- At the national level, the budget influences the economy, so fiscal policy affects the level of employment—how many people are out of work at any time.
- Budgets reflect the relative power of different individuals and organizations to influence budget outcomes. Budgetary decision making provides a picture of the relative power of budget actors within and between branches of government, as well as the importance of citizens in general and specific interest groups.

In all these ways, public budgeting is political. But budgeting is not typical of other political processes and hence one example among many. It is both an important and a unique arena of politics. It is important because of the specific policy issues reflected in the budget: the scope of government, the distribution of wealth, the openness of government to interest groups, and the accountability of government to the public at large. It is unique because these decisions have to take place in the context of budgeting, with its need for balance, its openness to the environment, and its requirements for timely decisions so that government can carry on without interruption.

Public budgets clearly have political implications, but what does it mean to say that key political decisions are made in the context of budgeting? The answer has several parts. First, what is budgeting? Second, what is public budgeting, as opposed to individual or family budgeting or the budgeting of private organizations? Third, what does *political* mean in the context of public budgeting?

# What Is Budgeting?

The essence of budgeting is that it allocates scarce resources and hence implies choice between potential objects of expenditure. Budgeting implies balance, and it requires some kind of decision-making process.

## Making Budgetary Choices

All budgeting, whether public or private, individual or organizational, involves choices between possible expenditures. Since no one has unlimited resources, people budget all the time. A young child makes a budget (a plan for spending, balancing revenues and expenditures) when she decides to spend money on a marshmallow rabbit rather than a chocolate one, assuming she has money enough for only one rabbit. The air force may choose between two different airplanes to replace current bombers. These examples illustrate the simplest form of budgeting because they involve only one actor, one resource, one time, and two straightforward and comparable choices.

Normally, budgeting does not take place by comparing only two reasonably similar items. There may be a nearly unlimited number of choices. Budgeting usually limits the options to consider by grouping together similar things that can be reasonably compared. When I go to the supermarket, I do not compare all the possible things I could buy, not only because I cannot absorb that number of comparisons, but because the comparisons would be meaningless and a waste of time. I do not go to the supermarket and decide to get either a turkey or a bottle of soda pop. I compare main dishes with main dishes, beverages with beverages, desserts with desserts. Then I have a common denominator for comparison. For example, I may look at the main course and ask about the amount of protein for the dollar. I may compare the desserts in terms of the amount of cholesterol or the calories.

There is a tendency, then, to make comparisons within categories where the comparison is meaningful. This is as true for governmental budgeting as it is for shoppers. For example, weapons might be compared with weapons or automobiles with automobiles. They could be compared in terms of speed, reliability, availability of spare parts, and so on, and the one that did the most of what you wanted it to do at the least cost would be the best choice. As long as there is agreement on the goals to be achieved, the choice should be straightforward.

Sometimes, budgeting requires comparison of different, and seemingly incomparable things. If I do not have enough money to buy a whole balanced meal, I may have to make choices between main dishes and desserts. How do I compare the satisfaction of a sweet tooth to the nourishment of a turkey?

Or, in the public sector, how do I compare the benefits of providing shelters for the homeless with buying more helicopters for the navy? I may then move to more general comparisons, such as how clearly were the requests made and the benefits spelled out; who got the benefits last time and whose turn is it this time; are there any specific contingencies that make one choice more likely than the other? For example, will we be embarrassed to show our treatment of the homeless in front of a visiting dignitary? Or, are disarmament negotiations coming up in which we need to display strength or make a symbolic gesture of restraint? Comparing dissimilar items may require a list of priorities. It may be possible to do two or more important things if they are sequenced properly.

Budgeting often allocates money, but it can allocate any scarce resource, for example, time. A student may choose between studying for an exam or playing softball and drinking beer afterward. In this example, it is time that is at a premium, not money. Or it could be medical skills that are in short supply, or expensive equipment, or apartment space, or water.

Government programs often involve a choice of resources and sometimes involve combinations of resources, each of which has different characteristics. For example, some federal farm programs involve direct cash payments plus loans at below-market interest rates, and welfare programs often involve dollar payments plus food stamps, which allow recipients to pay less for food. Federal budgets often assign agencies money, personnel, and sometimes borrowing authority, three different kinds of resources.

## Balancing and Borrowing

Budgets have to balance. A plan for expenditures that pays no attention to ensuring that revenues cover expenditures is not a budget. That may sound odd in view of huge federal deficits, but a budget may technically be balanced by borrowing. Balance means only that outgo is matched or exceeded by income. The borrowing, of course, has to be paid off. Borrowing means spending more now and paying more in the future in order to maintain balance. It is a balance over time.

To illustrate the nature of budget balance, consider me as shopper again. Suppose I spend all my weekly shopping money before I buy my dessert. I have the option of treating my dollar limit as if it were more flexible, by adding the dimension of time. I can buy the dessert and everything else in the basket, going over my budget, and then eat less at the end of the month. Or I can pay the bill with a credit card, assuming I will have more money in the future with which to pay off the bill when it comes due. The possibility of borrowing against the future is part of most budget choices.

## Process

Budgeting cannot proceed without some kind of decision process. Even in the simplest cases of budgeting, there has to be some limit set to spending, some order of decision making, some way to structure comparisons among alternatives, and some way to compare choices. Budget processes also regulate the flow of decisions so they are made in a timely manner.

Back to my shopping example: If I shop for the main course first, and spend more money than I intended on it because I found some fresh fish, there will be less money left for purchasing the dessert. Hence, unless I set a firm limit on the amount of money to spend for each segment of the meal, the order in which I do the purchasing counts. Of course, if I get to the end of my shopping and do not have enough money left for dessert, I can put back some of the items already in the cart and squeeze out enough money for dessert.

Governmental budgeting is also concerned with procedures for managing tradeoffs between large categories of spending. Budgeters may determine the relative importance of each category first, attaching a dollar level in proportion to the assigned importance, or they may allow purchasing in each area to go on independently, later reworking the choices until the balance between the parts is acceptable.

The order of decisions is important in another sense. I can determine how much money I am likely to have first and then set that as an absolute limit on expenditures, or I can determine what I must have, what I wish to have, and what I need to set aside for emergencies and then go out and try to find enough money to cover some or all of those expenditures.