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3

TOWARD MODERN BUDGETING

This chapter explains how American public budgeting evolved into its present condition and identifies critical issues that shaped the evolution of public budgeting. This chapter helps the reader understand the following:

- the major historical reforms that shaped public budgeting in America;
- how those issues implicitly influence what we perceive as the "proper" role of budgeting in government;
- the executive focus on contemporary budget reforms;
- the legislative focus on contemporary budget reforms;
- what shapes budget reform;
- the role of government in society and of budgeting in government; and
- the state of modern budgeting in America.

PRELUDE

Parliament versus the King

Early English history influenced public budgeting in the United States. For example even the word "budget" originated in the Middle English *bouget,* meaning bag or wallet. Using a great leather bag, the king's treasurer—later called the exchequer—carried on his horse the documents that explained the king's fiscal needs to the Parliament. The Normans called a bag *bouget.* Over time, the vocabulary changed so that the people called the document *budget,* and they called the process to prepare and execute the document *budgeting.*

English history is largely a story of struggle between the king and the Parliament over who politically controlled the nation. To a greater extent than other feudal realms, the newly established Norman kingdom of England in 1066 stressed the power and authority of the king over all others, including the important nobles. In England, the elite barons, who controlled large landed estates, held their estates as tenants-in-chief of the king rather than being actual property owners, as we understand the concept today. By 1215, King John, who was a descendant of the Conqueror of 1066, ruled the Norman kingdom but had already lost the ... his ... most portion of his kingdom, including Normandy, that he inherited from his brother—King Richard. While engaging in a civil war with many of his English barons and other nobles, he attempted to achieve peace by signing a treaty, called the **Magna Carta,** with the rebelling barons. The twelfth article of that document stated that the king could not impose taxes "unless by the common council of the realm." Within a generation, the people called the "council of the realm" a new name—*Parliament.*

In the important Reformation period a few hundred years later, another civil war tested the power of the king versus Parliament to its utmost. By 1649, not only had the parliamentary forces prevailed over King Charles I in battle, but also the parliamentary forces had beheaded the king. Oliver Cromwell, who was a parliamentary leader, emerged first as a military leader and then became the first dictator of England, Scotland, and Ireland. A few years after his death, key elements of the army rebelled against the only other English dictator, who was Cromwell's son, and the army successfully supported the restoration of King Charles II in 1660. The tension between the Crown and Parliament continued. Charles II and the other Stuart kings favored a divine-right-of-kings interpretation of their power, and some of them considered adopting Catholicism as the kingdom's religion. In 1688, the Parliament forced the Stuart King James II from the throne, asking King William and Queen Mary (the sister of James II) to share the throne. A key historical result of the Reformation era was the English Bill of Rights of 1688, which established that the government could not compel any person to pay a gift, loan, or tax "without common consent by Act of Parliament." For a long period, this law established the concept of shared legislative and executive power, which in England over time evolved into the present parliamentary government with its dominant legislative branch. In the period in which America was forming its basic institutions, the English branches of government became closer to coequal when the king agreed to an annual specified grant of funds that Parliament controlled.

This struggle, or tension, between the legislative (the Parliament) and the executive (the king) is also one of the most important characteristics of public budgeting in the United States—a struggle that continues in various forms to this day. However, at the time of the American Revolution in 1776, the stress was upon legislative supremacy. The political leaders greatly suspected the use of executive power, given that the new nation's leaders fought their Revolution against the "tyranny" of the king. From the end of the American Revolution to 1789, the founders of the republic ran the country under a weak executive system defined by the Articles of Confederation.

With the adoption of the *Constitution* in 1789, the accepted principles of proper government shifted away from a weak central government, with a weak executive. It moved toward a much stronger executive authority and a national government, with the founders wanting a balance or *separation of powers* between the legislative and executive branches of government. James Madison was particularly influential in arguing for continued legislative-executive tension because he believed that such tension was not only functional but also necessary. In *The Federalist Papers,* which was a series of New York City newspaper articles that explained the rationale for the 1789 constitution, Madison argued that the fundamental law of the nation should separate the exercise of power in government, especially between the legislative and executive branches. The Madison version of *separation of powers* prevents an executive abuse of power, yet still permits strong executive leadership to exist. Since the beginning of the republic, almost every budget reform addresses or affects this intended tension and balance of power between the legislative and executive branches of government.

Colonial America

England viewed its colonies differently than did other colonial powers such as Spain. All colonies served the greater glory and economic well-being of the mother country. However, English colonialism saw great wealth being built not with conquest or the mining of silver and gold found in the colonies as seen by Spain. Instead, England adopted *mercantilism,* which was an economic policy focused on a complex trading relationship that required the colonies to provide one or more cash crops of extreme value such as sugar, indigo, tobacco, or cotton to the mother country in Europe. Colonists sold their crops to the mother country and bought finished goods prepared in the mother country as well as buying other key "goods" such as slaves from Africa to service the American plantations. Mercantilism, which crystallized as policy during the middle 1600s, required a government to enforce the closed trading relationship and a strong navy to protect that relationship.

Back in the American colonies, colonists generated the money through taxation to govern themselves. The king's representatives administered the government, but because of English culture the colonial legislatures were miniature parliaments in which leading colonists actually decided policy for the colonial governments. The separation from England, which the primitive means of transoceanic transportation abetted, fostered greater independence and led to even greater colonial self-reliance.

In the early 1700s, England and France fought yet another war in Europe, but this time the war included North America where the colonists called it the French-Indian War. To help pay for this expensive war in the English colonies, England needed more revenues and imposed additional taxes (for example, the Stamp Act) on the colonies. This unilateral English decision seemed unfair to the colonists because their representatives were not a part of the English Parliament and their legislatures did not vote on the war taxes. Reasoning from the Magna Carta of 1215 and the more recent English Bill of Rights of 1688, the colonies felt that the English decision was "taxation without representation" and therefore wrong. The English Parliament and the king saw the money as both necessary and beneficial to the king's subjects in America. The English felt the issue of taxation without representation seemed rather silly and pretentious for economic satellites of the mother country. Thus, early American public budgeting issues were among the most important in the emotionally charged circumstances that created the American Revolution.

Not surprisingly, those strong feelings helped shape the U.S. Constitution. For example, Article I, Section 9 of the Constitution requires that all matters dealing with revenue must originate in the House of Representatives. The founders of the United States were not content to say that Congress had to act on revenue matters, as the English Bill of Rights had said of Parliament a century earlier. Rather they stated that this particular policy issue had to start with the chamber of Congress that was the most representative of the people. Today, the president presents his budget somewhat as the king's treasurer did. The House passes the appropriation bills first. The Senate often acts as an appealing body and eventually the two chambers agree upon the appropriations. However, Americans still consider the House as the leading chamber in matters concerning revenues and appropriations.

Budgeting in the 1800s

For the first few years of the U. S. federal government, Alexander Hamilton, who was the influential first Treasury secretary, thought the new government should follow a mercantilist policy with a strong national government led by a strong active president. He viewed his role as being much like that of the English exchequer, and in reality his department was the most significant nonmilitary department in the new federal nation. The national government's major revenue source was custom duties, which arose from trade, and the Treasury Department's Coast Guard was an important naval force in ensuring their proper collection. To Hamilton, paying the very large Revolutionary War debt was important and his policies prevailed.

Hamilton was a leader of the early Federalist faction, which became the Federalist Party. Federalists, who were primarily in the northern cities, saw trade and the creation of finished goods within the new nation as important to the development of the country. To them, a strong president should lead a strong national government responsible for the welfare and defense of the country. The nation's leaders were trustees of the people. The government's budget and financial policies were their primary tools for exercising strong executive leadership.

Thomas Jefferson was the leader of the anti-Federalist faction, which first became the Republican-Democratic Party and later the Democratic Party. Jefferson, who was against the centralizing power that Hamilton advocated, not only supported a weaker central government but also a more extreme separation of powers within the government where Congress was the dominant partner. He felt that on all policy matters, including budgetary decisions, the new Congress should dominate. For about a century, most presidents following Jefferson felt strong executive leadership on comprehensive budget matters was improper. Interestingly, Jefferson's own administration showed strong executive leadership not only on his part but also on the part of his Treasury Secretary Albert Gallatin. Nevertheless, Jefferson's ideological views became the policy and his famous phrase—*the best government is the least government*—largely defined government policy during the 1800s. The emerging capitalists, who came into existence rapidly in western Europe and in the new American republic, found this policy ideally suited for them.

As the nineteenth century evolved, Congress eroded its original unified approach to deciding budgets. By 1865, Congress established a separate House Appropriations Committee so that Congress could consider revenue and expenditures separately. By 1885, there were eight separate committees that recommended appropriations. This disunity lessened the congressional budgetary focus of power; but, except for periods of war or depression, large budgets were not a concern of the federal government. In this era, there was a constrained view of what government should do

in society, so budgets were small. Also the major revenue source—the customs—provided more revenue than was thought necessary for expenditure needs, so Congress had the unusual problem of dealing with large surpluses. In addition, congressional land grants (for example, for the building of the continental railroad), rather than money, financed many important government programs.

Progressive Reform Movement

The beginning of the twentieth century provided an apt milieu for the *Progressive* political movement to create modern budgeting. The end of the nineteenth century was radically different from its beginning. When Jefferson was president, America was an agricultural country with a vast frontier that allowed continuous opportunities for new immigrants and for those seeking new possibilities. At the end of the nineteenth century, America was a manufacturing country and the nation had a closed frontier. These changes, which *machine age* technology helped induce, required an active government that used modern budgeting techniques to set policies for society. During the machine age, technology forced centralized urban employment, created a large economic middle class, and generated massive production of goods. With capitalist policies, huge private concentrations of wealth came into existence, often at the expense of workers' circumstances for working and living. In addition, there were serious harmful impacts on the environment, and political corruption on a huge scale became common, especially in the cities.

Like the socialists, the progressives demanded political change that would address the negative implications of the new capitalist society; but unlike the socialists, the progressives did not favor government ownership of manufacturing, mining, and other industries. However, they did favor strong government leadership in society, especially by a strong government executive in the tradition of Alexander Hamilton. The Progressive political movement existed in both major political parties and until 1912 was strongest in the Republican Party. The Progressive political movement gained popular support, which included demands for municipal reforms to curtail corruption. The modernist political philosophers—such as Jeremy Bentham, Edmund Burke, and, later, Georg Wilhelm Friedrick Hegel—influenced their views. In the spirit of centralizing and rational decision making, the modern budgeting reform of the era successfully called for legislative bodies to decide their revenues and expenditures as a whole just prior to the beginning of the government's new fiscal year. The most effective municipal reformers were the National Municipal League (founded in 1899) and the New York Bureau of Municipal Research (1906).

The latter is one of the most remarkable in the history of American reform groups. One of the leaders was Charles Beard, a noted historian and founder of the academic discipline of political science. Luther Gulick and other members of that bureau were also instrumental in founding *public administration* as a study and practice so that the government would accomplish its policies in an economical and efficient manner. The research arm of the bureau moved to Washington, DC, and evolved into today's Brookings Institution. The bureau moved its training arm to Syracuse University in 1925, becoming the Maxwell School of Syracuse University. The bureau served as a model and "motherhouse" for many other bureaus throughout the country. The members of the bureau led and staffed almost every major governmental reform committee between 1910 and 1950.

Not surprisingly, the New York Bureau of Municipal Research was highly influential in budget reforms. One year after its creation, it prepared the first detailed report demonstrating the need for adopting a municipal budget system. In that same year, the bureau produced an object classification budget for the New York City Department of Health. By 1912, observers of government change could see the bureau's recommended reforms in the federal Taft Commission report, which called for object (line-item) classification budgeting in all federal departments and agencies. By the 1920s, most of the major American cities reformed their budget practices. In 1929, A. E. Buck, a staff person of the bureau, wrote the first text on public budgeting, which set a pattern that students of public administration can continue to observe in textbooks, including this one.

The desire to strengthen the executive authority stimulated budget reform. Political leaders such as Woodrow Wilson believed that reforms could strengthen executive authority if citizens also could vote for candidates who had the power to carry out their promises. Unlike Jefferson, Wilson argued against a congressionally dominated government. He felt the government's chief executive should be strong and that budget reform was one of the best ways to strengthen the executive. Wilson, like other progressives, argued for the professionalization of the career administrators (that is the creation of a civil service) who would report and be responsive to elected decision makers.

EVOLUTION

Prior to 1921

In the early 1900s, the federal government started to experience large federal expenditures and yearly budget deficits. The customs revenue was not adequate as a national government revenue source, thus, Congress passed the federal income tax. This new tax solved the fundamental revenue problem, since Congress could increase the tax rate to provide the necessary government revenue. However, this tax also attracted the keen attention of members of the business community, as they now had a vested interest in minimizing the money that the government took from them as corporations and wealthy individuals. Business interests, which dominated the times, stressed the importance of economy, efficiency, and government retrenchment. Many people felt like Jefferson that the least government was the best government.

President Taft issued a report prepared by the Commission on Economy and Efficiency Goals titled "Need for a National Budget." The report stressed that preparing a unified executive budget was the responsibility of the president. Two themes—economy and efficiency, and strengthening democracy—motivated the reform. The report reasoned that a budget would better enable the president to plan activities so that government could maximize economy and efficiency. The report also reasoned that a president's budget would strengthen the president's power—thus citizens could vote for or against a person who had the power to fulfill campaign promises. President Taft was not immediately successful in having his reforms enacted, and Woodrow Wilson's income tax temporarily took the pressure off the budget reform measure. However, by 1921, Congress accepted those reforms.

Prior to 1921, agencies still followed the Jefferson tradition of preparing their estimates and transmitting them to the Treasury Department, which passed them on to Congress. Treasury conducted no analyses. The various congressional committees considered the estimates with minimum coordination among themselves. The agencies did sometimes overspend the appropriations, and Congress felt obligated to appropriate the overspent amount. Presidents did not participate in the budget process and no overall executive branch budget plan existed.

Budgeting and Accounting Act of 1921

Until 1921, pressures for budget reform continued, especially with the expense of World War I. The Budget and Accounting Act of 1921 made two important changes. It had the president create a national budget, and it established an independent audit agency (the General Accounting Office) of government accounts as a congressional agency. The law specifically required the president to submit a budget, including estimates of expenditures, appropriations, and receipts for the ensuing fiscal year. The new legislation created the Bureau of the Budget (BOB) in the Treasury Department. Section 909 of the legislation states:

> The Bureau, when directed by the President, shall make a detailed study of the departments and establishments for the purpose of enabling the President to determine what changes (with a view of securing greater economy and efficiency in the conduct of the public service) should be made in (1) the existing organization, activities, and methods of business of such departments or establishments, (2) the appropriations, (3) the assignment of particular activities to particular services, or (4) the regrouping of services. The results of such study shall be embodied in a report or reports to the President, who may transmit to Congress such report or reports or any part thereof with his [or her] recommendation on the matter covered thereby.

This landmark legislation greatly strengthened the president and created the powerful BOB as a strong arm of the president. The new law required the agencies to submit their estimates and supporting information to the BOB. The bureau could and did prepare the president's budget, which was the executive branch (president's) proposal to the Congress. Essentially, the law required the agencies and departments in the executive branch to support the president's budget. The law prohibited agencies from initiating direct and uncoordinated contacts with Congress. Specifically, the amended 1921 law established that all agencies had to send their developed and recommended legislation to the BOB for the BOB's review and clearance. This clearance function greatly increased presidential power because it allowed the president to ensure the executive branch was in step with presidential policy.

As noted earlier, the Budget and Accounting Act of 1921 also created a congressional agency called the General Accounting Office (GAO) to audit independently the government accounts. The comptroller general, who is appointed to a fifteen-year term by the president, heads this agency. The purpose of the audits is to verify that the agencies use government funds for legal purposes, but increasingly GAO audits also examine program performance and conduct special studies of interest to Congress. The placement of the agency prevents improper pressure being exerted upon it by members of the executive branch.

The president's 1937 Committee on Administration Management (Brownlow Committee) recommended the strengthening of BOB's management activities. The 1921 legislation gave the bureau certain managerial responsibilities, but BOB had not exerted them. The Brownlow Committee's report eventually led to the Reorganization Act of 1939. This in turn led to establishment of the Executive Office of the President and the transfer of the BOB to that new office. President Roosevelt defined the duties of the bureau as follows:

- to assist the president in the preparation of the budget and the formulation of the fiscal program of the government;
- to supervise and control the administration of the budget;
- to conduct research in the development of improved plans of administrative management, and to advise the executive departments and agencies of the government with respect to improved administrative organizations and practice;
- to aid the president in bringing about more efficient and economical conduct of the government services;
- to assist the president by elevating and coordinating departmental advice on proposed legislation and by making recommendations as to presidential action on legislative enactment, in accordance with past practices;
- to assist in the consideration and clearance and, where necessary, in the preparations of proposed executive orders and proclamations;
- to plan and promote the improvement, development, and coordination of federal and other statistical services; and
- to keep the president informed of the progress of activities by agencies of the government with respect to work proposed, work actually initiated, and work completed, together with the relative timing of work between the several agencies of the government, all to the end that the work programs of the several agencies of the executive branch of the government may be coordinated and that the moneys appropriated by the Congress may be expended in the most economical manner possible with the least possible overlapping and duplication of effort.

The Bureau became the strong right arm of a strong president.

1940s and 1950s Reforms

During World War II, the bureau became even more important with all activities directed toward the war effort and the need to increase taxes and incur record deficits. The bureau assumed added duties, including supervision of government financial reports and establishing personnel ceilings. In 1945, Congress extended the bureau's budget function to include the government corporations and required the corporations to maintain their accounts on a program basis with full cost information. The Government Corporations Act of 1945 also directed the GAO to appraise the corporations in terms of their performance rather than merely in terms of the legality and

propriety of their expenditures. Congress eventually extended this provision to all GAO reviews.

The Full Employment Act of 1946 called for economic planning and a budget policy directed toward achieving maximum national employment and production. The late 1940s saw the addition of more duties to the BOB. The Classification Act of 1949 required the director to issue and administer relations involving reviews of agency operations. The Travel Expense Act of 1949 assigned the director regulatory functions on travel allowances.

The Hoover Commission, appointed by President Truman in 1947, submitted its report in 1949, recommending that the president do the following:

- adopt a "performance budget" based on functions, activities, and projects;
- survey, recommend, and improve the appropriation structure;
- separate the budget estimates of all departments and agencies between current operating and capital outlays; and
- establish clearly the president's authority to reduce expenditures under appropriations "if the purposes intended by the Congress are still carried out."

Several reforms resulted from the Hoover Commission, but the Budget and Accounting and Procedures Act of 1950 was particularly important. It recognized the need for reliable accounting systems, and Congress gave the president the authority to prescribe the contents and arrangements of the budget, simplify the presentations, broaden the appropriations, and make further progress toward performance budgeting.

The Second Hoover Commission (1955) led to more technical but equally important budget reforms. It called agencies to maintain their accounts on an accrual basis and encouraged cost-based budgets. In addition, it encouraged synchronization between agency structure and budget classifications. The President's Commission on Budget Concepts in 1967 did not address any fundamental budget reforms but concerned itself with smaller technical issues. In summary, the post-1940 period saw many reforms that continued to strengthen the executive budget process.

By the 1950s, there were three accepted formats for budgeting—*line-item, program,* and *performance*—with two underlying and often conflicting philosophic perspectives on budgeting—*incremental* and *rational.* In *line-item budgeting* (Exhibit 3–1), budget analysts identify the items (for example, salaries, supplies) necessary to operate each government unit for the next fiscal year. As noted in Chapter 1, *program* and *performance* budgeting are more sophisticated approaches. In the former, analysts define a logical grouping of government activities, and decision makers allocate money to those activities. Performance budgeting goes one step further by identifying specific program outputs, which decision makers associate with specific program money requests. Exhibit 3–2 illustrates performance budgeting.

Incremental Versus Rational Debate

In the 1950s and later, those working in budgeting tended to follow either the *incremental* or the *rational philosophic* approaches to budgeting or employed some combination of the two. The former stressed that policy makers should view budget

EXHIBIT 3–1 Anderson County Line-Item Budget

ECONOMIC DEVELOPMENT			
MAJOR AND MINOR OBJECT CLASSIFICATION	**BUDGET FY 1998–99**	**DEPARTMENT REQUESTED**	**BUDGET FY 1999–00**
Personnel Services:			
000-101 Salaries-Full Time	155,385	166,080	166,080
000-102 Salaries-Part Time	0	0	0
000-120 State Retirement	10,645	11,380	11,380
000-130 F I C A (County Contribution)	9,635	10,300	10,300
000-135 Medicare (County Contribution)	2,255	2,410	2,400
000-160 Health Insurance (County Contribution)	12,280	14,240	14,240
000-199 Requested Position(s)	0	49,245	49,245
TOTAL PERSONAL SERVICES	**$109,200**	**$253,655**	**$253,655**
Operating Expenses:			
000-201 Advertising	10,000	10,000	10,000
000-204 Books and Publications	2,065	2,065	2,065
000-206 Credit Card Charges	50	50	50
000-211 Dues and Membership Fees	595	595	595
000-215 Food	2,500	2,500	2,500
000-216 Fuel and Oil	500	500	500
000-217 Awards and Recognition	75	75	75
000-228 Insurance—Vehicles	850	850	850
000-236 Meals (Subsistence)	1,500	1,500	1,500
000-243 Postage	2,000	2,000	2,000
000-245 Printing	16,500	16,500	16,500
000-247 Rent—Equipment	3,400	3,400	3,400
000-251 Repairs to Equipment	500	500	500
000-252 Repairs to Vehicles	135	135	135
000-256 Registration and Tag Fee	30	30	30
000-269 Supplies—Office	5,350	5,350	5,350
000-275 Telephone	7,000	7,000	7,000
000-277 Training for Employees	1,000	1,000	1,000
000-279 Travel	3,500	3,500	3,500
000-293 Lodging	2,500	2,500	2,500
000-294 Registration Fees	1,395	1,395	1,395
TOTAL OPERATING EXPENSES	**$61,445**	**$61,445**	**$61,445**
Contractual:			
000-308 Catering	500	500	500
000-314 Development Construction	100,000	100,000	100,000
000-347 Photocopy Equipment Maintenance	1,500	1,500	1,500
000-348 Aerial Photography	2,000	2,000	2,000
TOTAL CONTRACTUAL	**$104,000**	**$104,000**	**$104,000**
DEPARTMENT TOTAL	**$355,645**	**$419,100**	**$419,100**

Source: Anderson County, SC 1999–2000 Budget.

EXHIBIT 3–2 Hoover Commission Performance Budget Model

MEDICAL CARE

Summary: This appropriation request in the amount of $43,648,008 is to provide for the care of a daily average of 28,696 sick and injured, maintenance and operation of 34 hospitals, 2 medical supply depots, 2 medical storehouses, 6 medical department schools, 11 research facilities, operation of 432 other medical activities ashore, instruction of personnel in non-naval institutions, and care of an estimated 1,859 dead; and for Island Government—6 hospitals, 80 dispensary beds, and instruction of native practitioners. Specific programs are as follows:

1. Medical and Dental Care Afloat—to provide technical medical and dental equipment, supplies, and services for an average of 232,485 personnel at sea,and initial outfits for 4 new naval vessels to be commissioned in 1948	$ 2,822,923
2. Medical and Dental Care Ashore	48,419,168
3. Care of the Dead—to provide services, supplies, and transportation for an estimated 1,859 deaths in 1948	502,700
4. Instruction of Medical Department Personnel	2,645,347
5. Medical and Dental Research—to provide civilian employment of 328 and supplies and equipment to operate and maintain 6 research facilities and 5 field research units in 1948	2,519,742
6. Medical and Dental Supply System	2,936,396
7. Island Government	1,910,463
8. Departmental Administration—to provide civilian employment of 550, travel, telephone, telegraph, supplies, and equipment for the departmental administration of the responsibilities of the Bureau of Medicine and Surgery in 1948	1,432,100
Appropriation Request, 1948	$43,648,008

Source: Hoover Commission, 1949.

decisions as essentially incremental, with the current fiscal year serving as the base upon which decision makers judge the new budget year requests. This is why budget formats often show the PY, CY, BY, BY-CY—so that decision makers can examine the totals and the incremental difference between the budget year and current year. The rational perspective, which economists popularized, stresses that rational decision making requires examining budget decisions using a set of objectives and analytical techniques to help discern the best decision possible.

The incremental versus rational debate has its roots in philosophy. Modernist philosophers, like Jeremy Bentham, believed that rationality is not only possible in human decision making but also desirable. Although program and performance budgeting can be incremental, they tend to reflect modernist philosophy. A counter position of nineteenth-century conservatives, like Edmund Burke, maintained that such an assumption was foolish; rather, they believed, reasoning from existing precedent was the best that human decision making could achieve. In the late twentieth century, Aaron Wildavsky best articulated that position in the public budgeting literature.

Critics of incremental decision making stress that the CY numbers may remain the same in the BY, but that significant policy shifts can occur even if the numbers remain constant. They argue that agencies may focus their budget arguments on the BY-CY difference, but the presentation hides the real policy change from the policy makers. Incremental advocates, like Wildavsky, agreed that this is a true distortion, but insisted that a simple analytical reform called *current services* solved the distortion problem. With a new budget column for current services in the budget year, policy makers can compare the CY numbers against the BY current services column. The new BY current services column maintains the current year policies but allows the BY numbers to go up or down as long as the CY policies remain into the BY. Thus, policy makers can see that budget numbers change even though policies remain the same.

Those with an incremental philosophic perspective in budgeting argued that the rational budget approaches are logically absurd and inconsistent with our pluralist political system, which accepts a multiple-value culture. Rationalists counter that the analytical techniques associated with their perspective help executive branch decision makers make more intelligent decisions and the techniques can be equally helpful to legislative policy makers.

Twentieth-Century Purposes of Budget

In the twentieth century, the accepted three common purposes behind the budget activity were **control, management,** and **planning,** as noted in Chapter 1. If *control* is the main purpose, the analyst designs budget formats to ensure that agencies spend money according to established policy and that agencies use no resources for illegal purposes. If *management* is the purpose, the analyst designs the budget process to stress managing people in the bureaucracy in order to achieve maximum efficiency and economy in government programs. If *planning* is the purpose, the analyst designs the process to emphasize improvements in the political decision-making process. These three stresses are not mutually exclusive. All of them exist in most budget processes, but the three-purpose distinction is conceptually useful. Reformers in various decades tended to emphasize one budget purpose over the others, but the other purposes did not cease to exist.

If reformers stress control, they wish to guarantee fiscal accountability. They are fearful of corruption and of leaving the decisions of public employees unchecked. An argument to increase the strength of the chief executive, which may also achieve greater economy and efficiency in government, seeks greater executive budget control. Thus, strong chief executives can enhance their strength through improved budget control mechanisms. Strong, rigid control over bureaucracy can also mean greater red tape that fosters inefficient and uneconomical activities because there is not enough management flexibility to permit lower-level units to deal with their changing situations. Budget control is a high administrative cost activity. Recording all transactions for every line item requires many people even in this era of the computer. Another cost of budget control is subtler in its effect upon government. By stressing control, the analytical emphasis is upon detail. Therefore, policy makers tend to ignore the big policy decisions and government becomes less responsive to the problems of society.

The early public budget literature stressed the control function. Given the well-publicized political corruption of the era, the reformer stress on control is certainly understandable. The reforms included such well-known budget features as the following:

- *Annual budget:* revenues and expenditures presented for one fiscal year period;
- *Comprehensive budget:* all revenues and expenditures included in the budget;
- *Detailed line items:* presenting the exact amount government planned to spend for every separate thing or service that government would purchase;
- *Identification of all transactions:* recording every obligation and transfer of money and liquidation of obligation; and
- *Apportionment and allotment:* an executive branch mechanism to regulate the rate and actual spending of authorized funds.

If reformers stress management, they view the budget as an executive tool to achieve effective operational direction with greatest efficiency. If that is the goal, managers want to use performance budgeting (that is, categorizing the planned activities to stress the relationship of money to achievement) and to implement productivity improvements (that is, getting greater results for the same or relatively fewer resources). One strategy to improve productivity is to decentralize the details of running the agency to lower levels while stressing overall accountability of lower units to accomplish specific program outcomes. Typically, more conservative and business-oriented reformers wish to enhance management, and, not surprisingly, conservative Republican presidents stressed such reforms in the 1920s, early 1930s, 1970s, and 1980s. However, under the leadership of Vice President Al Gore, the Democratic Clinton administration stressed management improvement in the 1990s.

If reformers wish greater planning in decision making, they see the budget as a way to bring greater rationality and analysis into the public policy-making process. The poor decision-making situation of top policy makers and the noncoordinated nature of many decision-making processes appall these reformers. They believe that coordinated and rational decision making is important and that more planning and greater use of analysis will improve the decision-making process. This type of reformer stresses the importance of analysis, data, and categorizing the budget to facilitate analysis. In the 1960s, these reformers implemented PPB (planning-programming-budgeting) and thus the greater use of analysis in public budgeting. In the 1970s, this same type of reformer implemented ZBB (zero-base budgeting) to bring another kind of rational analysis to the budget decision-making process.

AN EXECUTIVE FOCUS

Planning and Analysis

Reformers created *planning-programming-budgeting* (PPB) in the federal government—continuing today in some state and local governments—to institutionalize analysis in the executive branch decision-making process. The advocates of PPB believed that public budgeting was the key to most of the important decisions made in government and that public policy making lacked adequate analysis for top-level decision makers. They believed that procedural reforms could insert essential analysis into the public budgeting process, thus improving public policy making.

PPB had its beginning in 1907 when the New York Bureau of Municipal Research developed the first Program Memorandum. In the 1930s, welfare economics developed many of the same techniques later associated with PPB. Later, the Hoover Commission advocated performance budgeting, and federal executive staff organized budgets into programs in the 1940s. In the 1950s, operations research and systems analysts developed techniques later associated with PPB.

Secretary of Defense Robert McNamara popularized PPB in the 1960s. Secretary McNamara, who had a strong analytical background, asked Charles Hitch to apply the concepts developed at Rand Corporation to the Defense Department. The McNamara management of the Department of Defense impressed many people, especially President Johnson. In 1965, President Johnson ordered every federal department and agency to use PPB. In time, PPB also spread to many state and local governments as well as to governments around the world.

Many critics, especially Republicans and the peace movement activists, considered the guns and butter era, in which PPB existed, as a time of major policy failure in the country. Interestingly, the critics disagreed on the reasons for the failure but not on there being a failure. The United States was fighting an internal expensive "war on poverty" and a more expensive external war in Vietnam. Johnson recruited strong, intelligent people (called the "best and the brightest") to run the country, but their goals outmatched the available talent and resources of the nation. PPB, which was an attempt to use the rational model of decision making within the executive branch policy-making process, also failed.

Upon winning office, the Nixon administration declared PPB dead, but the verdict was too harsh. Although the Nixon administration officially deleted PPB from the U.S. Office of Management and Budget (the renamed Bureau of the Budget) official guidelines, a few federal agencies continued its use, and most agencies continued a much greater use of analysis in their budgeting processes. PPB did upgrade the decision-making process in some federal agencies, but in many others it was never really tried or it just was not effective.

A common misunderstanding of PPB is to equate it with analysis. Although PPB calls for greater use of analysis, especially in the early part of the budget cycle, it is not a form of analysis but rather an attempt to institutionalize analysis into the public budgeting process. PPB does encourage the application of marginal utility analysis, cost-benefit studies, cost-effectiveness analysis, sensitivity analysis, pay-off matrix, present values, and other techniques in early budget cycle decision making.

Some say analysis is an art form, whereas others say it is a science that examines alternatives, views them in terms of basic assumptions and objectives, and tests as well as compares alternatives. All this is done with a purpose of finding "useful" information or recommendations to help resolve policy questions. Although developed by various disciplines, the varying techniques share the same goal of bringing rationality to the policy-making process.

Policy makers modified the traditional budget process with PPB. First, they stressed the use of analysis, particularly in the early stages of the budget cycle. Second, they called for the categorization of government programs into a "program structure" in order to facilitate analytical comparisons making a greater use of data. Third, they made key actors in budgeting believe that the use of output measures, five-year projections beyond the budget year, and mandated special studies, which analysts addressed to specific major program issues, were essential. What are the lessons that we can learn from the PPB experience? This chapter summarizes them in Exhibit 3–3.

Management by Objectives

At the beginning of the second Nixon administration, the White House and the Office of Management and Budget strongly encouraged the federal departments and agencies to use *management-by-objectives (MBO)*. This technique sets out specific objectives for agencies and requires regular high-level periodic reports on the progress toward achieving those objectives. The Nixon administration's use of MBO varied from the conventional MBO, especially by not stressing lower-level participation in the formulation of objectives. Also OMB did not use regulations to implement MBO within the executive branch as it had done with PPB and other major management reforms. Instead, informal memorandum from OMB mandated the various departments and agencies to use MBO forms when answering OMB requests for information. Serious government-wide presidential use of MBO was short-lived and died with the end of the Nixon administration. However, the reform did have a lasting influence because many federal departments and agencies did integrate the technique into their standard operating procedures.

In a few agencies, there was an attempt to link MBO and public budgeting. Such a linkage is theoretically possible, but reformers rarely do it. Analysts accomplish the linkage by using a matrix table with MBO objectives and budget activities. The matrix table squares contain the amount of money needed to carry out the objective during the budget year. If a given program had multiple objectives, the budget analyst would either apportion the money or, more likely, not place the sums in mutually exclusive categories. Also, the analysts might not be able to associate all program activities with the objectives used in MBO. The advantage of linking objectives and money is to ensure that policy makers have resources available to meet their high-priority objectives.

Zero-Base Budgeting

Zero-base budgeting (ZBB) is an approach to public budgeting in which policy makers judge each budget year's activities in a self-contained fashion, with little or no reference given to the policy precedents of the current or past years. In contrast, policy makers in incremental budgeting focus on the difference between the current year (CY) and the budget year (BY). In making the distinction between ZBB and incremental budgeting, the reformers advocating ZBB give the false impression that practical policy results are different because of the two types of budgeting. In ZBB as practiced, the analysts typically will want and need information on the past funding

EXHIBIT 3–3 Lessons Learned from the PPB Reform Experience

THEORETICAL AND CONCEPTUAL ISSUES

- Budget reformers did not explain program budgeting, policy analysis, and other related concepts clearly to the bureaucrats involved in government budgeting. Thus, the reforms were a difficult challenge for the practitioner who had to apply them in varying and often complex situations. This approach to budgeting requires a great deal of effort and creative talent to tailor and personalize the reforms to the various agency situations.
- The rational model, as an ideal for practitioners, did result in serious political or technical mistakes.
- The use of a program structure did sometimes limit policy analyses because the subjects of analyses vary and the use of only one categorization greatly limits the necessary range of analyses.
- Some government programs often did not have and are likely never to have logical, consistent operational objectives. Policy makers use vagueness as a tool in achieving their necessary political consensus. Therefore clarity of program purpose from a clear set of output and outcome objectives does not and even cannot exist because openly stating conflicting views might harm a delicate political compromise among policy makers. Public administrators inherit this confusion and must deal with it even though mostly rational based analytical techniques cannot work with such ambiguity.
- Some types of analysis are helpful only for relatively narrow but often important policy questions. The ability of the analysts and the nature of the subject they examine constrain the use of analysis in practical circumstances. Analysis is often most useful on technical questions.

IMPLEMENTATION

- Reformers must devote a significantly large amount of money and many talented people to make PPB and reforms like PPB work. Realistically, those sums of money and especially those talented people may not exist.
- Government needs to adopt a phased implementation plan for reforms of this kind to have any chance of success. Reformers should introduce the changes first to the agencies and portions of agencies most likely to accept the change. Then, reformers should introduce the innovations to resisting agencies last. As a matter of realism, reformers must understand that they will find great resistance from some managers that will effectively prevent successful implementation in their areas of the organization. Reformers can use training and hiring policies to minimize the problem, but reformers cannot avoid entirely such resistance. Thus, reformers need to win over management slowly to the reform concept and in some cases the reformers will have to replace some managers who remain uncooperative.
- The key person for ensuring the effective use of policy analysis is the agency head. One criterion for hiring a person for this position needs to be his or her desire and ability to use policy analysis effectively. Another useful technique in successful implementation of a reform of this type is a tailor-made orientation course designed for the new agency head which includes the use of policy analysis in public policy making.
- Achieving coordination of policy among the policy analysts and planners, the budget officer, the accountants, the lawyers, the public affairs officer, the analysts preparing the agency's progress reports, and the program managers within an agency is a particularly difficult and continuing problem.

EXHIBIT 3–3 *(continued)*

POLITICAL FACTORS

- The use of plans, covering a five-year period, does not limit the political options available to policy makers.
- Policy analysis rarely addresses the political costs and benefits of a program to specific key individuals such as legislators, but good analyses do address analytical questions that set out political costs and benefits in general.
- Major political actors may find that not using analysis with explicit objectives is critical to their ability to reach some compromise decisions in their specific political situations. However, there is no reason to believe that policy makers cannot achieve greater clarity of objectives in most policy-making circumstances in spite of the need for political compromise.

HUMAN FACTORS

- People in an agency must believe that the reform is a significant and legitimate undertaking. The real test for them will be how seriously key people (like the agency head) and key agencies (such as the Office of Management and Budget) treat the reform. If these people and groups continually demand and use the products of this reform, then the agency will believe the reform is significant and worth its attention.
- Positive and politically practical recommendations must be the products of the reform. If analysts using the new techniques do not generate positive and politically practical policy recommendations, then the people who are directly responsible for implementing the reform in the agency will lose critical creditability among their organizational peers and also among the key decision makers who use the products.

MANAGEMENT

- Systematic attempts to institutionalize policy analysis do tend to centralize governmental decision making.
- Reforms like PPB rarely reduce the size of government organizations.

Source: Thomas D. Lynch. *Policy Analysis in Public Policymaking*. Lexington: MA: Lexington Books, 1975.

levels and accomplishments, especially for forecasting purposes as used in incremental budgeting. Certainly in incremental budgeting, the analysts typically will want information on all activities being planned for the budget year; however, their focus will be upon the program changes from the current year to the budget year. In both situations, unless the analyst is new to the job, the reality is that he or she is already aware of much of the program information from reviewing last year's budget. An analyst would use that information in preparing the budget regardless of what the budget office called the budgeting process.

ZBB requires more effort than other versions of budgeting. Although associated with the Carter administration, the U.S. Department of Agriculture in 1964 used a ZBB approach to prepare its budget. It was an additional exercise on top of the usual budget process. Typically, ZBB requires voluminous documentation and a great deal of high-level official departmental time and energy. Critics of ZBB note that, except for a few small decisions, departments usually reach the same conclusions as they would with the less expensive incremental approach. However, new higher-level officials typically do feel that they gain a much fuller understanding of their organization because of the ZBB experience. Like previous administrations, the Reagan administration upon assuming office abandoned the budget reform process of its predecessor.

ZBB came to the federal government because of Peter A. Pyhrr and President Jimmy Carter. Pyhrr used ZBB successfully in Texas Instruments, wrote a book titled *Zero-Base Budgeting*, and authored an extremely influential 1973 article in *Harvard Business Review*. The then-governor of Georgia—Jimmy Carter—read about ZBB and invited Mr. Pyhrr to help him apply the approach to the state of Georgia. Presidential candidate Carter talked a great deal about the virtues of ZBB, and President Carter required its adoption by the federal government. A few cities and several states (including Georgia, New Jersey, Idaho, Montana, and Illinois) adopted ZBB. Although its initial advocates were enthusiastic, the assessment of its success and failure is unclear, but the few empirical studies done on ZBB reached negative conclusions.

There are several different ZBB approaches. Typically, ZBB consists of preparing budget proposals and alternative levels of spending grouped into "decision packages." Program and higher-level managers then rank those decision packages in the order of priority. The lowest levels don't get funded. Decision packages are self-contained units for budget choice containing input and output data (that is, resources needed to operate the program and the products of the program) as well as the expected levels of performance for each defined level of expenditure. The manager, who is responsible for each discrete activity at the lowest level of an organization capable of formulating a budget, prepares alternative decision packages. Each level of management, including the original manager who prepared the decision package, ranks the packages; thus, each level focuses on marginal utility and comparative analyses. Often the ZBB guidelines stipulate a package should include one decision reflecting the minimum cost essential to carry out the activity effectively. Some states select arbitrary percentages (for example, 50 or 80 or 90 percent of last year's request) to ensure that higher-level decision makers do consider an amount smaller than last year's request. Managers and executives then rank the decision packages by priority. A chief executive can and does establish a cutoff point for the government as a whole, as well as for each agency. The executive branch budget office submits the budget to the legislature reflecting only the packages above the cutoff.

There are some serious problems in using ZBB. The most obvious is that it can be a paper monster that buries executives in an avalanche of documents. ZBB necessarily means thousands of decision packages. For example, in Georgia there were 10,000 decision packages, and no chief executive can review each one. Budget analysts must create mechanisms to manage the paperwork, limiting it to only the critical decisions. Another problem is that ZBB asks decision makers to use this technique on programs that budget appropriations essentially do not control, such as veterans' benefits, social security, interest payments on the national debt, retirement payments to federal workers, and food stamps. Thus, ZBB asks some agencies to do that which is logically impossible. Policy makers cannot intelligently apply ZBB to these programs, yet this set of programs represents over 75 percent of the federal budget and is significant in many state and local budgets as well. Thus, ZBB is worthless for much of the budget, but it does have use in capital budgeting decisions. In addition, the technique neither helps judge priorities between budget activities such as defense, welfare, and environment nor lends itself to grant-in-aid programs where policy makers intended communities to define their own objectives and priorities. Analysts cannot use marginal analysis on grant-in-aid programs because the federal granting agency cannot accurately forecast benefits of projects that local governments have not yet decided or submitted to the federal government. The federal agency does not even know who qualifies or what benefits the grantees will forecast from the federal money.

There are some apparent advantages to ZBB. In programs involving clear operational missions, such as highways, recreation, and public works, program analysts and decision makers find the technique analytically relevant. The approach shifts budget attention away from adding to the current-year program and focuses consideration upon increases to the minimum level of operational support. The approach is successful in educating newly appointed higher-level executives and their staffs on the nature of government programs. In some few cases, the approach may also stimulate redirection of resources within budgets and programs into more productive activities.

TBB and Envelope Budgeting

There is a semirational approach to budgeting that rejects PPB and its foundations but does require extensive budget expertise, including analytical capacity. Several U.S. cities call it *target-base budgeting* (TBB), and Canada labels it "envelope budgeting." In contrast to PPB, TBB is a top-down rationing process, which establishes priorities and defines limits at the top to force choice among alternatives at the bottom. Top officials check their revenue forecasts, establish targets for the various ministries based on their political choice, and create a discretionary or policy reserve used for very few programs and projects. Target-base budgeting uses a qualified rational decision-making model but only for those extra few programs and projects the government funds from the discretionary or policy reserve. Under TTB, budget guidelines require government units to submit their budget amounts within centrally decided targets. However, the units can also request added funding from the discretionary or policy reserve (for example, 5 percent of the total budget), but the unit must use rational analyses to justify the use of that money.

TBB does not require an enormous amount of analysis as found in ZBB, but the analysis that is done is often similar to that found in zero-base budgeting. In deciding policy reserve projects and programs, analysts would use cost accounting, productivity studies, performance measurement, strategic planning, and MBO. TBB is top-down centrally controlled in that central government policy makers set department target allocations, but TBB decentralizes policy by encouraging department heads to prioritize programs and projects as well as to be innovative within their lump sum target allocations.

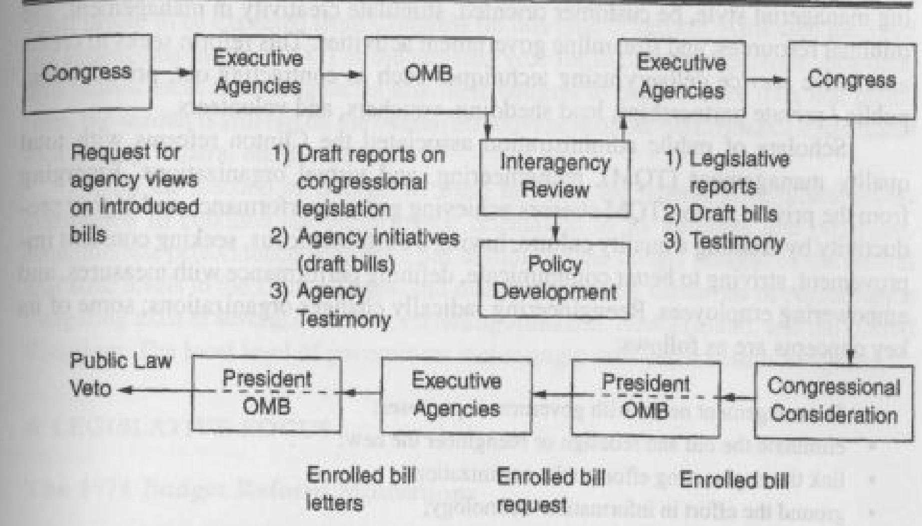
Generally, departments have more autonomy under TBB than under other forms of twentieth-century budgeting, and in some important ways TBB anticipates twenty-first-century budgeting. With TBB, policy makers can fund the political priority projects and programs in either the target amounts or the policy reserve. How this is done depends on the policy makers within the jurisdiction. Within the target amounts, central policy makers permit department heads to make their management trade-off among line items, among programs, and sometimes among capital and operating budgets. With TBB, department staff persons can propose revenue enhancements, suggest actions designed to achieve productivity increases, and recommend alternative means to avoid service and personnel losses when central targets cut into the base budgets of their departments.

As reported by Irene S. Rubin, TBB does have its problems. The political decision to include a new program in the budget base may encourage department heads to obscure service level reductions in other areas that have resulted from funding the new initiatives. Thus, the dubious methods induced by the TBB budget process obscure the implicit policy trade-off, and the resulting inaccurate budget policy document would not enlighten the elected policy makers properly. TBB permits nonrational reallocation decisions such as across-the-board cuts and making political trade-off decisions among departments.

Prior to, but certainly since the 1921 Budget and Accounting Act, presidents have exerted their influence in the budget process primarily as budget proposers. Presidents submit the federal budget to Congress and thereby establish spending priorities as well as the overall fiscal parameters that will guide the presidents' legislative and policy agendas for the year. Some presidents, more so than others, have used the budget and embraced budget reforms or initiatives to exert varying degrees of influence to advance their agendas. Sometimes presidents exert more of a symbolic influence over the budget process. There is no better example of this symbolic dimension than budgeting during the Reagan administration.

President Reagan stormed into office determined to reduce the size of the federal government and to devolve government decision making down to the state and local levels. One of the vehicles to achieve this end was the budget. During his term, downsizing of the federal government (although federal spending for defense actually rose) and massive tax reductions were implemented through or in conjunction with his budget proposals. And although President Reagan is not associated with any budget reform or innovation, he did advance and strengthen OMB by adding a third important executive power. The first OMB power was that this staff agency of the president pulled together the executive branch agency budget requests and developed the president's budget recommendation. The second power was the legislative clearance process (see Exhibit 3–4), which covers agency legislative proposals, agency reports and testimony on pending legislation, and enrolled bills. OMB ensures that proposals, reports, and testimony conform to presidential policy and coordinates agency recommendations on presidential vetoing. The third power, which Executive Order 12291 added in 1981, requires all federal agencies that propose regulatory

EXHIBIT 3–4 Executive Legislative Clearance Process



changes to send them to OMB for its clearance on regulatory budget and economic implications of the changes. This third power greatly strengthens OMB's influence, especially over entitlement programs.

The Bush administration also did not create any new budget innovation but did involve itself with financial management reforms. For example, the Chief Financial Officer's Act of 1990 reaffirmed fiscal accountability and the primacy of sound financial management practices.

Reinventing Government

Heavily influenced by David Osborne and Ted Gaebler, the Clinton administration reform or innovation was *reinventing government.* While meaningful reforms emerged from all of the efforts identified under the rubric of "reinvention," there was clearly a symbolic dimension to these efforts. President Clinton came into office with a mandate for rebuilding the capacity of government to solve many of the problems critics argued were beyond the ability of government to address. One of the ways to restore faith in government was to make government more accountable, more citizen focused, more performance oriented, and more cost effective. President Clinton's vehicle for achieving performance-driven government was the annual budget. Yet it was clear the budget was only one tool to implement these changes as evidenced by a package of legislation including the Government Performance and Results Act of 1993 (requiring that performance data be submitted with budget requests), the Government Management Reform Act of 1994 (agency filing of detailed financial audit reports), and the Federal Acquisition Streamlining Act of 1994 (new guidelines to improve all aspects of a cumbersome federal procurement process). Vice President Al Gore led this entrepreneurial effort that sought to decentralize, increase management flexibility and adaptability, establish competition within government, create a learning managerial style, be customer oriented, stimulate creativity in management, use minimal resources, and streamline government activities. This reform seeks to create alternative service delivery using techniques such as contracting out, privatization, public / private partnerships, load shedding, vouchers, and volunteers.

Scholars of public administration associated the Clinton reforms with total quality management (TQM), reengineering, and virtual organizations. Emerging from the private sector, TQM stresses achieving greater performance and higher productivity by creating a quality culture, having a customer focus, seeking constant improvement, striving to better communicate, defining performance with measures, and empowering employees. Reengineering radically changes organizations; some of its key concepts are as follows:

- fit management needs with government purposes;
- eliminate the old and redesign or reengineer the new;
- link the engineering effort to the organization;
- ground the effort in information technology;
- design it to permit constant changing;
- emphasize work through empowerment, teams, and participatory decision making;
- project workers to be laid off;
- have a clear and workable understanding of the problem;
- value and recognize visionary leaders;
- understand that timing is critical;
- provide opportunities for retraining and early retirement; and
- reconsider and then determine the organization's mission and goals.

Virtual organizations, which are a key element of the reform, have little structural definition, and decision makers often design these temporary organizations to stimulate continuous change. They are often teams or task forces that executives bring together to meet a particular mission, and then the executives dissolve the teams or task forces when they complete their mission. Virtual organizations are often flat networks that are highly dependent on modern communication and employ self-management. Their customers and suppliers commonly design the products of these organizations. Commonly in virtual organizations, members are well educated, highly trainable, and flexible to new tasks and skill requirements.

At the national, state, and local levels of government in the United States and other countries at the beginning of the new century, the major development is *performance* or what some call *outcome budgeting*. At the U.S. federal level, Congress enacted the Government Performance and Results Act of 1993 (GPRA) and embarked on a massive experiment leading to the full use of performance budgeting. The experiment proved that federal agencies can prepare strategic and performance plans that include measurable indicators of performance. The agencies reported that the reforms enabled them to review and reformulate their mission statements, achieve greater clarity of objectives, and create a better logical relationship between mission

statement and outcome measures. Congress, the ultimate judge of the utility of performance data under the 1993 law, has made few negative comments, which is the most praise to be expected from Congress on this type of reform. Although the 1993 act established the year 2000 as the targeted year for inclusion of performance data, and indeed most federal agencies link their budgets to performance data and measures, the verdict is still out on the overall effectiveness of the performance experiment as a lasting "federal budget reform."

With the election of George W. Bush in 2000, the federal government seems committed to continue the performance orientation in its agencies and programs. Nonetheless, performance budgeting has dominated the budget process at the federal and state levels in the United States, and many outstanding variations of performance budgeting exist in several countries, including Australia, New Zealand, and the United Kingdom. The local level of government increasingly uses performance budgeting.

A LEGISLATIVE FOCUS

The 1974 Budget Reform Motivations

The Congressional Budget and Impoundment Control Act of 1974, a landmark piece of budget reform legislation, represented the first significant shift of budget power back to the legislative branch in the twentieth century. The law's passage dramatically relates to the events surrounding President Nixon's resignation from the highest office in the country. The 1974 legislation created a unified congressional budget reform, making Congress a coequal branch with the executive on budgetary matters.

President Nixon and the Democrat-controlled Congress constantly battled because Nixon sought to decrease the role of government in society, and Congress moved in the opposite direction by passing legislation to redress various societal problems using a larger government. In this struggle, Nixon had the political advantage because defeating programs is much easier than initiating them. One Nixon tactic was to use the highly questionable presidential impoundment power on a wide range of programs, including those programs on which Congress had overridden his presidential veto. Another tactic used was to say that Congress was acting in an irresponsible manner because of its piecemeal and uncoordinated approach to appropriations. As Herbert Jasper—an important actor in developing the 1974 legislation—pointed out, Congress was most upset at Nixon's charge of reckless congressional spending.

The illegal breaking into Democratic Party headquarters by White House employees (called the Watergate crisis) politically weakened President Nixon and strengthened Congress. The 1974 act, which was one of several reforms directed toward strengthening the legislative branch, expanded the Congressional Research Service and the General Accounting Office and strengthened congressional oversight activities. Besides creating a unified congressional budget approach, this important legislation neutralized the previous *de facto* presidential impoundment powers.

Students of budgeting should view the 1974 legislation in the context of the historical tension between the executive and legislative branches, which the nation's founders built intentionally into the American system of government. After the Jefferson administration, Congress clearly controlled the purse strings, but Congress itself split the power of appropriation over the years. With the passage of the 1921 legislation and a series of strong presidents at the beginning of the twentieth century, the power of the executive greatly increased against a fractionalized Congress. With the 1974 legislation, Congress once again focused its purse string powers in an attempt to deal more effectively with a strong executive.

Unified Congressional Budget Reforms

The 1974 legislation made several changes. It created the new Senate and House Budget Committees, created a new Congressional Budget Office, required *current services* estimates, and required various reforms addressed to the presidential budget. The new committees' duties included drafting overall budget targets, preparing reconciliation bills between budget resolutions and appropriation bills, and putting pressure on the entire Congress to meet established budget deadlines. Linda Smith, a former House Budget Committee staff person, pointed out in *The Bureaucrat* (a professional journal based in Washington and now called *The Public Manager*) that the political opposition challenged the concept of a unified budget approach in congressional budgeting, but the process worked, at first.

The 1974 unrealized reformer hope was that Congress would pass its annual appropriation bills prior to the beginning of the new fiscal year. Unfortunately, Congress fell quickly into its old habit of not passing a budget on time in spite of its unified approach to passing a yearly federal budget. In fact, later Republican congresses had an even worse record of untimely budgets than their earlier Democratic counterparts. The 1974 reform gives the appearance of a comprehensive examination of the budget, but the reforms strengthened political interest groups who sought to have Congress fund their programs, thus providing single issue oriented groups an easy means to threaten the whole budget to further their policy aims. Instead of being a step forward, the reform was a step backward into even worse partisanship and special interest group politics that hurt the larger public interest even more.

One good aspect of the reform is the Congressional Budget Office (CBO). It is a source of nonpartisan budget expertise for both chambers of Congress. The 1974 act charges CBO to present the Congress with respectable and viable alternatives on aggregate levels of spending and revenue. The office must also make cost estimates for proposed legislation reported to the floor and provide cost projections for all existing legislation. The act requires CBO to prepare an annual report covering "national budget priorities" and "alternative ways of allocating budget authority and budget outlays." One last important duty is to keep score on administration and congressional actions related to the budget. See Exhibit 3–5 for a complete list of responsibilities.

Although partisan congressional leaders sometimes publicly denounce the CBO, the agency does provide useful reports and reasonably accurate forecasts to Congress. For example, its economic forecasts are typically more accurate than those produced by executive branch agencies and the scorekeeping reports are particularly useful in congressional committees. CBO is not the congressional counterpart to the executive

EXHIBIT 3–5 CBO Responsibilities

BUDGETARY ESTIMATES

Scorekeeping. Each spring, the Congress formulates and adopts a concurrent resolution on the budget, setting expenditure and revenue targets for the fiscal year to begin on the coming October 1. In September, the Congress reviews the detailed spending and taxing decisions it had made during the summer in the form of individual bills. It then arrives at and adopts a second concurrent resolution, reconfirming or changing the totals in the spring resolution. While the first resolution sets targets, the second establishes an actual ceiling for spending and a floor for revenues. CBO keeps score of congressional action on individual bills, comparing them against targets or ceilings in the concurrent resolutions. The Balanced Budget and Emergency Deficit Control Act of 1985, the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987, and the Budget Enforcement Act of 1990 assign further duties that require CBO to prepare various sequestration reports to the Congress and the Office of Management and Budget. The office issues periodic reports showing the status of congressional action.

Cost Estimates. Four types of cost estimates are required of CBO by the budget act:

CBO prepares, to the extent practicable, a five-year estimate for what it would cost to carry out any public bill or resolution reported by congressional committees (except the two appropriating committees).

CBO furnishes to a reporting committee a report on each committee bill providing new budget authority. Each report shows (a) a comparison of the bill with the most recent concurrent resolution, (b) a five-year projection of outlays associated with the bill, and the amount of new budget authority and resulting outlays provided for state and local governments.

CBO also furnishes to a reporting committee an analysis of each bill providing new or increased tax expenditures. The reports cover (a) an assessment of how the bill will affect levels of tax expenditures most recently detailed in a concurrent resolution, and (b) a five-year projection of the tax expenditures resulting from the bill.

As soon as practicable after the beginning of each fiscal year, CBO prepares a report that analyzes the five-year costs of continuing current federal spending and taxing policies as set forth in the second concurrent resolution. The purpose of these projections is to provide a neutral baseline against which the Congress can consider potential changes as it examines the budget for the upcoming fiscal years.

FISCAL AND PROGRAMMATIC ANALYSIS

Fiscal Analysis. The federal budget both affects and is affected by the national economy. The Congress thus must consider the federal budget in the context of the current and projected state of the economy. To provide a framework for such considerations, CBO prepares periodic analyses and forecasts of economic trends. It also prepares analyses of alternative fiscal policies.

Inflation Analysis. Beginning in 1979, CBO prepared estimates of the inflationary effect of major legislative proposals and, more generally, identifies and analyzes the causes of inflation. These estimates are intended to provide the Congress with guidelines, as it undertakes new programs, of the cost in terms of inflation that these programs might entail.

Mandate Analysis. The Unfunded Mandates Reform Act of 1995 requires CBO to prepare estimates of the direct costs of all federal mandates that are contained in legislation reported by any authorizing committee that affect state, local, and tribal governments or the private sector.

(continued)

EXHIBIT 3–5 CBO Responsibilities, *continued*

Program and Policy Analysis

CBO undertakes analyses of programmatic or policy issues that affect the federal budget. These reports include an examination of alternative approaches to current policy; all reports are nonpartisan in nature. These reports are undertaken at the request of (1) the chairman of the committee or subcommittee of jurisdiction of either the House or the Senate; (2) the ranking minority member of a committee of jurisdiction of either the House or the Senate; or (3) the chairman of a Task Force of the House Budget Committee.

Annual Report on Budget Options

By April 1 of each year, CBO furnishes to the House and Senate Committees on the Budget a report that combines many aspects of the functions outlined above. The annual report presents a discussion of alternative spending and revenue levels, levels of tax expenditures under existing law, and alternative allocations among major programs and functional categories.

Note: CBO's analyses usually take the form of published studies comparing present policies and programs with alternative approaches. The responsibilities of CBO are (1) budgetary estimates, and (2) fiscal and programmatic analysis.

Source: 21.S. Congressional Budget Office, 2002.

branch OMB. That type of power rests with the budget and appropriation committees. Instead, CBO provides essential information so that Congress knows the fiscal implications of various proposals and can act in a deliberate manner on fiscal policy matters.

Other 1974 innovations are the OMB "current services estimates" and the CBO "baseline budget projections." Scholars of budgeting give a neutral rating to the usefulness of those reforms. The OMB submits its *current services* budget authority and outlay estimates covering the next and future fiscal years as Congress begins its budget deliberations. These estimates assume that the existing services shall continue following current program policy, but OMB does adjust them to reflect inflation and other factors that may raise costs but do not change program policy. A parallel concept is the CBO baseline budget projections. Typically, they are an extrapolation of budget trends for the next five years. The estimates also assume that current policies remain the same and the projections only reflect inflation, workload changes mandated by law, and other nonpolicy factors. For most programs, baseline projections are higher than current funding levels.

The president submits his or her budget no later than early February for the fiscal year that begins next October 1. Congressional budget actions are (1) adoption of budget resolutions, (2) passage of appropriations bills, and (3) passage of other budget-related legislation such as authorization legislation, reconciliation bills, tax changes, modifications of entitlement programs, and adjustments to the debt limit. The president's recommendations do not bind Congress in preparing its budget decisions.

Within six weeks after the president's budget submission, each House and Senate committee must submit its "views and estimates" report on budget matters relevant to its committee. The House and Senate Budget Committees use these reports and the CBO analyses including the baseline projections to prepare their budget resolutions. The budget resolution, which Congress should adopt by April 15, contains revenues and spending levels for five years but Congress is only bound by the first year. Being a concurrent rather than a joint resolution, the budget resolution does not receive the president's signature and the resolution does not have statutory effect.

The budget resolution has three main sections: *aggregates, functional allocations* of spending, and (optionally) *reconciliation instructions.* The aggregates include total revenues and any desired changes in those levels, total new budget authority, total outlays, the budget surplus or deficit, the debt limit, and the total new direct loan obligations and new primary loan guarantee commitments. For the House only, the budget resolution includes total entitlement authority that the budget resolution allocates to each committee. Each budget committee allocates the new budget authority, outlay, direct loan, and loan guarantee levels among twenty functional categories such as national defense, international affairs, energy, and agriculture. The budget act divides the allocations between mandatory and discretionary totals. The appropriation subcommittees may not build their appropriation bills in excess of the so-called 602b (referring to a section of the budget law) allocations given to them. Reconciliation instructions direct specific House and Senate committees to report legislation conforming spending, revenue, or debt-limit levels under existing law to current budget policies.

Budget resolutions are not always effective, but Congress has passed many reforms designed to strengthen the follow-through on its budget resolutions. To ensure a greater chance that the resolutions are effective, the House and Senate budget committees act as scorekeepers by issuing reports that estimate the cost for legislation reported out of committee for floor action and that compare it to the 602 allocations. Since 1990, Congress allows individual members to call parliamentary "points of order" to declare a proposed legislation not eligible for floor consideration because it violates the 602 allocations as defined in the scorekeeping report. In addition since 1990, added mechanisms exist including spending caps for discretionary appropriations and a pay-as-you-go provision for mandatory expenditures. The latter requires the makers of the new legislation to identify what trade-off they are making against the programs in the existing budget.

In summary, Congress decides the annual appropriations in thirteen regular appropriations bills under the jurisdiction of parallel House and Senate appropriations subcommittees that recommend spending levels to the full committees. The appropriation committees subdivide their spending amounts among their subcommittees. When the entire House or Senate considers appropriations legislation, the members of Congress can compare the recommendation with the amount decided by the respective appropriation committee. In some circumstances, the congressional budget process such as the parliamentary point of order does bar consideration of an appropriation measure if the measure breaches the assigned limit. Thus, the various congressional budget reforms have increased the internal discipline within Congress on budget matters.

If the unified approach to legislative appropriations started in 1974 had been successful, Congress should meet its own deadlines. Unfortunately, it does not. Typically, Congress does not pass the appropriation bills by the start of the fiscal year as required by the 1974 law. An interim device is the "continuing resolution," which provides appropriations for a few months while Congress continues to deliberate. Congress should use the "continuing resolution" infrequently when it cannot make a timely decision, but the reality is that the "continuing resolution" has become the norm in congressional appropriation making. In some years, Congress substitutes continuing resolutions for appropriation bills, causing needless management difficult in the federal departments. Unfortunately, in the 1990s the Republican congresses refused to pass even continuing resolutions. They brought the government to a halt in an attempt to force the president to agree with their policy position. This brinkmanship ploy did not work in that they had to yield by passing necessary legislation and the people reacted negatively against them at the next election. Congress can and does also enact supplemental appropriations to provide additional funding not covered in regular appropriations bills. In complex and questionable strategies, either the executive or legislative branch can also abuse this need to be flexible to force the other branch to accept its policies.

Backdoor or Nondiscretionary Spending

One of the concerns of the 1974 reform advocates was the use of nondiscretionary or *backdoor spending* (the commitment of federal funds outside the effective control of the appropriation process). Reformers argued that backdoor spending is contrary to the concept of a unified consolidated congressional budget because policy makers cannot balance some activities against the competing claims of other activities. The 1974 legislation outlawed or tried to control backdoor spending, with some major exceptions. Without those major exceptions, Congress would not have passed the legislation.

There are various forms of *nondiscretionary spending.* One is a *permanent appropriation,* by which Congress allows the program to spend whatever is necessary following congressional guidelines. This near blank check is theoretically possible, but in practice Congress usually does place some limits on its use. Another is *contract authority,* by which government officials *can* obligate the government through legal contracts, and subsequently Congress must pass appropriations to fulfill the obligation. *Borrowing authority* is similar except the government official can borrow money, and subsequently Congress must pass appropriations to liquidate the debt. Yet another method is *mandatory spending* for congressionally established *entitlements,* such as unemployment compensation, food stamps, payments on the national debt, veterans' benefits, and so on. Congress sets or allows payment levels through programmatic rules set down in legislation and administrative regulation. If there is a recession, many of these programs require government *automatically* to pay more in unemployment compensation, welfare, and food stamps. Later, Congress must pass appropriations to cover the obligations. Economists consider *earmarked revenue* to be a *backdoor spending method* because government can only spend funds from a specific source (for example, gasoline tax) for a specific activity (for example, highways). Thus, they argue earmarking prevents a unified consolidated consideration of the budget. The use of the *unexpended balance* (that is, money appropriated but not spent in the last fiscal year) by carrying it over to the next year

is also contrary to the unified approach, but the law allows it in many programs. The various nondiscretionary spending exceptions add up to about two-thirds of each year's federal budget.

Impoundment

As noted earlier, the extensive use of impoundment by Republican President Nixon, who impounded large sums of money because he did not favor the programs that Congress enacted and funded, upset the Democratic Congress. Nixon used the impoundment because it was a *de facto* veto, which Congress could not override. Not surprisingly, Congress felt that Nixon violated the spirit, if not the letter, of the Constitution. The judicial branch concurred with the majority in Congress. In every instance that someone took the expense and time to battle the Nixon administration on impoundment in the courts, the president lost and the administration had to spend the money. The delays caused by the court challenges, however, tended to create a *de facto* veto that served the president's aims and frustrated Congress. Unfortunately, there is a cost to such political perfidy. This combination of the executive illegal holding of funds and of the judicial decision-making process (1) crippled the administration of government programs due to the uncertainty over funding, and (2) practically did lower government program funding levels, notwithstanding the Constitution.

The 1974 legislation addressed the problem by redefining the impoundment powers. The Congress and the courts pointed out that neither the Constitution nor the law granted the president the impoundment power. The executive branch argued that ample precedent existed over the many years of the nation's history. Congress recognized the best solution was to redefine the impoundment powers so that the president could not cripple programs regardless of the contested validity of the impoundment powers. Congress, wishing to prevent a president from overruling the will of Congress on government spending issues, created a pragmatic solution. In 1974, Congress created two versions of an impoundment. If the presidential impoundment is to defer the spending appropriated by Congress, then *either* the House *or* the Senate can force the release of funds by passing a resolution calling for their expenditure. If the impoundment is to cut or rescind the appropriations, then *both* House *and* Senate must pass rescission resolutions within forty-five days of the rescission or it is not valid.

In *Immigration and Naturalization Service v. Chadha,* the Supreme Court struck down the one-house legislative veto as unconstitutional. Thus, the implication is that there was no way to overturn presidential deferrals except by passing a law, which the president could then veto. This left the president with a *de facto* line-item veto. At first the Republican Reagan administration did not attempt to use this apparent advantage over the Democratic Congress, but eventually the administration did employ it. Not surprisingly, the reaction was a legal suit. The plaintiffs argued that Congress never intended to give the president the deferral power that resulted from the *Chadha* case. The federal courts agreed and found in favor of the plaintiffs.

One technical problem in writing the 1974 law was how to deal with a president who might not inform Congress of an impoundment. The threshold of trust between

Congress and the president was very low in 1974. The legislative solution required the president to send a message to Congress requesting an impoundment, including setting forth the rationale for it. The legislation then stated that if the president did not comply with the law, then the comptroller general (a congressional branch employee) would report the impoundment to Congress. If the president did not comply, the law directed the comptroller general to go to the courts to get a court order forcing compliance.

The ultimate strategy behind the law was complex. The Constitution provides for a means to impeach the president and requires the president to execute faithfully the laws of the nation. If the courts rule that the president did not follow the law faithfully, then the president has an extremely weak defense during an impeachment. At that point, both the legislative and judicial branches declared that the president needed to comply with the law and he was not doing so in spite of his constitutional requirement. In other words, the 1974 act set up President Nixon for a possible impeachment. However, other grounds for impeachment (the Watergate crisis) existed and rather than face the disgrace of impeachment and being removed from office, Nixon became the first and only president to resign.

Vice President Ford, who became President Ford after Nixon's resignation, almost got trapped in the 1974 legislation. The near trap began with a minor test of the impoundment process by the Ford administration. Ford did send the required impoundment messages to Congress and did comply with the will of Congress except in one situation. On October 4, 1974, President Ford transmitted his impoundment messages, including the deferment of approximately $264 million in contract authority for the section 235 housing program, but the legislation was due to lapse on August 22, 1975. The comptroller general, acting under the 1974 law, reasoned that this would permit only fifty-two days to obligate the money, thus it was a *de facto* rescission, and under the law the comptroller general reported the error in a formal message to Congress. This meant that Congress had forty-five days to act, and without congressional action the executive branch had to spend the money; Congress did not act, nor did the president release the funds so that the department could spend the money. The comptroller general then notified Congress of his intention to bring a lawsuit and the Senate passed a resolution in support of the comptroller general. Therefore, on April 15, 1975, the comptroller general of the United States filed the required lawsuit in U.S. District Court for the District of Columbia.

The suit named Gerald Ford, president of the United States; James T. Lynn, director of the Office of Management and Budget; and Carla A. Hills, secretary of Housing and Urban Development as defendants. The Ford administration challenged the 1974 legislation on the grounds that (1) by instituting the lawsuit the comptroller general was improperly carrying out an executive function, and (2) the Constitution provided means other than the courts for resolving disputes between the branches of government. The legal arguments continued, but the case came to an abrupt end without a court resolution. On October 17, 1975, Carla Hills announced she would reactivate the section 235 program and there was no longer a need for a legal suit. The game playing in Washington continued and this time Congress won a round.

Exhibit 3–6 presents the early history of post-1974 impoundment. Ford won cancellation of only 7 percent of the funds he proposed for rescission. Carter was more suc-

cessful. However, we need to judge Reagan's success rate during two periods of time. In his first two years, he had a 69 percent success rate but it dropped to 2 percent in his last years in office. The difference reflects the change in the makeup of the Congress. The impoundment power can be a useful presidential tool only when a president has greater influence in the Congress. The impoundment power certainly does not equal that of a governor's line-item veto but under the correct conditions it is significant.

In the Clinton administration, the Republican Congress passed the line-item veto (Line Item Veto Act of 1996), which almost every modern president sought. Technically, the new law merely amended the 1974 impoundment provision and various disgruntled legislators immediately tested the constitutionality of the law. In time, the U.S. Supreme Court ruled the new law was unconstitutional because it violated the separation of powers concept established in the Constitution. During the brief period the law existed, President Clinton used the line-item veto sparingly, thus preventing his opponents from arguing that he significantly lessened congressional power with his use of it. The line-item veto reform did not appear in the form of an amendment to the Constitution because of the political difficulty of achieving a two-thirds vote for it in both the House and Senate. Thus, the likelihood of this reform becoming national policy in the near future is very unlikely.

Reconciliation

The ploy, which the congressional Republicans and the conservative Democrats (called "Boll Weevils") tried in the Congress soon after President Reagan took office, surprised the major architect of the 1974 budget act, Richard Boiling. Although the 1974 act reconciliation provision clearly says that a concurrent resolution on the budget may "determine and recommend changes in laws, bills, and resolutions . . . ," the Democratic congressional leadership carefully avoided serious confrontation with its own powerful committee chairpersons. With Ronald Reagan's election in 1980, the Republicans not only captured control of the White House and the Senate, but also gained a working majority in the House of Representatives when they joined forces with Democratic conservatives. Working with his congressional allies, President Reagan effectively employed the previously unused reconciliation power.

The confrontation and its success were a surprise to the House leadership, as illustrated in Exhibit 3–7. The Republican-controlled Senate concurred with President Reagan's budget suggestions (for example, increased national defense, reduced taxes, and a huge cut in domestic spending). It passed the necessary instructions to other committees in its first concurrent budget resolution. The real confrontation occurred in the House, where a Republican/Boll Weevil coalition, which supported the president's views, dramatically overturned on the House floor the Democratic budget resolution. This monumental budget resolution, called Gramm-Latta I, contained instructions for budget reductions in fifteen House committees and fourteen Senate committees, required very large outlay reductions (that is, of $56 billion), and provided reconciliation savings from discretionary and entitlement programs.

As called for by the 1974 act, the congressional committees responded. The Republicans quickly fashioned another ploy, which was a massive reconciliation bill

EXHIBIT 3–6 1975–95 Rescissions and Deferrals (dollars in millions)

TYPES OF IMPOUNDMENTS	PROPOSED	ACCEPTED	PERCENTAGE ACCEPTED
Rescissions			
Ford (1975–77)	$7,405	$ 530	7.2
Carter (1977–81)	6,946	2,580	37.1
Reagan (1981–82)	23,269	16,080	69.1
Reagan (1983–88)	20,011	400	2.0
*Bush (1989–92)	13,436	2,150	16.0
*Clinton (1993–95)	4,725	2,345	50.0
Total Rescissions	75,792	24,085	32.0
Policy Deferrals			
Ford (1975–77)	22,904	14,145	59.2
Carter (1977–81)	12,905	7,314	56.7
Reagan (1981–82)	6,788	6,174	91.0
Reagan (1983–88)	22,333	7,736	34.6
*Bush (1989–92)	NA		
*Clinton	NA		
Routine Deferrals			
Ford (1975–77)	16,623	16,610	99.9
Carter (1977–81)	17,943	17,928	99.9
Reagan (1981–88)	66,817	66,284	99.2
Total Routine Deferrals	101,383	100,822	99.4

TYPES	PROPOSED	ACCEPTED	PERCENT OF ACCEPTED
Anti-deficiency Act Deferrals*			
Bush (1989–92)	36,367	36,367	100
Clinton (1993–95)	21,482	21,482	100
Total Anti-deficiency Act Deferrals	57,849	57,849	100

Beginning with Fiscal Year 1998 all deferrals were under the Anti-deficiency Act. The Balanced Budget Reaffirmation Act of 1987 (P.L. 100–119) eliminated policy deferrals and OMB now categorizes deferrals as anti-deficiency and other.

Source: U.S. Office of Management and Budget. Cited in Allen Schick, *The Capacity to Budget*. Washington, DC: The Urban Institute Press, 1990, p.112. *Data for Bush and Clinton: General Accounting Office, "Impoundments: Historical Data or Proposed and Enacted Revisions for Fiscal Years 1974–1995, GAO/OCG-96-3, January 18, 1996.

EXHIBIT 3–7 House Speaker Thomas P. O'Neill, June 25, 1981

I have never seen anything like this in my life, to be perfectly truthful. What is the authority for this? Does this mean that any time the President of the United States is interested in a piece of legislation, he merely sends it over? You do not have any regard for the process, for open hearings, discussions as to who it affects, or what it does to the economy? But because a man, who does not understand or know how our process works, sends it over, are we to take it in bulk?

. . . Do we have the right to legislate? Do we have the right to meet our target or can he in one package deregulate, delegislate, the things that have taken years to do?

Source: Congressional Record, June 25, 1981, #3383–85.

called Gramm-Latta II. This extraordinary law changed eligibility rules for entitlement programs (for example, food stamps), limited programs earlier authorized, and rewrote major parts of substantive law. No committee held hearings on the law; rules strictly limited amendment possibilities; the debate lasted only two days; and the House passed the law in a single vote rather than a section-by-section vote. Speaker O'Neill was in shock. The Republican ploy clearly demonstrated that reconciliation was a powerful budget tool, but the Republicans altered the reconciliation instructions from the first budget resolution. Although reconciliation remains important, the use by the Republicans significantly changed its importance and they diminished its potential effectiveness as a tool of legislation.

Sunset Legislation

In many states and in the federal government, legislators use sunset legislation. The sunset concept is that government programs should automatically expire unless a legislature takes positive action to renew the programs every few years. The form of the sunset legislation varies; in most instances, the sunset provisions permit the program to remain on the law books, but the authorization for its funds expire with the sunset. In other words, the program technically exists, but no money can be spent on the program unless the legislature reenacts the authorization section of the law. The cycle for renewal varies, but often the sunset provision uses a staggered five-year cycle.

Both the federal and state levels of government use sunset legislation, with Colorado and Florida being the leading states. Colorado was the first state to enact major sunset legislation, but the law limits it to the state's regulatory agencies. In June 1976, Florida also passed sunset legislation directed toward regulatory agencies, but it also set termination dates for both the agencies and substantive laws. Congress enacts sunset legislation by placing sunset provisions in its many authorization bills, but it has not passed comprehensive sunset legislation. With sunset legislation, the legislature staggers the termination schedule of government programs so that the legislature reviews all targeted programs over a period of time. It exempts some government programs, such as interest payments on the national debt, retirement, health care, and disability programs. Congress controls the review process so that it can decide the form, scope, and time allotted for each review it thinks is appropriate for the program.

The term "sunset legislation" is misleading because the phrase gives the impression that there will be wholesale termination of government programs. A legislature would not be wise to have such a policy because if there is a strong enough reason to create and fund a program in the first place, then there is strong enough reason to believe the legislature will reenact the program. Reenacting every piece of legislation is an unnecessary workload for any legislature. Therefore, some programs may expire under sunset, but not on a wholesale basis. Legislatures that use sunset are wise to allow for termination of only the authorization section of the law rather than the whole law. This avoids a great deal of needless legislative paperwork and still means that the agencies must justify their programs' existence to the legislature.

Federal Budget Madness Years

Not withstanding the entire set of budget reforms, the current federal budget process is inadequate, especially during economic lean years. Naomi Caiden described the process as "preventing consistent policy making, and encouraging deadlocks, blackmail, and symbolic voting."[1] Typically, the Congress passes not timely appropriation measures but make-shift continuing resolutions after the beginning of each fiscal year. Federal agencies brace for payless days during the yearly budget crises, members of Congress are weary of endless rounds of budget decisions, and brinkmanship politics best describes budget decisions between the president and Congress and the Republicans and the Democrats.

Carl Grafton and Anne Permaloff characterized the failed federal budget process as follows:

- the many special political interests concern congressional leaders more than the larger public interest,
- the little connection between programs and money fragments the budget process,
- key officials do not take the necessary time to familiarize themselves with budgets,
- key officials willingly accept less than their best from the process, and
- key decision making takes place in unreasonable and unrealistically short time frames.

During the economic lean years of the 1980s and spilling over into the 1990s, Congress passed three major laws to cure the federal budget crisis. These laws were (1) the Gramm-Rudman-Hollings Act (also called the Balanced Budget and Emergency Deficit Control Act of 1985), (2) a revised Gramm-Rudman-Hollings Act in 1987 (called the Balanced Budget and Emergency Deficit Control Reaffirmation Act), and (3) a Budget Enforcement Act (BEA) of 1990. The provisions of each law were complex and ineffective. The first two established deficit reduction targets for specific fiscal years. The third law sets targets within categories. However, each law left major loopholes, such as ignoring the required funding of the savings and loan financial disaster, which required major federal funding to remedy the problem. As

[1] Naomi Caiden, "The Myth of the Annual Budget," *Public Administration Review* 42, 6 (November/December 1982), 516–523.

noted earlier in this chapter, another failed reform was the Republican attempt to create a presidential line-item veto by amending the 1974 act's impoundment provisions. The combined failure in federal budgeting means the following:

- the collapse of budget regularity,
- the encouragement of deceitful accounting practices, a premium on gimmicks that produce short-term improvement but that do not ease the structural problem,
- strained relationships between the president and Congress,
- lessening the effective leadership of the president,
- congressional congestion and frustration,
- overloading the ability of the political leaders to reach an effective solution,
- crowding out other important national concerns, and
- insufficient time to respond to emerging issues and priorities.

The failure of the federal budget process reached its worst situation in 1995 with a series of partial government shutdowns. For example, the national parks closed and the State Department stopped issuing passports to U.S. citizens. How did the situation get this bad that elected officials would deliberately hold the American people hostage because Congress and the president could not reach an agreement on the budget?

In earlier years, the problem was bad and then the situation got worse. In 1985, Congress did not pass one appropriation bill by the beginning of the fiscal year, and it missed its own May 15 budget resolution deadline by seventy-five days. Congress reacted against its own inaction, which the economic lean times made worse, by passing the already discussed 1985 budget act. Immediately, disgruntled congresspersons brought a court case, and eventually the Supreme Court ruled that one key provision of the 1985 law violated the Constitution. A fallback provision in the law proved insufficient to force Congress to have the necessary self-discipline to act responsibly. Again after many debates, Congress passed the 1987 law, which set new congressional target dates reducing the yearly deficit. This new legislation defined a baseline that was to force discipline because available spending became a function of the projected caps on mandatory and discretionary spending. The legislation created a complex process of sequestration, which Congress thought was so unpalatable politically to itself that both it and the president would work together to avoid triggering the process. The dramatic stock market crash of 1987 did not produce the dreaded depression as had the earlier 1929 crash, but it did act as a catalyst to force a budget deficit reduction agreement for the next two years.

The budget crisis continued into the 1990s. A huge sequestration, with a radically negative impact on government programs, seemed likely as the 1992 presidential year came into sight. Thus, Congress passed the Budget Enforcement Act of 1990 that included expenditure cuts and revenue increases in spite of President Bush's pledge of "Read my lips, no new taxes." The law also set new baseline limits with three so-called "firewalls" for defense, international aid, and domestic spending. The firewall rules prevented budget cuts in some areas in response to budget increases in other areas. The 1990 law created a pay-as-you-go (PAYGO) mechanism to enforce adherence to spending caps. When supporters of a program wished to increase its funding, then rules