

PUBLIC BUDGETING

politics, institutions, and processes



DON A. COZZETTO

MARY GRISEZ KWEIT

ROBERT W. KWEIT

PUBLIC BUDGETING

politics, institutions, and processes

DON A. COZZETTO

MARY GRISEZ KWEIT

ROBERT W. KWEIT

University of North Dakota

Public Budgeting: Politics, Institutions, and Processes

Copyright © 1995 by Longman Publishers USA.
All rights reserved.

No part of this publication may be reproduced,
stored in a retrieval system, or transmitted
in any form or by any means, electronic, mechanical,
photocopying, recording, or otherwise,
without the prior permission of the publisher.

Longman, 10 Bank Street, White Plains, N.Y. 10606

Associated companies:

Longman Group Ltd., London

Longman Cheshire Pty., Melbourne

Longman Paul Pty., Auckland

Copp Clark Longman Ltd., Toronto

Senior acquisitions editor: David Shapiro

Sponsoring editor: David Estrin

Development editor: Susan G. Alkana

Production editor: Professional Book Center/Linda Moser

Cover design: Kevin C. Kall

Production supervisor: Richard Bretan

Library of Congress Cataloging-in-Publication Data

Cozzetto, Don.

Public budgeting : politics, institutions, and processes / Don
Cozzetto, Mary Grisez Kweit, Robert W. Kweit.

p. cm.

Includes bibliographical references and index.

ISBN 0-8013-0831-3

1. Budget—United States. 2. Budget—Political aspects—United
States. I. Kweit, Mary Grisez. II. Kweit, Robert W. III. Title.

HJ2051.C73 1994

353.0072'221—dc20

94-11719

CIP

2 3 4 5 6 7 8 9 10-MA-98979695

Preface

Some students who have had little experience in the “real world” approach courses in budgeting and financial management with trepidation because they imagine that budgeting is a sterile process that consists of filling in boxes and adding up numbers. Further, these students may assume that they will become managers and thus will have budget specialists to do this boring and tedious work. Of course, most managers realize that everyone must understand budgets and that budgeting entails more than mechanically recording numbers.

Understanding the budgeting process is understanding power. All managers need fiscal resources to perform their organizational missions. They must know how to acquire the necessary resources to do the job and how to track where the money is going and what it is accomplishing. To do this, managers must understand not only the technical aspects of budgeting, but they must also understand the political environment in which public budgeting exists. If one is not *technically* and *politically* proficient in the budget process, it is difficult to be a successful manager. This book integrates the politics and techniques of budgeting necessary for successful management of any public or not-for-profit organization. It also gives those who plan to become budget specialists a complete understanding of the world they are entering.

Scholarly writing on budgeting implies a dichotomy that goes back to historic attempts to divide politics from administration. The most widely used books on budgeting can be divided into two groups: those that focus on the techniques of budgeting without integrating the political underpinnings of the process; and those that focus on the politics of budgeting without considering the tools used to put budgets together. Even books that attempt to combine both aspects are divided into sections that focus on politics and those that focus on techniques.

It is therefore not surprising that budgeting courses often examine the political context of budgeting while striving to train students to be neutral, competent budget analysts. After discussing the political context, they examine modern analytical techniques of budgeting, with little or no recognition of the value choices inherent in those techniques. Thus, those who will go on to management positions other than budgeting are left with the understanding that budgets are best left to the experts.

When budget analysts graduate, they go to work in organizations such as the Office of Management and Budget, where they expect they will be neutral experts providing specialized knowledge to politicians. Even within individual organizations, budget offices labor separately to produce technical analyses. In reality, budget experts are likely to find themselves in a highly charged political environment. Not only may they be involved in adapting budgets to fit political demands, the politicians to whom they report may use, abuse, or ignore their advice.

Even commentary from academicians, practitioners in the field of budgeting, journalists, and the general public creates the impression of a dichotomy by focusing on ways to remove budgeting from politics and make it more “scientific.” Academicians devise budget models with various acronyms that will lead to a “budget nirvana” where all budgets will be aimed at maximizing the public good. Practitioners learn new techniques of analysis to aid in making wise budgetary choices. Indeed, politicians themselves flirt with ways to cut budget figures “automatically” to remove their own “political” control over budgetary decisions.

While such models and techniques may help in making budgetary decisions, there is *no* dichotomy between the politics and the administration of public budgeting. Budgeting is not a sterile exercise but a fascinating process in which society makes decisions about what goals it will pursue. As other books have done before, this one will emphasize that public budgeting is political because budget decisions are value choices for society, and as such are part and parcel of the political process.

In addition, this book emphasizes the political implications of the budgeting techniques that are considered to be the apolitical, scientific part of the budgetary process. The argument of this book is that the choice exercised by administrators in deciding how to execute a general plan does have an impact on the outcome. That means these choices are political because they are value choices, although they often do not appear to be so.

Although the budgetary information is not as current as we, our reviewers, and others would like, rest assured that these are the latest numbers available as this book goes to press.

We want to thank our graduate teaching assistants, Shawn Deaver, Mike Eggl, and Brent LaRocque, for finding the data to make this book as up to date as possible and for their assistance in compiling the glossary and bibliography—to say nothing of the various “go-fer” tasks they were called upon to perform. We want to thank the University of North Dakota Political Science Department secretary, Deb Kirby, for her help in producing charts, tables, and other duties, as assigned.

We want to thank the many individuals that have shepherded us through the often painful process of writing this book. At Longman, we wish to thank David Estrin, our initial editor, for his confidence in this project and his advice and support as we got it off the ground. With hardly a misstep, David Shapiro took over as editor and continued to make sure that we were on course. Throughout the process we have been helped by Owen Lancer, editorial assistant. We are told that he deserves credit for lining up a group of first-rate reviewers. Thanks to Susan Alkana, who was present since inception, for her continuing advice. We are indebted also to Linda Moser, our production editor at Longman for her diligence and precision. Her assistance, along with that of our copy editor, Susan Rothstein, have improved the quality of this work.

We signed with Longman because, while the reviews of our initial chapters were not always as positive as we would have liked, they were honest, extremely thorough, and helpful. Subsequent reviews maintained that standard. There is no question that this book is much improved because of the people at Longman and the following reviewers:

Anthony K. Antwi, Sam Houston State University
Donald F. Kettl, University of Wisconsin at Madison
Fred Kramer, University of Massachusetts at Amherst
William Miller, University of Arkansas
Michael C. Munger, University of North Carolina at Chapel Hill
Bhim Sandhu, West Chester University
Paul L. Solano, University of Delaware
Young-dahl Song, East Carolina University
Richard T. Sylves, University of Delaware

This is the fourth book-length manuscript produced jointly by the Kweits, and we are happy to report that the marriage is still surviving nicely. We are also pleased to report that the collaboration with Don Cozzetto has strengthened rather than strained our friendships. We also wish to recognize the gang at Whitey's, which was always a place to go to get past the bad news and to celebrate the good news.

NOTICE TO INSTRUCTORS

There is a data diskette available for this book in IBM-compatible, Lotus 1-2-3 format, containing the book's appendix data. This will enable instructors to have students manipulate data in a spreadsheet program. The format of the diskette was chosen because it is the most widely used, is accessible through most spreadsheet programs, and is readable through most new Macintosh computers or can be converted to Macintosh format easily. Some basic exercises at the end

of the chapters are keyed to this data. Students simply access the data to complete the exercises. Calculations can be made using the numbers in the appendices or by accessing the data diskette. The data sets are large enough to allow the addition of other exercises at the discretion of the instructor.

Contents

Preface ix

CHAPTER 1 PUBLIC BUDGETING 1

- The Meaning of Politics 2
- The Impossible Goal of Apolitical Budgets 3
- Government Budgeting and You 5
- Overview of the Book 9
- Endnotes* 10
- Suggested Readings* 11

CHAPTER 2 HISTORY OF BUDGET REFORM 13

- Origins 14
- Executive Control of the Budgetary Process 20
- From the Depression to the New Deal 22
- From the New Deal to the Great Society 23
- The Budget Process at Midcentury 25
- Nixon and a New Era of Confrontation 27
- Congress Reacts 28
- Consequences of the Budget Reform 31
- Economic Changes and the Budget 32
- Conclusion 34

<i>Endnotes</i>	36
<i>Suggested Readings</i>	37

CHAPTER 3 RECENT BUDGET REFORM 39

Reagan's New Vision	40
Gramm-Rudman-Hollings	43
1990 Budget Reform	45
Overview of Federal Budgeting: Schedules, Players, and Games	49
<i>The Budget Calendar</i>	49, <i>Budget Participants</i> 53, <i>Budgeting Games</i> 63
Case Study: Budgeting in the Clinton Administration	66
Conclusion	72
<i>Exercises</i>	72
<i>Endnotes</i>	74
<i>Suggested Readings</i>	76

CHAPTER 4 STATE AND LOCAL BUDGETING 77

History	78
Intergovernmental Transfers	82
<i>How Money Is Distributed</i>	84, <i>How Money Is Spent</i>
Policy Making and the Budget in the States	88
<i>State Budget Processes</i>	89
Political Actors in State Budgeting	91
Case Study of Budgeting in State Government: North Dakota	94
<i>Role of the Office of Management and Budget</i>	94, <i>Legislative Role</i>
<i>Committee Roles</i>	95, <i>Budget Preparation within a State Agency</i>
Policy Making and the Budget in Municipal Governments	97
<i>Local Government Budget Process</i>	102
Case Study of Budgeting in Local Government: Chicago	103
Fiscal Stress	105
Coproduction and Privatization	108
Conclusion	111
<i>Exercises</i>	111
<i>Endnotes</i>	112
<i>Suggested Readings</i>	114

CHAPTER 5 ECONOMIC POLICY 115

Political Economy: The Role of Government	116
Market Failure	119
Information	120, Transaction Costs 120, Lack of Markets 120,
Market Power	121, Externalities 121, Public Goods 122

Nonmarket Failure	122
<i>Disjunction between Costs and Revenues: Redundant and Rising Costs</i>	124,
<i>Internalities and Organizational Goals</i>	124, <i>Derived Externalities</i>
<i>Distributional Inequity</i>	124
Coping with Market Failure	125
Goals of Economic Policy	128
Tools of Economic Policy	132
<i>Fiscal Policy</i>	132, <i>Monetary Policy</i>
Fiscal and Monetary Policy	138
Budget Estimates	144
Conclusion	145
<i>Exercises</i>	146
<i>Endnotes</i>	147
<i>Suggested Readings</i>	148

CHAPTER 6 REVENUES AND EXPENDITURES 149

Revenues	150
<i>Tax Criteria</i>	150, <i>Tax Structures</i>
<i>Tax Incidence</i>	156, <i>Other Considerations</i>
<i>Nontax Revenues</i>	165
Expenditures	170
<i>Expenditure Politics</i>	178
Conclusion	179
<i>Exercises</i>	180
<i>Endnotes</i>	182
<i>Suggested Readings</i>	183

CHAPTER 7 THE SEARCH FOR A BUDGET “THEORY” 185

Incrementalism and Rationality	187
The Budget Approaches	189
Line-Item Budgets	190
Performance Budgeting	193
Planning, Programming, Budgeting System	197
Zero-Base Budgeting	202
<i>Decision Units</i>	204, <i>Decision Packages</i>
<i>Rank Decision Packages</i>	204, <i>The Operating Budget</i>
<i>Evaluation</i>	206, <i>A Practical Application</i>
<i>Did It Work?</i>	207
Policy and Expenditure Management System	208
<i>Target-Base Budgeting: A U.S. Application of PEMS</i>	212
Conclusion	213
<i>Exercises</i>	215
<i>Endnotes</i>	219
<i>Suggested Readings</i>	222

CHAPTER 8 CAPITAL BUDGETING 223

- The Capital Budgeting Process 224
 - Step 1—Research* 224, *Step 2—Achieving Consensus* 224, *Step 3—Adoption of Procedures* 225, *Step 4—Selection of Alternatives/Detailed Budget Preparation* 225, *Step 5—Final Political and Public Review* 225, *Step 6—Implementation* 225, *Step 7—Evaluation* 225
- Capital Development in East St. Louis, Illinois 226
 - The Illinois Avenue Playground Project* 226
- Dual Budgeting 229
 - The Argument for a Capital Budget* 229, *The Argument against a Dual Budget* 230
- Conclusion 232
- Exercises* 232
- Endnotes* 235
- Suggested Readings* 235

CHAPTER 9 BUDGETING TECHNIQUES 237

- Cost-Benefit Analysis 238
- Discounting and Present Value 241
 - Net Present Value* 243
- Dealing with Uncertainty 245
- Decision Making and Uncertainty: An Application 248
- Forecasting 251
 - Time Series* 251, *Problems with Time Series* 253
- Conclusion 253
- Exercises* 254
- Endnotes* 255
- Suggested Readings* 255

CHAPTER 10 FUTURE ISSUES 257

- Deficits 258
 - Alternative 1* 262, *Alternative 2* 262, *Alternative 3* 263
- The Clinton Budget Plan 264
- Role of the Courts 266
- Conclusion 268
- Exercises* 269
- Endnotes* 270
- Suggested Readings* 271

APPENDIX A MUNICIPAL POLICE DEPARTMENT BUDGET 273

**APPENDIX B FEDERAL DEPARTMENT OF DEFENSE MILITARY
BUDGET 279**

Glossary 293

Bibliography 299

Index 307

chapter 1

Public Budgeting

Budgets are about values. We express the connection between money and values every time we tell someone that “talk is cheap” and it is time to “put your money where your mouth is.” The connection between money and values is also true of government budgets. Some of what government does is symbolic, in the sense that it is a way of expressing concern for or commitment to various people or issues. For example, a political official may make speeches about the importance of the family. But citizens may well argue that the budget is a better indicator of what actually is valued than are such symbolic actions. They may demand that government put its money where the officials’ mouths are.

What government hopes to accomplish is usually accompanied by a price tag. For example, declaring actions illegal necessitates spending money to enforce the prohibitions. Even moral dilemmas such as abortion are fought out in the budgetary realm. There have been major disputes over the question of whether tax dollars should be used to fund abortions, even though abortion is legal. The fact that in its budget the national government routinely allocates more money than it raises in revenues is also an indicator of values. This society desires government services but resists the imposition of taxes to pay for them.

Because of the size and importance of public budgets, people need to understand the budgetary process. Citizens need such understanding to hold elected officials accountable for budgetary decisions. Officials, both elected and appointed, may be charged with constructing budgets for their units. If not, their work will be affected by the amount of budgeted resources they have to carry out their mandated responsibilities.

The budgetary process is a political process. This fact will come as no surprise to anyone who has paid any attention to media coverage about budgeting at any level of government. Battles over budgets have been at the core of the

U.S. political process since the founding of the nation. Currently the budget continues to occupy center stage in the political process. For example, in 1993 a major recurring news story was the success of the Clinton administration in getting a budget package through Congress that had some spending cuts and raised taxes. This effort was so important that it was called a “make or break” issue for the Clinton administration. Republicans, seeing the effort the same way, did everything they could to block the budget package.

On the other hand, the budgetary process is also highly technical. Indeed, much of the current budget debate revolves around such esoteric-sounding issues as “caps on COLAs” and “entitlements” and “uncontrollables.” The legislative process is dominated by obscure-sounding steps such as “reconciliations” and “sequesters.”

Probably no one would argue that the process of discovering society’s will, as determined by the legislative process and endorsed by the chief executive, is apolitical. What many may not understand is that the more technical aspects of budget preparations are also political. The goal of this book is to help all those who need to understand government budgets—not only those working with budgets but all citizens as well—learn the technical aspects of budgeting. To achieve that goal, we will cover the terms in the previous paragraph thoroughly in later chapters. But another important goal of this book is to make clear that politics pervades all aspects of budgeting, the technical as well as the overtly political.

THE MEANING OF POLITICS

Like many words, the term *politics* suffers from a multiplicity of meanings. In common language, it is often used pejoratively to refer to nefarious schemes and backroom dealings. To political scientists, however, the term *politics* has to do with making choices, which of necessity involves an application of values. For example, David Easton defined politics as “the authoritative allocation of values.”¹ Similarly, Harold Lasswell referred to politics as “who gets what? when? how?”²—a phrase that could also define a budget.

Budgeting, which entails deciding how to allocate resources among competing claims, is political. The choices must involve values. While both Easton and Lasswell conceived values as including other things in addition to money, the allocation of money is essential to achieve many of society’s goals. As Aaron Wildavsky wrote, “budgeting is concerned with the translation of financial resources into human purposes.”³ Money allocated to cancer research establishes a cure for cancer as a goal for society. The amount of money allocated to defense compared to the money for cancer research indicates how society is willing to trade off the values of national security versus health. A budget then is a concrete expression of the values of society.

Budgets are also about power, as is politics. Power is related to questions of who makes the value choices and who can influence those choices. Because

budgets determine who gets what, people compete to control the budget process. The process by which budgets are produced is important because it determines which people will have access to and influence over budget decisions—and which people will not. This means that proposals to reform the process also will be fought over in the political arena, since such changes may reduce the power of some and increase that of others in conflicts over the substance of the budget.⁴

Despite the fundamentally political nature of budgeting, many have attempted to devise means to take politics out of budgeting, or at least to minimize its influence. Appointed commissions have recommended reformed budgetary procedures.⁵ Political scientists have advocated that a “theory” of budgeting be sought.⁶ Public administration scholars have devised sophisticated budgetary techniques.⁷ Even politicians themselves have passed laws aimed at making budget decisions automatic.⁸ (Each of these will be discussed in detail in the following chapters.)

There are two concerns about the attempts to devise means to remove politics from budgeting. First, since budgeting for society is inherently political, the goal is impossible to achieve. The focus on ways to achieve that goal may deflect attention from major budgetary questions. Second, the sophisticated techniques and models may create the impression that the goal has been achieved. That may result in insulating budgetary decisions from the input not only of citizens but also of their elected government officials.

THE IMPOSSIBLE GOAL OF APOLITICAL BUDGETS

In the first century after the formation of the United States, it was recognized that politics was integral to budgeting. The search for apolitical budgeting can be traced to the same source that gave rise to modern public administration: the desire to improve the administration of government. In 1887, Woodrow Wilson wrote an article considered to be the origin of public administration as a separate field of study. In it he contemplated the implications of the growth of government responsibility and the resulting increased importance of government bureaucracy.

Wilson argued that there was no need for concern about the impact of that growth on our democratic system because there was a clear distinction between the process of politics and the process of administration. In his words:

The field of administration is a field of business. It is removed from the hurry and strife of politics; . . . It is a part of political life only as the methods of the counting-house are a part of the life of society; only as machinery is part of the manufactured product.⁹

His influential article contributed to the establishment of what came to be referred as the politics-administration dichotomy.¹⁰

Wilson made clear that he saw the distinction between politics and administration in terms of large versus small decisions. He wrote:

The broad plans of governmental action are not administrative; the detailed execution of such plans is administrative. . . .

This is not quite the distinction between Will and answering Deed, because the administrator should have and does have a will of his own in the choice of means for accomplishing his work. He is not and ought not be a mere passive instrument. The distinction is between general plans and special means.¹¹

By 1900, Frank Goodnow incorporated Wilson's dichotomy into his study, *Politics and Administration: A Study in Government*, in which he wrote: "Politics has to do with policies or expressions of the state will. Administration has to do with the execution of these policies."¹²

This new field of public administration established two criteria to evaluate the administrative aspects of government: *rationality* and *efficiency*. Rationality refers to an attempt to maximize the achievement of desirable goals. Efficiency adds to the notion of rationality the requirement that society seek maximum attainment of its goals with a minimum investment of resources.

Many since then have rejected the idea that public administration is "removed" from politics.¹³ In 1948, Dwight Waldo wrote that there "was an area of explicit doubt and skepticism" about the politics-administration dichotomy as well as other aspects of what he called " 'orthodox' public administration ideology."¹⁴

One major reason for the rejection of the dichotomy is the recognition that, as even Wilson admitted, the implementation of policy does necessitate some discretion. The administrator does have "a will of his own." The exercise of that will, even in decisions that might appear to be minor, could still have a substantial impact on the contours of government policy. Administrative decisions about the execution of a general plan do affect the outcome. Such choices are therefore political because they are value choices, although they often do not appear to be so.

While the sophisticated models and techniques of the modern budget process may give the impression of objectivity and neutrality, in reality they are simply another approach to making value choices.¹⁵ These techniques are themselves political for two reasons. First, the techniques necessitate assumptions and choices, which are all expressions of values. Second, to the extent that they alter the budget process, analytical techniques will change the patterns of who exercises influence in forming the budget and what factors will be considered in budget decisions.

All who are involved in budgeting as participants or recipients need to understand that sophisticated techniques cannot make budgeting apolitical. Budget analysts need to be aware of implications of choices they make. Such knowledge is also crucial for anyone seeking a managerial position in a public organization. It is important for managers to know the choices that underlie analyses that budget experts produce and that are the bases on which managers make decisions. And, as with all things relevant to the business of government, the public needs information in order to make choices on election day.

To say that budgeting is political is not to say that the process cannot be improved. One reason that a book on public budgeting is relevant now is the widespread perception that the budget process at the national level in the United States has failed. In some cases, the problems at the national level are contributing to crises at the state and local levels.

To say that the techniques of budgeting are political is not an invitation or recommendation for budget analysts to use techniques intentionally to mislead political decision makers or to ensure that particular choices will be made. Rather, it is to say that all who are involved with the budget process should be more sophisticated about the value choices inherent in the application of particular models or techniques and about the impact of those choices on the outcomes.

To say that budgeting is political is not a criticism. Politics is the process by which decisions are made for society. In political systems that claim to be representative, the crucial budget decisions should be made in a way that people, or their legitimate representatives, can have an effect. Indeed, one problem that can arise from the attempt to develop techniques that appear to separate politics and budgeting is that elected officials come to be viewed as destructive meddlers in the process. Some talk as if the budget could meet the goals of rationality and efficiency if only the politicians would disappear.

On the contrary, if citizens are dissatisfied with government budgeting, it would be more useful for them to recognize the responsibility of the elected officials and hold them accountable. A political system in which the most important decisions are removed from the control of elected leaders could not easily claim to be representative or democratic.

Another problem that can arise from the focus on finding apolitical techniques of budgeting is the belief that there are easy answers to complex problems. The budgeting dilemma in this country derives from many sources—lack of thorough understanding of economics, disagreements about what role government can and should play in the economy, greed, and self-interest among them. No technique provides a sword to cut through these multiple Gordian knots.

GOVERNMENT BUDGETING AND YOU

While not everyone will become a budget analyst or a public administrator, we are all affected by government budgets. In addition to being concrete expressions of the goals of society, government budgets affect individuals by influencing the amount of money to which they have access. Taxation levels as well as government programs that transfer funds to individuals or that allow them to deduct certain expenses from their tax bills affect individual wealth. In addition, the combination of the taxing and spending policies that form the core of a budget substantially affects the general economy of the society. Decisions regarding the budget should not be made in an automatic or scientific process from which citizens are divorced. To understand more thoroughly how important the budget is, it is useful to review the major components of the national budget.