

Executive Budgeting Literature And Lessons 1899-1929



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Abstract

During the relatively simple times of the 1899 to 1929 period a number of government reformers attempted to solve the problems associated with poor budgeting practices. The executive budgeting process developed during this period and by 1921 the federal government and many state and local governments developed improved budgeting systems. This paper examines a number of key pieces of budgeting literature during the period and discusses how lessons learned from the early part of the 20th century could apply to the budgeting problems we are facing in the 21st century.

Introduction

During 2017 we can see that many governmental budgets are facing pressure from increasing costs and limited revenues. In many cases the management of public budgeting is limited and the factors having the greatest influence seem beyond control. This paper takes us back to the beginning of the executive budgeting history in the United States. Beginning in 1899 many reform groups and budget scholars began to analyze budget problems and proposed solutions. Organizations such as the National Municipal League, and the New York Bureau of Municipal Research conducted studies and analyses with the goal of improving public budgeting. The work of these reformers led to the adoption of executive budgets by many state and local governments and by the federal government in 1921. There are many lessons to be learned from the budgeting literature from this period. This paper presents a literature review in chronological order beginning in 1899 and ending in 1929.

The Beginning of the Executive Budgeting Movement

Most budgeting scholars believe that the modern era of executive budgeting began in 1899 when the National Municipal League proposed a budgeting model where an executive budget should be approved by the mayor and the city council should approve appropriations (National Municipal League 1899). The National Municipal League also proposed that a Controller position should be developed to help manage financial affairs. This simple budgeting model is still in use today. There are checks and balances in the system because there are powers assigned to the executive, the legislature, and a third party Comptroller to make the system work. Unfortunately today, the checks and balance system seems to have been manipulated in many budgeting systems and the result is often budgets that are developed in an environment where basic cost controls are lacking.

The New York Bureau of Municipal Research conducted many studies on the state of budgeting in New York City from 1906-1911 (New York Bureau of Municipal Research 1912). The report indicated that the City of New York had implemented many budget reforms that helped the management of the budgeting system. The Department of Finance was reorganized and the accounting system used by the city was modernized. The budget process was reformed so that budget estimates by a publicity committee were made public and an independent study of the annual budget was made yearly. Processes such as public hearings on the budget were held to add transparency to the budget. By 1912 it appeared that progress was being made in executive budgeting by making the process more open to the public. Improved financial and

cost control practices were also implemented. Today, much if not all of the transparency is either lost or the system or is manipulated by special interest groups and their political allies. The New York Bureau of Municipal Research would tell us today to make sure that a simple and coherent budgeting processes exists.

In 1912 there was no organized executive budgeting for the United States government. A simple budgeting process existed but it lacked real checks and balances as promoted by the municipal government budget reformers. President Taft was interested in budgeting reform and he sent the outline of a budgeting reform system to Congress in 1912 (Message From The President of the United States 1912). The program developed by President Taft called for the presentation of a well-organized executive budget to Congress for their review and ultimate approval. The simple idea developed by Taft was that the budget process could be improved if the President and Congress worked together to ensure that a suitable budget process was developed and implemented. He essentially adopted the model offered by the National Municipal League in 1899 and supported by organizations like the New York Bureau of Municipal Research.

After President Taft presented an executive budgeting proposal it took until 1921 to have a federal budgeting program implemented. During 1915 Frederick Cleveland, the Director of the Bureau of Municipal Research in New York City, urged President Wilson to adopt an executive budget for the federal government (Cleveland 1915). Cleveland repeated the arguments that an executive budget with congressional oversight and independent bodies to study the budget such as conducting audits and producing budgeting reports would help to

improve the accountability of the system. We can review the Cleveland model today with what exists in practice and we would find that most of the accountability functions in the budgeting systems are either misplaced or lacking in general.

William Willoughby called for reform of the national budget in 1918 (Willoughby 1918). He called for a comprehensive budget that examined all costs and revenues. He called the comprehensive aspect of the budget the most important element in the process. Today we find budgets which include only some of the costs that will be spent during the period. Backdoor spending techniques are often used to change the budget from the form approved by legislative bodies. Today Willoughby would urge those involved in the budgeting process to stop all hidden spending items and to make the budget fully comprehensive.

Willoughby also urged state governments to implement budget reforms (Willoughby 1918 A). He urged state governors to adopt an executive budgeting process with legislative and independent body oversight. He discussed the Illinois plan where the Illinois State Constitution required the governor to provide budgeting information to the legislature. He also outlined the Wisconsin budgeting process where a Joint Committee on Finance was used to improve the budgeting process. He also discussed the budgeting plan improvements being made by other states.

Edward Fitzpatrick was a budget reformer from Wisconsin who offered the idea that when you come up with a budget procedure you have decided the form of the government (Fitzpatrick 1918). This is an interesting concept since if we look at some of the disorganized budget processes of today we see that the government too is often lacking in effectiveness.

Fitzpatrick called for a legislative dominance of the budget process since it makes the budget process and the government more democratic. He viewed executive driven budgets as too autocratic and that democracy might suffer under it. Fitzpatrick called for an executive budgeting system but he wanted to ensure that it had strong legislative oversight.

Luther Gulick analyzed the budgeting process being used in the State of Massachusetts (Gulick 1920). He outlined the benefits of an executive budgeting system with legislative oversight. He traced the history of budgeting in Massachusetts from 1733. For most of the period Massachusetts had a system of appropriations and revenue measures that was dominated by the legislature. During the period 1910 to 1920 the legislature dominated the budget even after many called for an executive budgeting system. In 1920 such a plan was adopted in Massachusetts. Gulick reminds us that the concept that the legislature should have a strong role in budgeting had been in place for hundreds of years. The lesson to be learned today by executives who try to dominate the budget process is that you must consider the power and role of the legislature in the process.

While many states had adopted executive budgets by 1920 the federal government failed to pass a new executive budgeting system until 1921. The debate in the budgeting literature continued to evolve in the beginning of the 1920s. Cleveland and Buck supported the idea of an executive budget for the federal government (Cleveland and Buck 1920). They argued that the federal government was designed to have strong executive leadership in the budgeting process.

After the federal budget and many of the states adopted executive-style budgeting there was some thinking expressed in the literature that the problem of poor budgeting systems had been solved. Dawes (1923) indicated that an impartial Office of Budgeting and Management could help make the government more effective. Gulick (1928) wrote a paper on how the reform ideas of the New York Bureau of Municipal Research had spread to many state and local governments in the United States. Buck (1929) wrote that the era of back-slapping politicians was over and that a new breed of politician who mastered the concepts of good administration and public budgeting and finance was taking over. These optimistic thoughts have vanished to a large extent today. The lesson to be learned is that political processes like public budgeting can be captured or co-opted no matter how strong they are designed to be.

Summary and Conclusions

During the relatively simple times of the 1899 to 1929 period a number of government reformers attempted to solve the problems associated with poor budgeting practices. While some optimism existed that the budgeting processes were improved, 90 years later many large government budgeting processes seem to be in disarray. The federal government has almost \$20 trillion in debt most of which was acquired after 1990. This means that the budget process had \$20 trillion in deficit spending. In the future unfunded liabilities appear to be in excess of \$100 trillion. Many state and local government has large unfunded pension and post-employment benefits that will add additional challenges. Many of these costs are not reflected in budgets being developed today.

The budget reformers from the early 20th century presented some simple principles that should be used today to try to reform the budget again. The key principles include:

- A comprehensive budget which includes all expenditure and revenues must be developed.
- While an executive budget is necessary, the legislature has a key role in the budgeting process in an oversight role. The two branches of government must cooperate to produce an effective budget process.
- Independent agencies such as accounting and auditing offices are important but their mere existence does not ensure that the budget system is working effectively. They can become politicized and ineffective.
- Political players will always exist in the budgeting system and they should not be allowed to make the process ineffective from a financial management perspective.
- There will be hidden processes in the budgeting systems such as continuing resolutions which can totally disrupt the budgeting process. These processes must be limited in use or eliminated.

The budget-reform writers from the 1899 to 1929 period were facing a changing environment concerning budgeting and financial management. They provided us with a set of common sense budgeting and management principles which we can use in the 21st century.

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