

BASIC WEAKNESS IN FEDERAL BUDGET PROCEDURE

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The rising cost of government has prompted many suggestions of methods to improve the budgeting process. In practically all instances, these suggestions have dealt only with the mechanics of budgeting, the methods of presenting fiscal information for the use of the Bureau of the Budget, the President, and the Congress in considering the annual financial requirements of the Government. This is a superficial approach in that it fails to come to grips with the basic problems involved: (1) The kind and degree of control which the legislative branch will exercise over the executive branch, and (2) the extent to which policy decisions, not measurable in arithmetical terms, control recommended budget estimates. Reliable financial statements showing the cost of government programs are necessary in the budgeting process in reaching intelligent decisions as to the level of financial support required, but they are of little use in determining the basic policy as to whether a particular program should be carried on. Frequently, also, the size of the program is largely determined on policy rather than arithmetical grounds.

The mechanical process is under constant review and revision. Every year some refinements and innovations—not always improvements, however—are introduced. The one definite statement that can be made is that there is no best method. Some methods are better than others. Some persons, thoroughly familiar with the subject, may prefer one method while others, just as expert, prefer another. A system sufficiently flexible to permit variation necessary to the adequate presentation of the case with respect to an individual program would seem to be the most logical. Certainly, too much uniformity, with the necessarily attendant rigidity, will tend to produce unreal results in many cases. The real key to the situation is integration of the budgeting and accounting systems to the end that the accounting system realistically produces accurate cost data and the budgetary statements clearly reflect the accounting results.¹

ORIGINAL PURPOSES OF THE BUDGET SYSTEM

The support which finally enacted the budget system into law came from groups whose major concern was reduction in the cost of government. However, original proponents of the budget system did not claim economy as a major purpose. Their primary concern was to strengthen the Executive power, and some of the opposition in Congress was on this account. Hon. Joseph G. Cannon, of Illinois, who, at that time, had served longer as chairman of the House Committee on Appropriations than any other chairman and had been Speaker

¹ For elaboration of this point, see *Contract Authorization in Federal Budget Procedure*, Public Administration Review, vol. XVII, No. 2, spring 1957.

of the House, voiced the extreme opposition on this point in these words:

When Congress consents to the Executive making the budget, it will have surrendered the most important part of a representative government and put this country back where it was when the shot at Lexington was heard "round the world."

Whether for better or for worse will be a matter of individual opinion, but, certainly, the executive branch is in a far stronger relative position now with respect to control of the public expenditure programs than prior to adoption of the central budget system. It should hastily be added that, with the complexities of greatly enlarged modern government, no one would seriously consider scrapping the present system for a return to the rather haphazard prebudget methods. It is fair to suggest, though, that, after these years of experience, perhaps a searching reexamination of the basic system is in order with a view to determining whether some method can be devised which will enable the Congress to act with somewhat more freedom than is possible under present circumstances.

The budget is not a budget in the sense of a businesslike document providing sources of revenues and distributing them in such fashion as to assure adequate support for necessary government functions within ability to pay. Rather, it is a collection of estimates of funds required for purposes ranging all the way from the cost of operation of necessary service organizations to purely political vote-getting activities. If the total expenditure is within total receipts, then that is a happy coincidence.

"It's in the budget" is the strongest argument that any pressure group can make for a pet item. That means it has had the Presidential blessing, is part of the President's program, will be fought for by all agencies of the executive branch. Formerly, the hardest job of the lobbyist for funds was to persuade the Congress of the value of his project, whereas, under present procedure, it is most important that he get it in the budget. Items not budgeted are at a great disadvantage on Capitol Hill because the budget always is presented with little or no leeway for items to be added without offsetting reductions unless budget totals are exceeded, which Congress, understandably enough, has always been most reluctant to do. In fact, the question each year when the budget is sent to Congress is: "How much can the budget be reduced?"

BASIS OF FINANCIAL PROGRAM

When President Garfield, then a Member of the House of Representatives, was chairman of the Committee on Appropriations, he made the following statement to the House:

The necessary expenditures of the Government form the baseline from which we measure the amount of our taxation required, and on which we base our system of finance. We have frequently heard it remarked that we should make our expenditures come within our revenues, that we should cut our garment according to our cloth. This theory may be correct when applied to private affairs, but it is not appli-

cable to the wants of nations. Our national expenditures should be measured by the real necessities and the proper needs of the Government. We should cut our garment so as to fit the person to be clothed. If he be a giant, we must provide cloth sufficient for a fitting garment.²

Whether or not acceptable in theory Garfield's view of the basis of government financing has been followed in practice. Government costs have increased steadily for various reasons but all within the framework of the Garfield theory. The simplest example, of course, is in the postal service where more population equals more mail and inevitably more expenditures, but such simple answers are not available for the important questions. Preponderantly the problem lies in two areas:

Domestic services of government

New activities are constantly being added and regarded as necessary functions of government and the additional tax burdens accepted with a high degree of tranquility. This is true not only at the Federal level but at State and local governmental levels as well. While there is always much public clamor against high taxes, that clamor seems to be lacking in the voting booth and is altogether missing from the high pressure drive on the town councils, school boards, State legislatures, and Congress for more and better services of government costing more money which can be secured only through increased taxes. Each legislative session sees enlargement of existing activities or the establishment of entirely new ones.

The public attitude is such that lipservice is adequate political response to a demand for reduced taxes, but when appropriations are sought for additional government services, then the officeholder had better stand and deliver or suffer dire consequences at the polls.

National defense

More than half of current Federal expenditures are for purposes of national defense, and this is the most difficult area over which the Congress must exercise control. America has never been a military nation. In time of peace this country has frugally—at times penuriously—maintained a skeletal military force and then, in time of war, we turned the keys to the Treasury over to military authorities, only to return to peacetime frugality after the war was over. Now the situation is different and there are no historic guideposts. Young men, now being drafted into the Armed Forces, never knew the day when there was no compulsory military service in America. They have gone through school accepting a period of military service as part of their future. It is now a way of life and every indication is that it must be so accepted for some years to come. This presents a budgetary consideration which should be studied and met on a long-range basis. It must receive annual scrutiny but it cannot be handled 1 year at a time. A preparedness program which must be constantly modernized in order to meet obvious competition must be planned well into the future but kept under constant review. The United States cannot afford to build a Maginot line. On the other hand it cannot afford to turn all of its available resources into military pre-

² Congressional Record, March 5, 1874.

paredness over too extended a period lest there be no reserve for the all-out effort necessary in the event of "hot" war. Perhaps the opponents of the American system would be just as pleased to see the Western World financially bankrupt 30 years hence as militarily inadequate now. Just how much of the resources of the country can be diverted to military preparedness over an extended period without resulting bankruptcy and natural resource depletion is the question to which an early answer is urgently required. Military decisions as to necessary level of defense may be based too largely on military requirements without adequate concern for effect on long-range economic factors. Active civilian participation in such decisions is the only assurance of balanced determination of the necessary relationship between militarily desirable and economically supportable levels of national defense.

IS THERE A SOLUTION?

The primary considerations in both of these problem areas are of such nature that they do not lend themselves to the usual annual budgetary approach. As to domestic services only vigorous public reaction against cost can ever bring about real curtailment. In 1940, during heated discussion over increasing the limit on the public debt, Secretary of the Treasury Morgenthau was asked for his judgment as to the amount of debt the country could stand. His answer was, "We will know when we get there." When the public is no longer willing to foot the bill then government can shrink in size. In the meantime the cheese-paring process of minor reduction through elimination of wasteful and extravagant practices of administration will continue but the results cannot be startling in comparison with total expenditures.

Particularly in the defense area consideration should be given to availability, over long periods, of natural resources and their utilization as well as both military and civilian production manpower needs. The final budget presentation must, of course, be presented in terms of dollars, but this stage should be reached only after careful consideration of the economy of the Nation in terms of plant capacity, manpower, and available resources.

UNOBLIGATED BALANCE

There is currently—and has been for sometime—a great outcry against the large unobligated and unexpended balances accumulated by various agencies, principally in the Department of Defense. Various superficial suggestions have been made to use accounting procedures and techniques to control these balances. All of these suggestions are an "after the horse is stolen" approach. The balances exist because Congress has acceded to the urgent demands of the military authorities and provided funds for a level of national defense which the executive branch has said was absolutely vital to the Nation's welfare, and the executive branch has not provided the amount of defense for which Congress appropriated. The existence of the balances is proof positive of failure of executive authority to carry out programs at the levels contemplated in budgetary proposals. The explanation for the existence of the balances cannot be found in books of account. The real explanation lies in the answers

to the question: Where is the defense Congress in all good faith provided funds to purchase? Have the funds not been expended because of administrative failure? Have the estimates been prepared without sufficient regard to the ability of the economy to produce? The responsibility lies in the executive branch. In only a few instances has the Congress provided more funds than requested in the budget and then usually on the basis of testimony by important executive branch representatives. In the aggregate Congress, over a period of years, has provided considerably less than total budgetary requests and still there are balances of such magnitude as to attract attention and bring to the fore suggestions for remedial measures. What would have been the situation had Congress granted all the funds requested?

The Air Force stated in January 1953 that it had available for obligation for "Aircraft and Related Procurement" for the fiscal year ending June 30, 1953, \$12 billion, all of which would be obligated; it requested for the next fiscal year, 1954, \$6.7 billion, all of which would be obligated during that year.³ Congress appropriated only \$3.5 billion for 1954, yet the Air Force carried forward into 1955 an unobligated balance of \$4.6 billion.⁴

In other words, instead of contracting for the acquisition of \$18.7 billion worth of aircraft in a 2-year period, contracts let totaled \$10.9 billion and it was later learned that many of the so-called contracts were far from firm. The unanswered question is, Why is there so little relationship between estimates and accomplishments? The real answer can be found only through examination of program planning procedures and policies. There is no denying the fact the Nation must maintain a maximum defense effort but there is grave question whether it is sound policy to continue to supply funds entirely out of proportion to production capabilities.

The situation in the aircraft procurement program described above is cited only as illustrative of the financial problem in military procurement and construction programs generally.

Year after year they return to Capitol Hill asking for additional funds and predicting dire consequences if the Congress fails to grant every dollar requested. Curiously, the showing of great balances of funds unexpended, not even obligated, on their books seems not to embarrass them in asking for additional funds.

In view of the gravity of the world situation the Congress has had little choice but to accept military recommendations but the day is fast approaching when drastic action must be taken. To permit the situation to continue is dangerous to the stability of the Nation's economy. Reference was made in recent months by a Cabinet officer to hair-curling depressions which could result from continued high-level Government expenditures. Booms and busts have historically maintained a definite relationship and there is nothing to support the hope that the pattern will be different in the future.

³ Budget of the United States, 1954, p. 615.

⁴ Budget of the United States, 1957, p. 563.

POLITICAL NATURE OF THE BUDGET PROCESS

The executive budget system was borrowed from the parliamentary governments in Europe. Great Britain had such a system from about 1822. The importers of the system seem to have failed, however, to appreciate the full significance of the separation of the executive and legislative powers in the American system in relation to the executive budget. In parliamentary government, where the executive is directly dependent on the legislative for its continuance in power, the legislative branch can afford to delegate powers beyond the point practicable under the American system.

Under congressional rules of procedure, it is contemplated that annual appropriations will be made only for those activities of government which have been previously authorized by law. It is often fallaciously assumed that from there on the task is simply one of determining on some mechanical basis the cost of administering such laws. The basic authorizing statutes for the most part—and of necessity—are broad in scope and grant to the Executive rather wide latitude. The only continuing congressional control over activities within such statutes is through the annual budgetary review and legislative authorization of funds. The budget document, the message from the President, includes the recommendations of the executive branch for continuation, increase in scope, or curtailment of these activities. It is a policy proposal reflecting the political philosophy of the current executive authority. It is a political document. As such it is submitted for final determination to the elected representatives of the people, each of whom must take his own responsibility for his part in it before his own constituency. On that account it is of first importance that any budgetary system be so devised as to protect the legislative prerogative of the individual member. For this reason the item veto has never been acceptable to the Congress. Similarly, suggestions that while motions from the floor of Congress to reduce the budget be made in order, motions to increase the budget be outlawed have never found favor. Certainly, if the Congress ever agrees to such proposals, it will have greatly enhanced the power of the Executive and, considering the obvious political nature of the budget message and its own responsibilities thereon, Congress must move most cautiously in that direction. There are occasions when the political philosophy of the two branches of the Government are not in complete accord, but regardless of that fact the Congress must never permit itself to become merely an adjunct to the executive branch.

CENTER OF THE ANNUAL POLITICAL STAGE

The presentation of the budget to the Congress is the signal for the annual political controversy. The administration's political program is there presented in such form and under such circumstances as to focus attention immediately on the points of difference and to set the stage automatically for the great debate. Other legislative recommendations, presented piecemeal, may be delayed, sidetracked, subjected to drawn-out debate, and when involving political hazards, endless and pointless discussion purely for the purpose of delay. But work must begin immediately on the budget. There is an automatic deadline. Funds must be provided for the Government to operate the

following year, and the political issues presented in the budget must be faced and settled. On occasions, when it seems politically desirable, new and not previously authorized programs may be presented in the budget in order to force action when orderly, regular procedure would indicate separate legislative enactment authorizing such programs prior to requests for funds. Congress has itself used the annual appropriation bills as vehicles for extraneous legislation which might not otherwise, standing alone, have been able to clear all the legislative hurdles to final enactment. Much as the idealists may deplore these conditions, cognizance must be taken of the simple fact that the enactment of the annual appropriations is a normal part of the legislative business, and legislative business is political business.

These are the reasons why many aspects of the budget process do not lend themselves to the formalities of pure accounting statements. Too often the rigidity of formal statements leads to the idea that the budget is purely a matter of arithmetic and, on the face of the document, this appears to be true. However, the policy considerations which have governed the arithmetic have involved many mathematically indeterminate factors. By the time the budget reaches Congress these factors either have disappeared from the picture or have been converted to dollar marks to support the budget figures.

At that point, the great political question is whether or not the President will be supported. The executive branch has prepared the budget and has had ample opportunity to develop the case in support thereof. The Congress then sits and listens to a carefully prepared case disclosing only those facts which will present the budgetary requests in the best possible light.

PRESSURE GROUPS

Most of the agencies of the executive branch are in direct communication with private pressure groups who can be counted on to whip up support for the budgetary requests of their pet activities. Though the rules require that administrative budget decisions be not disclosed until the budget message is transmitted to Congress, the agencies having special problems usually find devious ways of letting the pressure group know what to expect so that they can be fully prepared to move directly on Congress at the time the budget arrives. This is a practice so often followed as to be well known in budget circles in Washington. While the executive agencies, having made the bullets, stand piously by, the pressure groups take over and bombard Congress from all sides.

The Congress is never in position, therefore, to reach an objective decision on fiscal requirements. It is always in the position of a besieged force standing off attack, knowing that, at best, some casualties must result.

There is, of course, no complete cure to this situation. Congress would be in a more advantageous position, however, if some method could be devised to permit congressional participation at the decision-making stage before battlelines are so definitely formed.

In earlier years much was heard of "pork-barrel" legislation, bills originated by Congress in which Members allegedly helped each other by providing politically desirable public-works projects. Now the distribution of "pork" is handled in the budget by the executive branch. This tends to gain for the executive branch all the benefits

accruing from such practices while Congress takes the responsibility for not reducing the cost of government. It seems that everyone wants to support the President's program while Congress reduces the cost of government.

The historic control by Congress of the executive branch has been definitely lessened, and it is safe to assert that those who proposed the budget system as a means of aggrandizing the executive power have gained more of their objective than those who supported it as a means of reducing the cost of government. As a matter of fact, there is ample evidence of the enlarged powers of the executive and none to prove that the budget has resulted in better controlled costs.

UNSUPPORTED CRITICISM

Those involved in the processing of the budget frequently become restive under the constant, and sometimes seemingly capricious, criticism by those who have only one well-proved fact on which to base their protest; the total expenditure figure. It is easy to view with alarm the total number of employees of the Government if no notice is taken of the work required to be done by those employees. Few of these headline-making objectors ever get to the point of definitely pointing out the items in the budget which they want to reduce. Pressure groups in favor of specific items of appropriation are so numerous as to clog the corridors of the Capitol but pressure groups in favor of reduction rarely identify items to be reduced or eliminated. They prefer the easy path of glittering generalities.

It would be foolish not to admit that usually there are surplus employees in some agencies of the Government. On the other hand, calling attention to total numbers is no contribution to the pure drudgery involved in ferreting out the overloaded payrolls in individual agencies, which is the only means by which economy may be accomplished.

The members of the Appropriations Committees of the Congress are not in position to enjoy the luxury of the clear conscience resulting from promptly discharged responsibility merely by citing a few startling statistics and saying the budget is too large; the Federal payroll must be reduced. They must spend long hours studying the individual items making up the budget and finally take the responsibility for a judgment as to the smallest amount requisite for necessary governmental functions. At the end of the session annually, they stand condemned alike by the special pleaders for economy for not having reduced enough, and those interested in items they did reduce, for wrecking the country.

INVESTIGATIONS

The most frequently advanced method for furnishing Congress the wherewithal to stand against this well-organized annual attack is investigation and this has been tried in various ways. Results obtained have been worthwhile and have brought about many administrative economies but have not been spectacular, as the investigative approach seems of little assistance in policy determinations. Investigations can and do produce factual data about administrative matters which can and do result in remedial action. However, investigation

cannot produce the basis for policy judgments which control the largest items of expenditure. Evidence that airplane parts have been buried in a snowbank is evidence of maladministration demanding vigorous attention but is of little use in determining the size of a more modern Air Force in future years.

CONGRESS MUST EXAMINE DETAILS OF ESTIMATES

In view of the fact that the annual budgetary review and enactment of appropriations furnishes the only opportunity for Congress to exact an accounting for administration of laws and to assure that congressional intent is carried out, detailed examination of the estimates for individual activities is vital and the Congress has always insisted on this prerogative. This was a major contributing factor to the utter failure of the legislative budget proposal included in the Legislative Reorganization Act of 1946. Of course, in the first place it was purely advisory and had no real effect on final allocation of funds. Secondly, and probably more importantly, it required action on total budgetary figures without an opportunity to examine the individual proposals making up those totals.

In adopting the British system it appears that adequate consideration was not given to this point. Parliamentary review or amendment of the expenditure items in the British budget is of a very cursory nature. The primary concern there is the rate of taxation which is included in the budget. In that sense the American budget is no budget at all inasmuch as it requires legislative action only on the expenditure side and does not require simultaneous action to provide the necessary tax receipts. Taxes are always handled separately, separate recommendations from the President and separate legislative enactment.

In England, the departmental minister is a member of Parliament and subject directly to its will, whereas in the United States the Cabinet officer or agency head is in no wise directly controllable by the legislative branch except through the annual budget.

COSTS HAVE NOT BEEN CONTROLLED

In the 169 years of its history, the United States Government has operated with an annual deficit 66 times. Of those 66 years, 22 have occurred during the 37 years since adoption of the budget system. Of the 44 deficit years, prebudget, 18 were war years; and since adoption of the budget, 9 of the 22 deficit years have been war years.⁵ At the present time taxes and expenditures are at an all-time high during peace years and the present rate of expenditure has been exceeded only three times even in the war years. A combination of so many factors has brought about this situation that it cannot be contended that the budget system is responsible. However, it can be argued that the budget system has failed to control government expenditures as was intended by those who supported it as an economy measure.

In many ways the budget system bears little resemblance to the ideas and plans advanced at the time of its adoption. Even the Bureau of the Budget is an altogether different instrumentality from

⁵ See annual reports of the Secretary of Treasury.

that intended by the original act. It was intended that the Bureau would be a small, professional organization to screen estimates of the executive agencies and reduce them to such amounts as would be commensurate with efficient, economical operation. Now, however, the Bureau of the Budget has become a much larger organization than was originally contemplated and has many duties and responsibilities not within the original scope. It has become a functioning policy arm of the President's office. These changes have come about as a result of a change in basic philosophy within the executive branch as to the role which should be played by a budget bureau, and because of the inevitable political nature of the budget process.

In view of all the changed circumstances since the adoption of the budget system, it would seem that a careful reexamination of the whole process is now in order. For a number of years prior to the adoption of the budget system, many research agencies, colleges, and other groups had devoted a great deal of time and attention to the problem. It was out of their work that the budget system was devised. From the contemporary literature it is apparent that they contemplated a more direct relationship between proposals for taxation and recommendations for expenditure than has been found to be practical within the budget system finally adopted.

The Select Committee on the Budget, in reporting the bill providing for a national budget system to the House, stated that the primary, basic defect then existing was "expenditures are not considered in connection with revenues."⁶ It was their hope and expectation that the new system would remedy this situation, but the record is such as to lead inescapably to the conclusion that these hopes and expectations have not been realized.

A DIFFERENT APPROACH

The weaknesses in the present system are deepseated. They do not lend themselves to superficial treatment. It is easy to say that Congress has not the control over the expenditures by the executive branch that it once had, but no mere change in format of the budget, or rearrangement of financial statements, will accomplish the needed improvement. The decision-making stage when policies are determined upon is the vital area. This is a subject worthy of the examination and thoughtful consideration of the best minds available to devise workable solutions. It involves a reexamination of one of the foundation stones in the system of government: the separation of powers. It is not the kind of situation which can be handled by a group of experts recruited for a few months to make a survey. In this modern pushbutton world there seems to be a popular idea that answers to questions are available just as readily from the proper experts as are new household furnishings at the department store. There has been too much of this "buy it at the department store" approach to basic government problems which are of such nature as to require careful philosophical consideration.

The research groups and students of government might well give some thought and attention to the present situation just as they did

⁶ H. Rept. No. 363, 66th Cong., 1st sess., October 8, 1919, p. 4.

in the early decades of the century when they became enamored of the budget idea and furnished the impetus for its final adoption. They would do well to go back to the ideas advanced at that time, find out what has happened to them since, and see just how their theories have fared in a practical world. Many of the earlier writers wanted to enhance the powers of the executive branch and there is ample evidence that they have attained their objective. The question to raise now is: Has the country benefited? But this time it is hoped that notice will be taken of the fact that it is not possible to engraft pieces of one system of government onto another without taking into account the limiting factors involved in basic differences in governmental processes.