

# Handbook on Public Budgeting and Financial Management

edited by  
Jack Rabin  
Thomas D. Lynch

HANDBOOK ON

# **Public Budgeting and Financial Management**

*edited by*

**JACK RABIN**

Graduate Program for Administrators  
Rider College  
Lawrenceville, New Jersey

**THOMAS D. LYNCH**

School of Public Affairs and Services  
Florida International University  
Miami, Florida

MARCEL DEKKER, INC.

New York and Basel

**Library of Congress Cataloging in Publication Data**

Main entry under title:

Handbook on public budgeting and financial management.

(Public administration and public policy; 12)

Includes indexes.

1. Budget--Addresses, essays, lectures.
2. Finance, Public--Addresses, essays, lectures.
- I. Rabin, Jack, [date]. II. Lynch, Thomas Dexter, 1942- . III. Series.

HF2005.H27 1983 350.72 82-22140

ISBN 0-8247-1253-6

COPYRIGHT © 1983 by MARCEL DEKKER, INC. ALL RIGHTS RESERVED

Neither this book nor any part may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, microfilming, and recording, or by any information storage and retrieval system, without permission in writing from the publisher.

MARCEL DEKKER, INC.

270 Madison Avenue, New York, New York 10016

Current printing (last digit):

10 9 8 7 6 5 4 3 2 1

PRINTED IN THE UNITED STATES OF AMERICA

## PREFACE

A pronouncement that the decades of the 1980s and 1990s are to be eras of scarcity for government is a statement taken at face value today. Moreover, few will argue that coping with budgeting and finance in the public sector requires considerable management and decision-making skills.

This *Handbook* provides in-depth descriptions and analyses of the major areas in budgeting and financial management. As such, it is designed as the major desk reference which any public administration practitioner or academician may need. Thus, while the reader will find essays describing methods and procedures, he or she will also discover philosophical approaches and arguments.

Indeed, the *Handbook on Public Budgeting and Financial Management* is the kind of "encyclopedic" approach required for this fast-changing field. The editors welcome comments and suggestions from readers so that any future works will have the benefit of readers' response.

*Jack Rabin*  
*Thomas D. Lynch*

## CONTRIBUTORS

**Michael J. Byrne**, Senior Staff Auditor, Internal Audit Department, Tufts University, Medford, Massachusetts

**Herbert Sydney Duncombe**, Professor of Political Science, Department of Political Science, University of Idaho, Moscow, Idaho

**Ernest L. Enke**, Professor of Accountancy, College of Business and Administration, Alfred University, Alfred, New York

**K. J. Euske**, Assistant Professor of Accounting, Department of Administrative Sciences, Naval Postgraduate School, Monterey, California

**Roger S. Figura**, Associate, A. T. Kearney, Inc., Alexandria, Virginia

**Carl Grafton**, Professor, Department of Government, Auburn University at Montgomery, Montgomery, Alabama

**George M. Guess**, Assistant Professor, Department of Politics and Public Affairs, University of Miami, Coral Gables, Florida

**Florence Heffron**, Associate Professor, Department of Political Science, University of Idaho, Moscow, Idaho

**W. Bartley Hildreth**, Assistant Professor of Finance and Public Administration, Graduate School of Management, Kent State University, Kent, Ohio

**William Earle Klay**, Associate Professor, Department of Public Administration, Florida State University, Tallahassee, Florida

**Donald C. Kull**, Vice President, System Sciences, Inc., Bethesda, Maryland

**Donald Levitan**, Professor, School of Management, Suffolk University, Boston, Massachusetts

**Philomène N. Makolo**, Assistant Professor, Faculty of Administration, University of Ottawa, Ottawa, Ontario, Canada

**Jerry McCaffery**, Associate Professor, School of Public and Environmental Affairs, Indiana University, Bloomington, Indiana

**Gerald J. Miller**, Assistant Professor, Department of Political Science, University of Kansas, Lawrence, Kansas

## *Contributors*

**Maryann Motza**, Assistant to the State Court Administrator, Office of the State Court Administrator, Colorado Judicial Department, Denver, Colorado

**Steven Parker**, Associate Professor, Department of Political Science, University of Nevada, Las Vegas, Nevada

**Anne Permaloff**, Associate Professor, Department of Government, Auburn University at Montgomery, Montgomery, Alabama

**Joseph F. Puett, Jr., \*** Associate Professor of Management, College of Business and Administration, Alfred University, Alfred, New York

**John E. Stapleford**, Director, Bureau of Economic and Business Research, University of Delaware, Newark, Delaware

**Wallace K. Swan, †** Supervisor, Administrative Support Unit, Community Services Department, Hennepin County Government, Minneapolis, Minnesota

**Khi V. Thai**, Assistant Professor, Department of Political Science, University of Maine at Orono, Orono, Maine

**Llewellyn M. Toulmin**, Senior Research Associate and Deputy Director, Economic Systems Group, The Granville Corporation, Washington, D.C.

**Marcia Lynn Whicker**, Associate Professor, Department of Government and International Studies, University of South Carolina, Columbia, South Carolina

**Glendal E. Wright, ¶** Manager (Planning), American Gas Association, Arlington, Virginia

## *Present Affiliations*

**\*Director of Information Systems, Worthington Division, McGraw-Edison Co., Wellsville, New York**

**†Instructor, Department of Political Science, College of St. Thomas, St. Paul, Minnesota, and Community Faculty, Department of Management, Metropolitan State University, St. Paul, Minnesota**

**¶Systems Analyst, Integrated Micro Computer Systems, Inc., Arlington, Virginia**

# CONTENTS

*Preface*    iii

*Contributors*    iv

## Unit One: The Process of Public Budgeting and Financial Management

### 1. Theoretical Debates Applicable to Budgeting    3

*Wallace K. Swan*

- I. Introduction    3
- II. History    6
- III. Origin and Definition    7
- IV. Response to Environmental Demands    40
- V. Present Trends in Practice, Research, and Theory    43
- VI. Major Findings and Accomplishments: Changes Resulting from Existing Trends in the Literature    54
- VII. Future Directions    55
- VIII. Conclusions    57
- Notes    57
- References    58

### 2. Budgeting as an Expression of Power    61

*Steven Parker*

- I. Introduction    61
- II. Congress    64
- III. The Executive Branch    71
- IV. Interest Groups    76
- V. Budgeting and Role Organization    78
- VI. State Government    79
- VII. Conclusion    81
- References    82

**3. Budgeting Reforms in Perspective 89***Carl Grafton and Anne Permaloff*

- I. Introduction 89
- II. The Federal Budgetary Process: 1960 91
- III. Pre-1960 Budgetary Reforms 93
- IV. Post-1960 Budgetary Reforms 95
- V. Success and Failure in Budget Reform 113
  - Notes 118
  - References 119

**4. National Development Through Budgeting 125***Philomène N. Makolo*

- I. The Context 127
- II. Allocating Financial Resources 135
- III. Implementing Development Objectives 138
- IV. Conclusions, Problems, Issues, Trends, and Limitations 149
  - References 153

**5. Comparative Government Budgeting 161***George M. Guess*

- I. Introduction 161
- II. Review of Comparative Budgeting Literature 162
- III. Comparing Budget Processes: The Functional Format Emphasis Approach 173
- IV. Health Care Budgeting in Costa Rica and Ecuador: A Case Study 185
- V. Summary and Conclusion 188
  - Notes 188
  - References 189

**6. Analyzing the Pedagogic Deficit in Budgeting 193***Jerry McCaffery*

- I. Introduction 193
- II. Syllabi 196
- III. Research Note 205
  - References 206

**Unit Two: The State of the Art in Public Budgeting and Financial Management****7. Expenditure Forecasting 209***Llewellyn M. Toulmin and Glendal E. Wright*

- I. The Importance of Expenditure Forecasting 209
- II. Differences in Expenditure Forecasting Orientation at the Federal, State, and Local Levels 212



III.	Expenditure-Forecasting Techniques	219
IV.	Examples of Various Forecasting Techniques	238
V.	Interface of Revenues and Expenditures	270
VI.	Future Trends in Expenditure Forecasting	277
VII.	Conclusion	283
	References	284
8.	Revenue Forecasting: An Administrative Perspective	287
	<i>William Earle Klay</i>	
I.	The Nature and Evolution of Revenue Forecasting	288
II.	The Econometric Revolution	298
III.	Special Problems in Forecasting Revenues	304
IV.	Political and Administrative Dimensions	308
	References	313
9.	Governmental Accounting	317
	<i>Khi V. Thai</i>	
I.	Overview of Governmental Accounting	318
II.	Basic Governmental Accounting Procedures	324
III.	Generally Accepted Principles of Governmental Accounting	330
	References	343
10.	Administering Revenue Systems	345
	<i>Joseph F. Puett, Jr. and Ernest L. Enke</i>	
I.	General Considerations	345
II.	Sources of Revenue	347
III.	Automatic Revenue Systems	360
IV.	Summary	364
	References	364
11.	Government Financial Reporting and Auditing	367
	<i>Khi V. Thai</i>	
I.	Government Financial Reporting	368
II.	Governmental Auditing	386
III.	Conclusion	393
	Appendix A: AICPA Auditing Standards	394
	Appendix B: GAO Auditing Standards	395
	References	397

**Unit Three: Special Topics in Public Budgeting and Financial Management****12. Budgeting and Public Management 401***K. J. Euske*

- I. The Public Management Context 401
- II. Planning and Control 402
- III. Management Control in the Public and Private Sectors 406
- IV. Output Identification and Measurement 408
- V. Conclusion 413
- References 414

**13. Legislative Budgeting 417***Herbert Sydney Duncombe and Florence Heffron*

- I. Congress and the National Budget 418
- II. The State Legislative Budget Process 434
- III. Legislative Budgeting in Local Government 447
- IV. Conclusions 452
- References 453

**14. Risk Management and Pension Systems***W. Bartley Hildreth and Gerald J. Miller*

- I. Loss Prevention Program Principles 458
- II. Administering the Risk Reduction Program 465
- III. Transfer of Risks in Specific Cases 470
- IV. Pensions and Retirement Programs 481
- V. Conclusion 488
- Notes 488
- References 489

**15. Budgets and Computers in Government 493***Marcia Lynn Whicker*

- I. The Nexus of Computers and Budgets 493
- II. Evolution of Computer Technology 494
- III. Software for Computer Technology 496
- IV. Uses of Computer Technology 498
- V. Advantages of Computer Technology 499
- VI. Disadvantages of Computer Technology 500
- VII. Dissemination of Computer Technology in Government 502
- VIII. Computer Technology in the Budgetary Process 504
- IX. Budgeting, the Computer, and the Future 505
- References 506

<b>16. Corruption and Budgeting</b>	<b>509</b>
<i>Maryann Mötza</i>	
I. Nature and Extent of Corruption	509
II. Identifying Corruption and its Environment	518
III. Control and Prevention of Corruption	524
IV. Summary and Conclusions	534
Notes	535
References	536
<b>17. Productivity Measurement and Studies</b>	<b>539</b>
<i>Donald C. Kull</i>	
I. Background	540
II. Elements of a Productivity Program	544
III. Measurement Methods	547
IV. Management Use of Productivity Data	555
V. A Working System	559
Notes	563
<b>18. Economic Impact of Budgeting</b>	<b>565</b>
<i>John E. Stapleford and Roger S. Figura</i>	
I. Introduction	565
II. Theoretical Developments	566
III. Budget Models	577
IV. Disaggregate Impacts	578
V. Impacts Beyond the Economic	582
References	582
<b>19. Capital Improvement Programming</b>	<b>585</b>
<i>Donald Levitan and Michael J. Byrne</i>	
I. Introduction and Overview	585
II. Frame of Reference	586
III. Capital Improvement Program Components	590
IV. The Capital Improvement Process	597
V. Summary	599
Selected Readings	600
<i>Author Index</i>	601
<i>Subject Index</i>	613

## **Unit One**

### **THE PROCESS OF PUBLIC BUDGETING AND FINANCIAL MANAGEMENT**



# 1

## THEORETICAL DEBATES APPLICABLE TO BUDGETING

Wallace K. Swan\* / Community Services Department, Hennepin County Government,  
Minneapolis, Minnesota

Serving diverse purposes, a budget can be many things:

- A political act
- A plan of work
- A prediction
- A source of enlightenment
- A means of obfuscation
- A mechanism of control
- An escape from restrictions
- A means to action
- A brake on progress
- Even a prayer that the powers that be will deal gently with the  
the best aspirations of fallible men

Wildavsky, Aaron (1964). From Preface to *The Politics of the Budgetary Process*, Little, Brown, Boston, p. v.

### I. INTRODUCTION

Budgeting theorists have often prepared their approaches to the allocation of resources as if budgeting mechanisms mattered. It is perplexing indeed to ask if budgeting approaches are really important and, if so, what this reflects about our culture and its traditions. One tack that might be taken to analyze the significance of budgeting and the manner by

\*Present Affiliation: College of St. Thomas and Metropolitan State University, St. Paul, Minnesota

which budgeting tactics are operationalized in our society is to review some of the historic presuppositions of budgeting; to interrelate in historical sequence both the political and organizational theories which have relevance to budgetary theory and practice, thereby taking a look at the budgeting models that have resulted; to review the societal forces which relate to the adoption of our peculiar budgetary institutions; and to then consider whether these models are, in fact, the most useful ones that can be devised to ensure a reasonably humanistic approach to the allocation of resources in a society.

This approach might initially seem to be of marginal significance to a governmental practitioner (even though the author is himself a self-styled "pracademic"). This will hopefully not be the case, because it is the firm conviction of the author that, as Lord Keynes suggested in *The General Theory of Employment, Interest and Money*, "Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling 'heir frenzy from some academic scribbler of a few years back'" (Keynes, 1959: 129). It is the case, in fact, that the ideas practitioners use in budgeting have come from a variety of different sources (from cultural *zeitgeists*, from theoreticians, from practical people like ourselves). If we are able to understand the derivation of what we have to face on a day-by-day basis on the firing line in budgeting meetings, perhaps we will be able to change the direction of some of our approaches to budgeting so that they will make a bit more sense. It is to "making sense" that this chapter is dedicated.

One must initially consider the approaches which political and organizational theorists have used to reflect the major issues commonly facing a democratic society. As Dr. George Graham stated the issues, they include:<sup>1</sup>

1. The role of the individual and the group.
2. The issues of authority and power.
3. What is public and what is private?
4. Division of labor.
5. How to deal with allocation of money and resources

Concerning the issue of allocation of money and resources, this section of the chapter will discuss the evolution of budgeting practice as it derives from its presuppositions in political theory. We will thus begin by reviewing the political thought of such writers as Aristotle, Machiavelli, Hobbes, Locke, Rousseau, and Montesquieu to determine their roles in providing the context for the development of American political thought--and, by implication, the beginnings of an approach to budgeting. These theories will be analyzed in terms of their impacts on the development of the structural and functional arrangements which resulted in characteristically American phenomena, such as the centralized budgeting practice of the Federalists described by Leonard White in *The Federalists* (White, 1948), the transformations of this approach to budgeting first by Jefferson and then by Jackson, the development of Weberian thought, the shift in the direction of "congressional government" as Woodrow Wilson (1885) termed it, the implementation of the Budget and Accounting Act of 1921 which ensured the development of an executive-focused budget, the scientific management approach, and the movement in the direction of the "principles of organization" (those of Gulick, Urwick, etc.). The Depression era brought substantive changes in the field of budgeting (in terms of both economics

applications and government structure) as it did in the area of organizational theory, where Chester Barnard's work provided the inspiration for human theorists concerned with psychological aspects of management as well as the more quantitative writers on decision making. The post World War II era saw the infusion of economic theory into governmental decision making, the dramatic shift away from traditional theory to Simon's more empirically based model of public administration, as well as what has been characterized as an infusion of a "behavioral persuasion" into political science (Eulau, 1964). Thus we have seen a much greater emphasis in the past thirty-five years on both empirical and quantitative approaches in public administration and political theory—and, consequently, on budgeting theory and practice. The almost unconscious assimilation by governmental practitioners of this new persuasion has been truly astounding—and results in large part from the graduate experience, training programs, as well as a general societal willingness to accept increasingly numerical forms of expression. Discussion here will center upon some of the key elements of behavioral and postbehavioral political theory, and the impacts of these theoretical frameworks on the development of budgetary theory and practice. Some of the approaches to be discussed will range from the political models suggested by Thomas Dye, the approaches suggested by political economists and public choice theorists, the decision-making schools of thought, to the impact of the pluralist and elitist theorists (and recent efforts to reconcile the two), and that of the systems theorists, which led into the development of the Planning Programming-Budgeting System (PPBS) mechanisms.

The short-lived dominance of PPBS (followed by a brief period of Management by Objectives, or MBO, utilization) pointed to some of the problems of implementing a comprehensive budgeting model. Some of the elements of PPBS were later adapted to less comprehensive approaches leading to the current emphasis on evaluation, policy analysis, and cost-benefit analysis and social indicators (as contributory mechanisms to the budgeting decision-making process). The evolution of theory and practice is then traced to Zero-Base Budgeting (ZBB) as introduced by President Jimmy Carter—with the resulting problems related in some measure to the style of implementation as well as the nature of the analytical technique itself.

A reasonably coherent approach to social change would, of course, suggest to us that political theories, organizational dynamics, and budgetary theory as well as practice are ideational reflections of major developmental trends in our society. A practitioner of administration, no matter how averse to theory, needs to be aware of the fact that budgeting theory and practice (not to mention all of the supporting apparatus of political theories and administrative dynamics) must, in the end, respond to change that occurs in a democratic society. Changes in technology, modifications in the attitudes of the citizenry, economic transitions, all have a substantial effect upon the development of budgetary theory and practice. Thus, Sec. IV discusses the environmental factors that condition budgeting.

Following review of this admixture of traditional and contemporary political theory, organizational theory, as well as the environment of the society (including those factors relating to social change), we can then begin to understand the genesis of some of the dilemmas. The budget as political and administrative instrument generates certain polarities which are of importance to practitioners. These dichotomies and polarities include the following:



1. Tightly controlled revenue/expenditure patterns versus more loosely controlled revenue/expenditure patterns
2. Efficiency/effectiveness/productivity versus political power/program development
3. Legislative control over budget versus executive control over budget
4. Comprehensive (planning/analytical) model versus various forms of incrementalism
5. Institutionalizing control/management/planning versus facing the facts of organizational life

In the final sections of the chapter, it is the intent of the author to provide some insight to the reader concerning the current status of present trends in budgeting. It is hoped that this material will provide the reader with some idea about new directions as well as practical hints concerning new styles of budgeting which one may or may not wish to adopt. The chapter will focus on a discussion of some future directions for budgetary theory and especially practice—as derived via careful analysis of the discussion of political theories, organizational dynamics, social change models, budgeting theory and practice, as well as present trends in practice, research, and theory. Although the author has been thoroughly enough schooled in the behavioral method to know that prediction and prophecy are two different things, he is still not averse to a bit of “idle speculation” about the possibilities of having a more humanistic form of budgeting which is perhaps a bit less compulsive in its attention to monetary details and somewhat more responsive to the needs of people in the society.

## II. HISTORY

Those of us who are involved in budgetary practice often overlook historical antecedents of the day-by-day evolution of the budget on which we are working, and as a result we tend to adopt one of the less desirable characteristics of our culture, that is, the tendency to adopt an historical approach which results in a lack of perspective regarding where we have come from and where we are going. As the philosopher George Santayana suggests “Those who do not remember the past are condemned to relive it.” (Shirer, 1960). Such is especially the case in the field of budgeting, where many of the same battles are fought over and over again. For example, Zero-Base Budgeting was first mentioned in the literature in 1924, according to Merewitz, and was sold as an “innovative new approach” to budgeting by incoming President Jimmy Carter to the U.S. Congress in 1976, despite the fact that an excellent study of its use in the Department of Agriculture in the early 1960s pointed out that “there was widespread agreement that the zero-based budget did not significantly affect outcomes” (Merewitz and Sosnick, 1971: 62). This tendency to overlook the experience that an historical approach to budgeting might suggest is probably exacerbated by the tendency of practitioners to focus their attention upon each new budgetary fashion as if it were a means to “control” budgetary activity rather than a new structure which would awkwardly but systematically be imposed upon the previous budgetary mechanisms. For this reason, it may be helpful for the budgetary practitioner to have a sense of the development of the budget and the historical context from which the particular dilemmas spring.