.

Qualifications of budget personnel.—Appointments to budget positions are often based upon work conducted in accounting-type activities or certain administrative responsibilities. Although these skills are helpful to the development of a good budget officer or a good manager with major responsibilities for budget actions, they are in themselves insufficient to prepare the type of budget technician or budget-conscious manager which the Federal Government requires.

Some studies have been made as to the characteristics and qualifications which should be possessed by budget technicians. In many instances these have stressed a knowledge of accounting. Although it is essential that everyone engaged in performing Federal budget functions be acquainted with the principles and practice of accounting, the great value of accounting as a tool of management and as a support for budgetary actions of itself will not produce a good budget officer. Added to this very essential accounting qualification must be vision, objectivity, imagination, foresight, and the ability to plan and to comprehend relationships between budget programs, management actions, and the whole budget. Similarly, there must be the ability to give an understanding adaptation of economic and governmental principles to budget decisions.

It is not enough that these qualifications be possessed by budget personnel alone. They must likewise be present in the managers at each administrative level. It is these groups which make and are responsible for budget considerations.

BUDGET STRUCTURE AND FORMAT

Any consideration of improvements in the budget process must consider budget structure and the format used in the budget document. Although rapid and significant strides have been made in the structure of the budget and in the format of the budget document in recent years, much still remains to be done. It still has too many vestiges of the budget technician's approach, emphasizing procedures and mechanics rather than judgments. Thus it is weighted down with difficult and even meaningless terminology and facts and figures which require the expertness of a technician to understand.

Simplify terminology.—Efforts must be made to simplify budget control by first directing efforts at the gobbledygook used. For example, the actions of the Bureau of the Budget in developing a budget for presentation to Congress each year, and the Congress in considering it, are primarily concerned with the amount of new obligational or spending authority which is being requested by the agencies and the impact which the resultant expenditures will have upon the economy and governmental programs. In doing this, there are at least five ways of providing new obligational or spending authority, for example, appropriations, reappropriations, permanent appropriations, contract authorizations (new and permanent), and authorizations to expend from public-debt receipts (new and permanent). Although the reasoning behind the use of different types of new obligational authority is recognized, such use seems highly unnecessary and only tends to confuse further a problem which is already exceedingly complex.

Since the principal question involved is how much new spending authority Government agencies shall be given for either the next year

or an indefinite period of time for particular purposes, it would seem much more feasible to eliminate all types of new obligational authority except appropriations and expand the term "appropriation" to include all new obligational or spending authority proposed by the executive branch or the Congress of the United States.

It is recognized that there are subtle implications in such a change-over which would involve changes perhaps in congressional rules or procedures, and in certain executive and legislative concepts. Nevertheless, in acting on budgetary matters, the one question of how much of the people's resources the Government will be allowed to obligate and expend anew is what concerns most Americans. For it is the establishment of a limit for legal obligations which determines the amount of expenditures or checks issued from the Treasury.

Revise and simplify organization of budget.—A second and important direction in which simplification can be made is in the arrangement or organization of the budget. The present budget document, with its primary emphasis upon organization unit is a somewhat hybrid document, being neither completely a performance or program budget nor a line-item budget. Although it manifests primarily the former characteristics, the latter certainly are not lacking.

The most logical move to bring about improvements in the organization or arrangement of the budget would be to commence with the program or performance structure manifest in the Budget in Brief. This little document has become an extremely important part of the entire Federal budget process and is being given wider and wider use by public officials, civic organizations, and the man in the street simply because it gives a much clearer picture of what the Government is proposing to do with public moneys and the relative values it places upon the functions of Government. It is simply and attractively presented in a meaningful arrangement of material.

Therefore, it would seem advisable that the budget document submitted by the President to Congress be refashioned and reorganized along the lines of the Budget in Brief. Fundamentally, this would require use of a primary classification which presents Government programs by function, that is, major national security, international affairs, and finance, etc. Under each of these primary classifications, the appropriation structure and supplementary material could then be presented by organization unit. This would have the advantage of identifying those responsible for conducting the various functions of Government. Among its other advantages, it may also simplify funding and accounting actions between agencies involved in performing parts of the same basic function. Similarly, it would serve to point up unnecessary duplications of activities and possible improvements in organization and management which would produce economy or efficiency benefits to the taxpayer.

The value of having a summary of funding and accounting information by agencies is also recognized. Such information could be made readily available by appropriate summaries on an agency basis.

Eliminate term, "new obligational authority," and redefine "expenditures."—In view of the difficulties which have been manifest in recent years in understanding the difference between "obligations" and "expenditures," it is suggested that consideration be given to renaming all types of new obligation and spending authority "expenditures" and to redefine the word, "expenditures," in Federal financial termi-

nology to incorporate all such actions. Furthermore, it would seem advantageous to tighten such "expenditure" authority by precise definition in law of what constitutes a legal obligation (or expenditure if renamed) by the Federal Government, such as was sought by section 1311 of Public Law 663, 83d Congress.

The term, "expenditure," as it is now used in the Federal Government, namely, checks issued, should be renamed "disbursements," since this most appropriately recognizes the character of what is presently called expenditures in the Federal fiscal process. Under current definitions they constitute simply the issuing of checks to liquidate valid legal obligations which have been incurred pursuant to spending authority granted by Congress and are virtually automatic actions.

The term, "expenditure," as it is proposed here would seem to be much more in line with what the public expects the Congress and executive branch to control—the true "expenditure" of fiscal resources at the point at which they are available for utilization, namely, the point where legal obligations to pay are incurred.

Consolidate and simplify appropriation structure.—A third means by which the budget structure and format could be improved would be by consolidating several of the appropriations which are now split to reflect the function which they perform. Certainly the appropriation structure of the Veterans' Administration and the Defense Department are two which illustrate this point.

Reduce size of budget document.—Consideration should also be given to reducing the amount of material presented in the "big budget" which the President submits to Congress. It is recognized that such action would tend to eliminate detail which may be considered by the technicians to be necessary. However, the majority of Congressmen who are concerned with the budget and others who use it are not technicians. It should be geared to their needs, and permit them to make intelligent value judgments on budget proposals.

Several Congressmen have spoken out about the lack of detail in present budget presentations, detail which they feel necessary to make proper evaluations. This "lack of detail" has been used to attack the use of a program or performance-type budget.

Actually, there is no true inconsistency between a good program or performance budget and the provision of adequate budget detail to permit proper evaluation by the legislative branch which controls the public purse. It is believed that with a reorganization of the budget structure as suggested above to permit a presentation along functional lines, the big budget itself will be much more meaningful. Additional detail could well be presented in supporting documents, separately published appendixes to each of the major functional sections of the budget.

Publish detail by function in separate appendixes.—If the budget is truly built from pieces which comprise it, the detail which would comprise such appendixes would probably already be available. With relatively insignificant additional expense, it could be provided to Congress and to various segments of the public which are especially interested in each function. If properly designed, they may well eliminate the ream on ream of supporting paper which agencies develop for their appearances before the Bureau of the Budget and Congress. It could be a source of data showing, through object classi-

fications as subordinate parts of activities or functions, the resources or ingredients which go into performing particular end purposes.

Special analyses of overhead costs.—Finally, in order that there might be a better opportunity to appraise general overhead or service-type costs in the executive branch, it is suggested that special analyses be provided of the amount of funds voted to the several auxiliary and staff services for the Government as a whole. For example, indication should be given of how much funds are being asked for personnel work, financial management activities, purchasing administration, etc.

ORGANIZATION AND PROCEDURE

Changes in organization, methods, procedures, format and the like will not necessarily yield a good Federal budget. Yet, it is a fact that since budgeting is to a large extent a problem of human dynamics, these can have a profound effect upon the course of human activity which goes into the Federal budget process. It certainly is of major importance that they be soundly devised and administered. Specific systemic changes are discussed below in terms of those applying to the executive branch and those used by Congress.

The executive branch

Most procedural improvement in executive branch.—Most budget improvements since the Budget and Accounting Act of 1921 have been manifest in the executive branch of the Government. Its concern with improvement and progress have by far overshadowed the actions of Congress on this subject.

Nor has all improvement in the executive branch been the result of outside stimulus. True, the two Hoover Commissions provided somewhat independent attitudes on the budget activities of the executive branch and gave stimulus to or pointed up needed improvements. Nevertheless, within Government itself, particularly since the 1930's, there have been numerous movements to tighten up or improve the many aspects of Executive budget control. It is needless to enumerate these for they are known by most who concern themselves with this subject. Suffice it to say that the Bureau of the Budget and the Office of the Defense Comptroller have been two primary forces in bringing about such improvements. The Bureau of the Budget has concentrated on government as a whole and has been instrumental in working with the Comptroller of the Defense Department in making improvements in that department which contains the largest segment of the budget.

It is important to note that the major procedures employed in the executive branch are for the most part based on sound concepts. It is entirely possible, however, that with the changes recommended above; that is, those regarding the role of public employees and officials and the budget document itself, a slightly different approach to budget control might be taken.

Emphasis should be on stewardship of public resources.—Whereas the present emphasis in budgeting is placed primarily upon getting sufficient funds to run the Government agency program at its existing or expanded level, it is possible that by a change in budget procedures used the emphasis could be placed upon stewardship in the use of public resources.

This is a subject which has been the concern of many over the years. Several have conjectured as to the best method of instilling in Federal managerial personnel and budget staffs an incentive which would stress their trusteeship of public resources and encourage them, through appropriate remuneration, to conduct activities with utmost economy and efficiency. Too often the current practice develops into a cat-and-mouse game, in which the administrator seeks to utilize all funds made available to him lest he be penalized for his efficiency in using less than was given.

Similarly, in presenting requests, it is not unusual to find the request somewhat inflated because of a recognition that "there will probably be some cutting anyway." To overcome this is, of course, a tremendously complex problem in human relations, but it is not insurmountable.

Perhaps consideration should be given to development of several related budgets which provide a more comprehensive control over the use of resources. This would seem to require at least a series of budgets on an accrual basis controlling inventories, personnel, resources, purchasing, contracts, etc., and would concentrate on showing the principal resources to be applied by an agency and their source in accomplishing a governmental function or activity. When approved, they would set the limit for that agency. Such limitations would be in dollar terms, and thus would provide a comprehensive control over the men, money, and materials which are used to achieve the Government's goal.

Although it is an oversimplification to describe it as such, an approach may be worked out somewhat as follows: Assume that agency X is involved in regulating narcotics traffic. A certain amount of resources, both of a personnel and materiel nature, are required to accomplish this. (Materiel as used here includes supplies, facilities, structures, etc.) It would prepare budgets for principal categories of resources to be used, and indicate the sources of materiel to be employed. For example, it would show whether the materiel to be used was to be gotten from new purchases or be drawn from inventory, and the budget could in effect establish inventory levels. Similarly, manpower and dollar levels could be established to govern personnel costs. Such an approach as is suggested follows to a considerable degree, with appropriate adaptations, the approach used in developing business budgets, and combining them into a master budget.

Changes under present system.—In the absence of a change in the conceptual approach to budgeting in the executive branch, there are certain improvements in the present system which can be made. Some of these are: (a) Building the budget from zero; (b) tighter use of apportionment and allotment controls to effect economies or improve efficiency; (c) stating personal-service schedules in costs per man-years; (d) improving the concept of reappropriations; (e) eliminating the project-order system; (f) establishing a single account for no-year funds; and (g) granting the President the power to veto riders on appropriation bills.

Built budgets from zero.—It would seem wise for executive agencies to build their annual budgets from zero rather than start with existing programs or program levels regardless of whether such programs may be required by law. Estimates of budget requirements would be built

accordingly rather than developed to care for simply expanding or contracting needs. Justifications could follow the same pattern and be designed to attest to the validity of the program at the level at which it is proposed it be conducted.

Certainly, such an approach would be more advantageous to the taxpayer. The annual reevaluation of each basic program and its component parts in light of current conditions would serve to eliminate activities where appropriate. Through such efforts, the knowledge which would be gained by the administrators dealing at first hand with these programs could be transmitted to the legislative body and possible changes effected if legislation were necessary.

The theory of using existing levels as a base in computing requirements is fundamentally a fallacious one. It will not promote sound budget control.

Apportionment and allotment controls.—Improvement in budget execution can be realized from a stronger use of budgetary-control devices such as apportionments and allotments. Though many decry the forceful use of the apportionment power by the Chief Executive and the withholding of funds from agencies for certain purposes, this power and its forceful use is essential to the executive budget system.

The Chief Executive, as has been noted above, is inherently responsible under our system of government for the efficient and economical administration of the budget program approved by Congress. This requires daily attention. Since it is assumed by Congress, under normal circumstances, that the budget is fundamentally a set of estimates, and agencies may require supplementary funds in the form of supplemental or deficiency appropriations, likewise it must recognize that the original estimates of funds and the appropriations made may be excessive to the actual needs of Federal agencies. Recognizing this fact, the Chief Executive must be able to withhold funds from agencies in order to deter the unwise use of Federal fiscal resources.

Under current concepts, the Bureau of the Budget considers its role somewhat circumscribed by limitations in the Budgeting and Accounting Procedures Act of 1950. Such limitations should be eliminated if the intent of the act was to so tie the hands of the Chief Executive. On the other hand, if the limitation which it is felt exists by the Bureau of the Budget is the result of a narrow interpretation of legal provisions, consideration of revision should be given.

State personnel requirements in man-years.—Some improvement in the reporting of personal services in the budget (01) schedules can be made. Present practice is to state personnel requirements in positions and total annual salary rates, and then reduce them by a factor termed "lapses" to average number (man-years) and actual salary costs, in a one-line entry.

Regardless of the expression in the budget as to the number of positions and total salary rates, the effective manpower and true salary costs of a program can be expressed only in man-years of employment and the actual dollar costs related to such employment.

Concept of reappropriations.—Certain reappropriations which are now often excluded from tabulations of new obligational authority should be included. All actions involving the reappropriation of lapsed funds were so carried until recent years when the Bureau of the Budget changed its method to exclude certain reappropriations

for continuing programs as the granting of new obligational authority. Since these funds would normally lapse and result in savings to the taxpayers, their reappropriation is, in effect, the granting of new authority which otherwise would not exist. The present practice distorts considerably the true totals of appropriation acts.

Eliminate project-order system.—The project-order system of the armed services should be eliminated or substantially modified. The former is preferred, for, with a properly designed appropriation system, the need for the project-order device is eliminated. It is a device which is subject to flagrant abuse, as has been demonstrated in several investigations by the General Accounting Office. Project orders, which are orders of one Government agency to another and are recorded as legal obligations, permit the preservation of spending authority by an agency even though they do not constitute an obligation in the legal sense. Consequently, the records of funds actually spent are distorted, and the judgments of reviewing authorities may be in error correspondingly.

Establish single account for multiple or no-year funds.—Adoption and implementation of recommendation No. 17 of the Second Hoover Commission report on budget and accounting would be helpful in enhancing administration. It “requires that each department and agency be authorized to maintain a single account under each appropriation title or fund for controlling the amount available for liquidation of valid obligations.” This would simplify accounting and permit simplification of the budget format on the long-term program of each agency.

Presidential power to veto riders on appropriation bills.—Suggestions have been advanced from time to time recommending the granting of the item veto power to the President. Although such authority works satisfactorily in several States, its application at the Federal level is questionable. The political implications of such a device suggest that it not be adopted. However, consideration should be given to granting the President authority to veto riders on appropriation acts.

The Congress

Need for comprehensive study of congressional budget system.—Since action by Congress constitutes the focal point upon which all budgeting in the Federal Government is centered, it sets, to a large extent, the tone for the rest of the Government. To the extent that the congressional system is deficient, its weaknesses are passed on and expressed in varying ways throughout governmental operations.

This is a most disturbing situation, since Congress itself is probably most in need of improving its role in the Federal budget process. Although significant advances have been made in the executive branch, the legislative branch has been remiss in not making a comprehensive review of its own handling of the budget and devising substantial improvements. Only once since the Budgeting and Accounting Act was passed has there been an attempt to comprehensively review congressional fiscal organization and management. This was in the La Follette-Monroney committee on the organization of Congress which came forth with several proposals which were somewhat unrealistic politically and were unsuccessful.

The system of separates.—The primary difficulty with congressional handling of the budget lies in its system of separates. Both in its organization and in the procedures employed in reviewing the budget program submitted by the President, it works in a loose and disintegrated fashion. The budget, though submitted to Congress as an integrated whole, is immediately upon introduction broken down into 12 to 15 appropriation bills and considered separately by a series of subcommittees.

It is understood that committee action on subcommittee recommendations is somewhat perfunctory in most cases. Disagreements within the committees are more likely to be fought out in the Committee of the Whole or on the floor than in Appropriations Committee deliberations.

Even though the budget is presented as a whole, and overall figures for revenues and expenditures are summarized in it, these are generally lost sight of in the detailed examination of the budget. There is need for coordination between decisions made on expenditures and anticipated revenues. The impact of such decisions on the economy is well recognized, and thus it demands orderly, constructive, and responsible action by Congress.

In a similar fashion, committee organization fosters consideration of various budget aspects separately. In addition to the House and Senate Appropriations Committees, there are at least the following committees who take actions on particular significance to the budget: Senate Finance and Government Operations Committees, House Ways and Means and Government Operations Committees, the Joint Committee on Internal Revenue Taxation, the Joint Economic Committee, and the Joint Committee on the Reduction of Nonessential Expenditures.

An obvious goal in overcoming some of these difficulties is to effect budget decisions in the light of a predetermined budget policy. The whole budget picture should provide the perspective for decisions on each part. Several suggestions have been advanced for achieving this goal.

The Legislative Reorganization Act of 1946 provided for a Joint Budget Committee and the establishment of budget ceilings. The organization and procedure provided was beset by political impracticalities and has not proved workable, despite the meritorious objective itself. Its failure, however, should not be the sign for disillusionment or the abandonment of hopes for a solution to this problem. Two suggestions have been offered which may be helpful in overcoming this deficiency.

Some years ago it was recommended that there be an omnibus appropriation measure and it was tried by Congress. The test it underwent was inconclusive. It neither proved its worth nor its inadequacy.

Some logical objections have been raised to it. It is claimed that—

The only procedural difference between the omnibus and separate bill approach is, that under the former the committee holds the separate bills until all are ready for reporting. The net effect is to report some 12 bills simultaneously in the form of chapters in a single measure.⁴

⁴ Robert A. Wallace, *Protecting the Public Purse*, reprint of summary of doctoral dissertation in the Congressional Record, September 19, 1957, p. A-7741.

There is considerable validity to this view and the omnibus bill may have the disadvantage of delaying the appropriation process. There is, of course, little difficulty involved in holding up the passage of appropriations for a period of time, providing passage is accomplished sufficiently before the beginning of the fiscal year to permit orderly financial administration.

Two appropriation bills.—It is suggested that perhaps the use of two omnibus bills—one encompassing national security activities, and the other encompassing all other functions of government—may offer a solution. Such a move would facilitate a look at the budget as a whole, or at least considerably more so than under the present system.⁵

Joint Budget Policy Conference.—Another feature coupled with this might make it even more practicable. In 1955 the Committee for Economic Development suggested that—

The relations between expenditures and revenues, and the effects of the size of the budget on incentives and growth, be considered by a Joint Budget Policy Conference.⁶

It proposed that this conference be composed of congressional leaders, and majority and minority members of the Appropriations, Revenue, and Joint Economic Committees. It would meet shortly after the budget was submitted to discuss major revenue and expenditure problems. It was felt that even though this conference might not arrive at any conclusions, their discussions would provide adequate guidance to Appropriations Subcommittees and to the chairmen of revenue committees.

Legislation affecting the budget.—The Appropriations Committees should be geared directly into the consideration of legislation affecting the budget. Too often actions are taken by legislative committees alone which have a distinct effect upon the budget. Commitments for the establishment of formulas, quotes, etc., in aid programs are often made in basic legislation, which may alter considerably budget balances in the future. Normally, these are not processed through Appropriations Committees. To remedy this, Congress should be provided with comments of the Appropriations Committees on such legislation and a determination of full costs.

Permanent and indefinite appropriations.—The use of permanent and indefinite appropriations should be studied carefully with an eye to eliminating them. Although there might be a recognized obligation on the part of the Federal Government to pay such fixed charges as are handled by these appropriations—for example, interest on the public debt—there seems to be no substantial reason why these could not be acted upon annually. Such fixed charges can be estimated with a reasonable degree of accuracy. Even though no discretionary action could be taken by Congress, it would be required to look at the budget more comprehensively.

Adequate staffs.—The question of adequate staffs for Appropriations Committees is something which requires constant reevaluation. With the budget growing in size and complexity, there is need for

⁵ Marcellus Shield, former clerk of the House Appropriations Committee, proposed this in 1947. See George Galloway, *Reform of the Federal Budget*, Washington, D. C., 1950, p. 92.

⁶ Committee for Economic Development, *Control of Federal Government Expenditures*, New York, N. Y., 1953.

considerable professional analysis of budget requests. The size of the staff should be carefully evaluated and supplemented if necessary. This decision would be to a large extent dependent upon the character of decisions that Congress exercises.

Long-term and capital development programs.—One of the features of the budget which causes some confusion is proposals for long-term fixed charge and capital development programs. These are intermingled with current operational requests of agencies and make it difficult for reviewing agencies to comprehend. It is suggested that the possibility of using separate subcommittees on the Appropriations Committees to conduct studies of long-term fixed charge and capital development programs be explored. This would institutionalize the concern of Congress with these programs and tend to focus attention upon them annually.

Improved presentation of information.—It has been stated many times that one of the major difficulties in effecting congressional control over the budget lies in the lack of or insufficient information available to Congress. This does not necessarily stem from the lack of voluminous materials prepared by Federal agencies in support of the budget, nor of the budget document itself. Testimony and views are amply recorded in thousands of pages of congressional hearings. In addition, much information is prepared in separate special analyses, justifications, etc., which are used as supplementary material in making budget decisions.

The difficulty appears to lie more in the direction of the quality and the organization and presentation of the information than in volume. Certainly, the current amount of information provided should be sufficient. In fact, if adequate general yardsticks were established by congressional action to measure budgetary requests and make decisions, it is likely that much of the existing data could be eliminated.

There is implied in this a belief that neither the members of the Appropriations Committees nor their staffs have sufficient time to analyze and digest the submitted testimony. At best, only the high points can be skimmed from these discussions. Thus, it would seem that improved organization and presentation of supporting data would aid staffs immeasurably. Much of this is, of course, entwined in the budget and appropriation structures, and part of the remedy must be looked for in that direction.

Realign appropriations subcommittees.—Consideration should be given to the realignment of appropriations subcommittees along functional lines to correspond with the recommended reorganization of the budget itself. Although special subcommittees may be required to study unique problems or aspects of the budget, organization along functional lines could simplify and facilitate handling and enhance understanding.

Consolidate number and simplify language in appropriations.—Although considerable improvement has been made in the appropriation structure in the past few years, there still remains much which can be done. There still appear to be too many appropriation items, and too much detail in the language of appropriations. A reduction in the number, simplification of the language, and elimination of detailed data in appropriations should be an objective in any plan to strengthen control over appropriations.

Expand jurisdiction of Appropriations Committees to all budget matters.—It also seems imperative that all actions granting the authority to obligate and spend Federal fiscal resources be subject to the jurisdiction of the Appropriations Committees. It has been recommended above that all such authority be identified as “appropriations.” This implies that the present practice of permitting legislative committees to pass upon authorizations to expend from public debt receipts without action of the Appropriations Committees be discontinued. To get effective budget control, all authority to obligate and expend public funds should be subjected to the check of Appropriations Committee analysis. This has the advantage of injecting a degree of objectivity which is not present in the existing system.

Budget conferences for Congress.—Congressmen in general who are not members of the Appropriations Committees require better organized and simpler information on the budget than they now receive. However, this in itself is not enough. They in turn must be given an appreciation of the nature and operations of the Federal budget process, an understanding of the decisions they are being asked to make, and some general yardsticks which will help in their evaluations. Some formalized means of providing an orientation program on the importance of the annual budget review by Congress and the budget process should be undertaken. A series of conferences or seminars shortly after the elections or the beginning of a session could well improve understanding and thus the quality of the decisions Congressmen make on the budget.

Closer relationship of GAO to budget process.—One of the principal means by which Congress could improve its actions on budgetary matters would be by a more direct tie-in of the General Accounting Office to the appropriation process and greater utilization of it. With the improvement in organization and the reorientation which this Office has experienced in recent years, it holds enormous potential for improvement in the congressional phase of the budget. Continued emphasis by the GAO on the conduct of comprehensive management audits can do much to point up improvements in governmental organization, methods, and procedures which will result in budgetary savings. It also can identify the use of fallacious economic principles, or the improper application of funds. Similarly, there can be an identification of overlapping or duplicating functions.

It has been recommended by one author that similar objectives can be accomplished by the effective implementation of section 206 of the Legislative Reorganization Act of 1946.⁷

Basically, this section, providing for analysis of Federal activities by the Comptroller General, would determine the degree of efficiency and economy used in expending public funds. This would be submitted to the appropriate committees, including the appropriations and Government operations committees.

The direction taken by the GAO in its management audits suggests that it intends to accomplish the role proposed in this section of the Reorganization Act. The data which will come from such efforts will undoubtedly facilitate congressional budgetary decisions.

⁷ Robert A. Wallace, *Protecting the Public Purse*, reprint of summary of doctoral dissertation in the Congressional Record, September 19, 1957, pp. A-7740-A-7742.

It is not enough, however, that analyses be made by the GAO and reports submitted to Congress. A closer gearing of the work of the GAO to the Appropriations Committees would be most desirable. This might be effected by providing for representatives of the GAO familiar with agency operations to be present at Appropriation Committee hearings and discussions of the budget of each agency. It might also be aided by submission of summaries of GAO views to each Member of Congress regarding the agency's requests in light of past performance as revealed by its audits.

Strengthen "1311" certification procedure.—Section 1311 of Public Law 663 of the 83d Congress permits a certification procedure which requires agencies to make an unqualified certification of valid legal obligations on their books at the end of each fiscal year. This should be strengthened and penalties inflicted for the failure of agencies to comply. The whole 1311 procedure has a healthy effect on increased honesty in governmental accounting. There would seem to be little reason why any certification of Federal accounts which involve public moneys should not meet the standards which apply in commercial practice.

In addition, the General Accounting Office should provide regular spot audits of the accounts on which 1311 reports were based. Cases of erroneous certification should be prosecuted just as is any other improper handling of Federal money.

Use budget to improve management.—It must be recognized that many, if not a majority, of budgetary decisions are in some way concerned with problems of organization, management, procedures and intergovernmental relations. For example, the decision as to the amount of funds to be given for defense activities can hardly be divorced from the problem of organization, methods and procedures used in the Defense Establishment. To the extent that they are wasteful or uneconomical, effective budgeting is impaired. Budget control by Congress should be used as a means for effecting desired remedies.

The function of examining efficiency and economy in governmental operations is vested in the Government Operations Committees and the Joint Committee on the Reduction of Nonessential Federal Expenditures. The work of these committees is inherently connected with the job of the appropriations committees in considering annual budget requests. Consideration should be given to effecting closer coordination between the work of these committees and the appropriations committees, or possible consolidation of them.

The appropriation control point.—There has been much discussion recently regarding the best point in the Federal fiscal process at which Congress could control the resources to be used in accomplishing governmental objectives. It has been suggested that the present system of establishing an obligation and expenditure level for each program through appropriations is inadequate.

One of the most widely discussed plans is that which would place appropriations on an accrued expenditure basis. This proposal, advanced by the Second Hoover Commission, primarily seeks to control more closely the carryover balances which are available to the Defense Department in carrying on certain long lead-time programs. Briefly, it would require Congress to establish controls over the amount of goods and services which could be delivered and the amount of

certain disbursements which could be made, e. g., progress payments and advance payments.

Though it is said that this plan would strengthen congressional control, it is believed that it would actually result in weakening it by placing the formal point of appropriation control at a later stage in the fiscal process than at present. To overcome this deficiency, it would supplement appropriations on an accrued expenditure basis by using the contract authorization system which in effect simply establishes control at the point it is currently. However, it is believed that this in turn would tend to confuse understanding of the full liability of the Federal Government as a result of budget actions.

Two other major objections may be raised. The use of this method would also aggravate the "system of separates" which has characterized present congressional budget actions, and would bring into full play a method, i. e., contract authorizations, which has been a notorious loophole, weakening control of Federal expenditures.

It must be recognized that there are at least six major points in the Federal fiscal process at which control might be imposed in exerting overall control by Congress or top management in the executive branch.

Obviously, the first point of control arises during consideration of an authorization bill which proposes a program requiring the future expenditure of money. If unwise or in violation of our accepted principles of economics and government, it may be stopped at that point. Once an authorization act has been passed, however, there are five other principal points at which the use of fiscal resources can be controlled.

The second point of control, chronologically, is the point at which the dollar level of the program to be carried on under the authorization bill is approved. This is accomplished through our present appropriation process in which the full scope of a program is recognized and the obligation and expenditure funds is authorized for it.

The third point of control exists when legal obligations are authorized by the Chief Executive and administering agencies. This constitutes a principal control in the management of Federal activities by the executive branch.

The fourth point of control arises when goods and services are delivered. These, known as accrued expenditures are characterized by the delivery of goods and services regardless of whether invoices have been received or expenditures made for them.

The fifth point of control occurs when goods or services are applied to accomplishing a job. This consumption of goods and services is commonly referred to in Federal fiscal terminology as an applied cost.

The final point of control is the expenditure point, or the issuance of checks to liquidate legal obligations incurred in the procurement and use of goods and services. This is essentially a ministerial-type function.

Obviously, the point of control which is most effective is that which occurs nearest the beginning of the process. The resulting points of control generally speaking, are governed by it.⁸

⁸ There are, of course, other points of control which represent shades between each of those noted, or combinations of them, e. g., commitments and accrued expenditures as defined by certain bills in the 85th Cong.

The above deficiencies and remedies are suggested as possible avenues by which improvements could be made. It is not suggested, however, that these be accepted on their face alone. It is the writer's belief that any major changes in the congressional system for handling the budget should be premised upon an intelligent, systematic and objective bipartisan study by Congress of the problems of Federal budgeting and all possible remedies. Such a study should be undertaken by competent budget technicians from the educational world, the executive branch, and the staffs of congressional committees. It should be undertaken as soon as possible for it stands as a prerequisite to substantial improvement in the system of Federal budgeting at all stages.