

ECONOMY AND EFFICIENCY IN GOVERNMENT EXPENDITURES

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In this paper the question of economy and efficiency will be related to the overall problem of government expenditures. With government expenditures exceeding \$100 billion a year, tax rates at high levels, a general tendency for government activity to increase over the years, and a common desire for economic development and stability, it is essential to appraise at frequent intervals the operations of the public and private sectors of the economy.

THE MEANING OF ECONOMY AND EFFICIENCY

The terms "economy" and "efficiency" are variously employed in discussions of public expenditures and taxation. Economists have emphasized the desirability of maximizing our economic and social welfare. They stress the objective of most effectively utilizing our resources toward that end by promoting economic growth and stability. The management of community affairs should be thrifty and efficient in the use of our resources. Depending upon the point of view, government expenditures for education, health, welfare, and other approved services might be increased or decreased.

Those who are critical of increased government spending and taxation often contend that both should be reduced and that more reliance should be placed upon private initiative and action in achieving our economic and social goals. They think of economy as requiring less spending and of efficiency as the elimination of what they regard as waste.

Another point of view would distinguish decisions as to public policies and functions, on the one hand, and decisions as to management, on the other. Economy would imply the wise selection of government policies, functions, programs, projects, and activities and expenditures upon them. Efficiency would relate to public management in discharging public responsibilities.

Efficiency in the accounting and engineering sense would seem to be related to unit costs and the effectiveness, as measured in terms of standards of cost, attained in the execution of government policies and functions. One might attempt to distinguish, however, between measurable money costs and social costs.

While there are many different interpretations of economy and efficiency in government expenditures, certain implications of these terms are evident. It is clear that they are related to decisions as to what expenditures governments should undertake and the effectiveness of those expenditures as judged in relation to the criteria in mind.

Broadly speaking, they are involved in the control of government expenditures for the advancement of approved objectives.

Is the control of government expenditures possible?

Not long ago the manager of the tax department of a large corporation asked me if the effort to control government expenditures was not a hopeless one. He apparently had in mind the failure of those who opposed government spending policies to accomplish substantial reductions in expenditures and the great difficulties encountered in securing greater efficiency in public management.

Others seeking greatly increased funds for public education, highways, defense, and other functions may also feel that their efforts to control expenditures have failed if their goals are not realized. In a national community with over 170 million members and State and local communities with many members, the final determination of government expenditures is bound to be the result of many compromises.

It would appear, however, that if we would expend more thought and energy in formulating our economic and social objectives we might reach a wider agreement on what they should rationally and fairly be. If we should attain more success in agreeing upon and stating our community goals, we should also be able to increase our effectiveness in utilizing our material and human resources in advancing toward those goals.

THE PRINCIPLES OF GOVERNMENT EXPENDITURES

If we are to achieve greater economy and efficiency in government expenditures, in relation to the use of our resources, it is necessary for us to formulate guiding principles and criteria by which we shall appraise the effectiveness of such expenditures. It is suggested that every student of government expenditures might profitably attempt to state what he would accept as sound, basic, and equitable principles which are also practicable of application. Suppose, for example, that some such set of principles as those listed below are to be followed. Do they not require so much interpretation and involve so much controversy that there remains a wide area requiring the determination of value judgments which will always be open to uncertainty and differences of opinion in our system of government? Even so, a statement of principles may provide a greater common denominator and may be helpful in planning and executing spending programs.

Some principles of Government expenditures

1. Government expenditures should promote the most effective utilization of our human and other resources.
2. They should be consistent with the economic objective of an increasing national income flowing steadily and equitably to the population while advancing social and other community goals.
3. They should promote, or at least protect, the welfare of the majority even though they may be designed primarily to further the welfare of a particular class or group.
4. Careful judgment should be exercised by public officials and the citizens to insure that the advantages of expenditures on each public service exceed the costs and that the utilization of funds and

resources by governments will be more conducive to social welfare than the private use of the same funds and resources would be.

5. In calculating the economic and social results of expenditures, the economic and social effects of the taxes and other receipts raised to finance them should also be weighed.

6. Public works and other expenditures should be placed at the most propitious time, so far as possible, for enhancing economic stability, increasing the community income, and lowering the costs of the services performed.

7. The services and expenditures of the various units of government—Federal, State, and local—should be coordinated as effectively as possible to obtain the maximum social benefits and to avoid an unwise and wasteful duplication of efforts.

8. Government administration should be efficient and honest. Only those expenditures duly authorized by law should be disbursed; all expenditures should be accounted for completely; and public financing should be reported intelligently and interestingly to the executive officials, the legislature, and the citizens so that the social gains and costs of public expenditures can be compared in as rational a manner as possible.

CONFLICTING OBJECTIVES

If we assume that economy, in the broad social sense, requires the most effective utilization of our resources in the advancement of community objectives, it must be conceded that there may be some conflict among our objectives. Governments are not engaged exclusively in promoting economic welfare because they may also be busy with social, political, and military aims. Provisions for public safety, both internal and external, justice, education, public health, public welfare, and the regulation of morals no doubt greatly influence economic activity, but they may be directed largely toward noneconomic objectives.

We may all agree that economic development and stability are desirable, but we all know that in some measure these economic objectives are in conflict with each other. Changes in the distribution of wealth and income may be considered desirable or undesirable objectives. The problem is not entirely an economic one, however, for it involves moral, political, and social issues.

If we can attain agreement on our community goals, we have the further problem of arriving at agreement on the methods by which the goals are to be accomplished. Should we resort to government or private action or some combination of both?

A very serious problem in attempting to secure the most effective utilization of our resources is that of measuring and appraising the results of government and private action. In coping with the agricultural problem, for example, how are we to determine the consequences of various alternatives in developing a farm-aid program? In deciding upon an appropriate foreign-aid program, can we reach a judgment with full information concerning the effects of foreign aid?

The economic, social, moral, and military results of government actions are not altogether visible and measurable in objective terms. Our standards of measurement are likely to be subjective. Performance related to such standards is appraised largely in subjective terms.

Conflict not only arises in formulating community objectives but also over the methods by which they should be advanced, not only because of disagreement over objectives, but also because of uncertainty over the consequences of various courses of action. Economy in the utilization of our human and material resources thus encounters many grave and highly complicated problems.

DOES HISTORY PROVIDE AN ANSWER?

An answer may be sought in history to the question: What functions should governments undertake and what expenditures should be made for them? Every student of public finance knows that in general and over the centuries, government expenditures have been increasing. The German social economist Adolph Wagner, stated in 1876, after a study of public expenditures in many nations, that government activities were regularly increasing because new functions were constantly being undertaken and both old and new functions were being performed more efficiently and completely. He found, apparently to his satisfaction, that public economic activities were increasing at the expense of private, and looked forward to more collective economic action.

It may be granted that everywhere government expenditures have been increasing. The extent to which governments have become more or less efficient, if one has unit costs and relative waste in mind, has not, to my knowledge, been determined.

The history of modern societies shows a tendency for much activity which was once regarded as private to be transferred to governments, for much new activity to be assumed by governments which had not previously been extensively provided by private action, and for government responsibilities once looked upon as local in nature to become increasingly national in scope. Among the more important factors contributing to the growth of public expenditures have been the following:

1. The expansion of public wants.
2. The rise of the modern state, with its emphasis upon service to the citizens.
3. Costly wars and international tensions.
4. Increasing population and changes in the age and distribution of population.
5. The industrial and social revolution of the 19th and 20th centuries, with changing techniques of production, changing economic and social problems, and new efforts at social progress.
6. Rising incomes and higher levels of individual and public consumption.
7. The direction of fiscal policies toward coping with economic development and stability.
8. The development of government taxation and borrowing, with consequent increases in the funds at the disposal of governments.
9. Rising prices.

Certainly, there have been many forces at work in the continuing rise of government expenditures. In the United States, a great part of the increasing cost of government must be attributed to the direct

and related costs of war and national defense. Modern nations have become more efficient in killing and in destroying resources. In general, war would appear to be a waster of both material and human resources.

There is undoubtedly much waste in government, as in private and business, activity. The growth of government expenditures must be related to numerous complex political, economic, social, psychological, and moral pressures. At bottom, there has been the continuing and expanding want for public services, with resistance coming primarily from the taxpayers and others who have felt the burden of paying for these services.

THE QUESTION OF CENTRALIZATION

If public safety, highways, health, education, welfare, and other functions are to be assumed by governments, to what extent should the responsibility for the function and its financing be located at the Federal, State, and local levels? Some persons will say, "Let comparative efficiency decide." Although it is not always clear what efficiency means here, let us assume that it is a problem of assigning functional responsibility to the level of government which can provide the desired amount and quality of service at the lowest cost.

There could be little doubt that on such a basis national defense would be located with the Federal Government, even though many persons have vigorously assailed what they consider to be waste in the Defense Establishment. Factors other than unit costs are involved, however. Unified national action in an emergency is essential. The cost of defense in the aggregate, moreover, is so great that State and local governments could hardly support it.

Without attempting here to evaluate the relative efficiency of the Federal, State, and local governments in providing public services, it may be pointed out that cost data are lacking in many areas to furnish a basis of comparison. To measure unit costs, we must have units of performance which are strictly and uniformly comparable. Such units are often unavailable.

There has been much argument over the years concerning the relative efficiency of the Federal, State, and local governments in terms of costs. Some persons contend that the large Federal Government tends to be most efficient, apparently identifying size with efficiency. Some argue as eloquently that the closer government is to the people, the more the people can watch and control it, with consequent gains in efficiency. Other persons regard the States as more efficient than the local and Federal governments, feeling that local units are too small for maximum efficiency in many functions and the Federal Government is too large or is too preoccupied with national defense problems to offer the greatest efficiency in domestic services.

Actually, the distribution of functions among our governments has resulted from the operation of a number of factors. Among them are these:

1. Constitutional requirements.
2. Political considerations.
3. Available resources.
4. The widening community interest.
5. Assumed efficiency of performance.

6. The inherent interdependence of governments in this country.

7. The desire for uniformity.

Perhaps most Americans believe that strong and active State and local governments are necessary for the improvement and survival of our type of representative government, or democracy. If this conviction holds, one may feel that functional and financial responsibility should, so far as possible, be placed at the local and State levels even if the Federal Government would provide a more uniform and adequate service.

If uniformity is regarded as paramount, national responsibility will be advocated. Bigness in government, as in business and labor, is undoubtedly favored by many persons. Bigness may bring weaknesses and waste, however, as students of government and society know.

If efficiency is to be rated as a primary factor in allocating governmental responsibility, we may face the difficulty that we have insufficient data to determine comparative costs, or we may interpret efficiency in terms of uniformity or the amount or quality of service without weighing costs. One may assume that big Central Government is more or less efficient than State and local governments, or that local governments near the people are the most or least efficient, without having comparative cost data. We may start out with a predilection for central or local government and, through a rationalization process, find evidence and arguments to support the conclusion which we adopted as our initial hypothesis.

WASTE IN GOVERNMENT EXPENDITURES

Nearly everyone wants economical and efficient government when he thinks of his taxes and other charges. He wants "to get the most for his money" in financing services which he thinks are essential. At the same time, the typical citizen seems to seek, or at least accept, services of benefit to himself for which others largely or entirely pay.

The wasteful use of our resources in government expenditures arises from wrong decisions as to public functions and provision for them and in the inefficient and costly administration of public functions. Waste thus arises in spending too little in some instances and too much in others.

Social reformers would have us spend more for various social services, arguing that it is wasteful not to spend enough. Many taxpayers groups contend that governments are assuming too many responsibilities and are administering their functions in a wasteful and inefficient manner.

Waste resulting from the assumption of too many Federal responsibilities may be greatly reduced by slashing certain expenditures, according to various business organizations asking for greater economy and efficiency. They would reduce expenditures for national defense, foreign aid, veterans' benefits, agricultural subsidies, and other services. They would eliminate what they regard as wasteful public works and housing expenditures, reject a general public health insurance program, leave the financing of public education to the States, keep the Government out of competition with private business, and, in general, cut down on Federal expenditures.

The advocates of economy and efficiency have also proposed numerous reforms in governmental organization and in the techniques of administration. They have supported such measures as the following:

1. The Budget and Accounting Act of 1921
2. The Corporation Control Act of 1945
3. The legislative ceiling on expenditures
4. The consolidated appropriation bill
5. Limitations on income taxes
6. Centralized purchasing
7. Improved accounting, auditing, and financial reporting
8. Adequate congressional staff for appropriation analysis
9. Performance budgeting

Many of these measures have been advocated by those desiring increased, as well as decreased, expenditures. Once policy decisions are reached, efficiency in government operations would seem to be generally desired. Improved budgetary and other controls should, indeed, be helpful in arriving at policy decisions.

A PROGRAM OF CONTROL

The Federal budget and the budgets of some of the States and large cities have grown to such proportions that some persons despair of any real control over expenditures. How can anyone comprehend defense expenditures of \$40 billion or total Federal expenditures of \$70 billion or more? And who can comprehend the expenditures of thousands of units of government exceeding \$100 billion?

The size and direction of expenditures have been determined largely in the rough and tumble of the budget process, with spending and opposing pressures in continuing conflict. In our system of government, success in the control of government expenditures in the advancement of our community goals requires the constant, intelligent, fair, and constructive cooperation of the citizens and the executive and legislative branches of our governments. Final judgments, in a democracy, must be arrived at by compromising the different points of view of those involved. If we work together in a rational and helpful manner, the compromise will be consistent with the common goals of at least the majority.

Expenditures start with proposals for appropriations. Unless appropriations are controlled, expenditures cannot be controlled.

Many persons have said that Congress has lost control of the appropriation process. But control is often in a precarious balance, and it involves the executive branch and the citizens as well as the legislature. Control must therefore be exerted at every stage of the budget process through the best efforts of all the parties involved.

The techniques of expenditure control are, in general, well known to students of public finance in and out of government. The will to control is more apt to be missing than the techniques, although improved techniques are continually being developed. The techniques frequently need refining and improvement, but those which are available are often overlooked.

Another weakness in efforts at expenditure control is the failure to appraise each appropriation and expenditure in relation to a total program, and to attain consistency throughout the total program of a government. Inconsistencies may exist in the spending program of a

certain department and are frequently found among the various spending measures of a government. In addition, the expenditures of the various levels of government may be somewhat inconsistent with each other.

Democracy is a cumbersome and bungling process, in many respects. It could, however, operate more logically, economically, and efficiently if greater and more intelligent efforts were exerted.

An important check on the success or failure of the spending program may be found in the attitudes of the taxpayers and those who must "pay the bill." Taxpayer complaints may be exaggerated with respect to claims concerning the destructive burdens of taxation. On the other hand, many taxes are now levied at very high rates. Many other substantial taxes are collected indirectly from the people and the total tax burdens are not visible, with the result that expenditures are not, under the circumstances resisted or criticized.

Government expenditures are warranted, in the last analysis, only if their social benefits exceed their social costs. The effects of each expenditure and each revenue, in relation to the total spending and taxing picture, must therefore be appraised if Government activities and finances are to be controlled in the best interests of the community.

Taxation does interfere with the lives and economic pursuits of the people. Whatever may be the benefits of the expenditure of the tax proceeds to certain groups and society at large, to the person paying the bill or otherwise feeling the effects of taxation, it is a cost.

Government is justified only when it provides essential public services which would otherwise not be available and when it supplies essential public services at a lower cost than other sources could.

In this brief discussion of some of the problems confronted in seeking the maximum economy and efficiency in Government expenditures, more questions have been raised than have been answered. Certainly we are a long way from the rational, fair, and complete control of Government expenditures as a means to advance our community objectives.

The techniques of control, sometimes of the nature of gadgets, will not in themselves assure control. Nor will the reorganization of each unit of Government and placing more responsibility for public services and their financing on the State and local governments, however commendable these measures may be.

There must be an effective and continuing will to control if our human and material resources are to be employed to best advantage by governments. Such a will to control has not yet been fully developed and exerted.

In the appropriation, expenditure, and taxation process all of the essential information available concerning proposals and their possible effects should be brought out in the open for the full appraisal by citizen groups as well as public officials. The advantages and disadvantages of each proposal should be weighed, relating the proposal to the total program of appropriation, expenditure, and taxation.

Control, to be effective, must be exercised in all of the stages of budgeting and taxation. It is necessarily continuing and unending.

Control requires standards of performance and the appraisal of performance. The standards must be related to value judgments as to

what they should be. The appraisal of performance also involves judgments.

In our representative form of government, with a Federal system, control of Government expenditures is contingent upon the effective teamwork of the citizens, the legislature, and the administration. The problem is tremendously complicated. If, however, we recognize its complications and seek out and apply the constructive measures which are available to us, we can go a long way toward increasing the economy and efficiency of our governments and keeping the tax burdens and other costs to a rational minimum.