

**BUDGETING PROCESSES:
THE STATE OF THE ART IN THE UNITED STATES**

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Introduction

This review of the present state of budgeting practices, processes, and related issues within Public Administration in the United States can only touch on several important elements among the many now confronting practitioners and scholars. Moreover, severe budget challenges brought on by the rapid economic decline across the world deserve our attention as well, but can only be briefly mentioned here. However, there is no better place within the discipline than in public budgeting where one can readily observe the enormous stresses and strains created by economic contractions and observe how policy makers and administrators struggle to regain control of events as they reshape our common destinies. With this in mind, the review presented here uses the three classic budgetary functions of control, management and planning as its benchmarks. Taking each function in turn, we can identify and raise important budgetary issues connected to it as well as weave them together as they manifest themselves in current budget reforms. The examination concludes by turning toward the remaining tasks confronting practitioners and scholars toiling in the field of public budgeting and suggests actions for both groups.

Benchmarks

To begin such an ambitious endeavor as assessing the state of budgeting within Public Administration, the thoughtful observer first confronts the task of identifying benchmarks with which to measure progress within the practice and study of budgets, processes, and policy outcomes. Moreover, the opportunity to construct benchmarks to apply to such an extensive body of literature requires careful judgment that serves to be inclusive of a richly diverse and variegated discipline. Drawing from this literature, a clear set of reference points emerge from

the taproot of budgeting, the 1911 Commission on Efficiency and Economy (also known as the Taft Commission) and its three principal practitioner-academics, Cleveland, Goodnow, and Willoughby. By their effort to extend and build off of their contemporary local budget success in New York City to promote budgeting at the national level, these three giants of public administration presented a robust and compelling definition of budgeting in its advanced form having three essential attributes: control, management, and planning, each oriented toward a strengthened executive (Schick, 1966; Knott and Miller, 1987).

Control as perhaps the most fundamental purpose of budgeting permits an executive to identify and reduce waste, fraud and abuse through better and uniform accounting procedures, centralized purchasing, and expenditure audits. The first Bureau of the Budget Director, former General Dawes, wisely choose to emphasize this function and sidestep an outright challenge to Congressional power over policy plans, or to executive branch services administered in the various states and congressional districts (Schick, 1966). This latter executive function addressed core management activity whereby the president can coordinate the extensive activities of government and move to consolidate administrative agencies while eliminating those ancillary boards and commissions that obscured executive managerial action. The premier budget function, planning, offered the clearest political role for an executive who by virtue of the office could impose a comprehensive and consistent set of administrative judgments on all government spending, and consequently, virtually all government policy.

The Taft Commission, as its members argued in other academic venues, sought a formal role for the executive in budget decisions and offered a robust and multi-faceted understanding of budgeting (Goodnow, 1900; Cleveland 1992; Willoughby 1992). They wisely noted that while in practice the functions of control, management, and planning are indivisible, it is often

the case that only one of the three gains full attention in a particular budget process. Clearly the issue of control at a time of fiscal stress means that this function dominates most of today's budget processes (Schick, 1988).

Changes in the names for these core functions, or subdividing them into more elements, may obscure their influence on practitioners, and the scholars who study their behaviors. For example, one hears of stewardship, performance, and transformation and may be under the illusion that these are yet additional functions in a more broadly developed view of public finance (Beauchamp and Hicks, 2005). Under closer examination, these terms are but the renamed classical functions. Stewardship concerns control, compliance, economy and efficiency, accountability, and probity. Performance represents good decision making, assessing consequences, analyzing service costs and making improvements, determining risks and otherwise contributing to sound management. Transformation refers to future plans, aligning resources with long range goals, sticking to priorities, and collaborating without compromising financial values. These are but different labels for the descriptions of functions defined by the Taft Commission. Similarly, the Balanced Scorecard subdivides the three functions into nine, and links several to performance budgets (Kaplan and Norton, 1996).

Schick in his classic 1966 symposium article "The Road to PPB" developed an evolutionary characterization of budgeting, albeit with a sense of hubris. He conceived of rational-based reforms like Planning, Programming, Budgeting Systems (PPBS) as the culmination of planning fully integrated with both management and control functions. While he later lamented the failure of this reform, his characterization of integrated functions still serves to organize budget thinking, as does his work on questions of budget capacity (Schick, 1990). We

will come back to these benchmark standards to assess how they inform our understanding of the current state of the discipline, but first need to establish a time reference point.

Caiden (1990) reviewed budgeting as part of the state of the discipline, and her work can help us establish a place in time from which we need to begin in order to determine a relative sense of progress. Caiden also sharply critiqued the dearth of explanatory models capable of maintaining their currency over time. Their obsolescence, she claimed, arrived fast given the then radical change in the social, political and economic environments. Caiden's assessment of local level budgeting circa 1990, for example, focused on fiscal stress and cutback budgeting models then still in vogue from the late 1970s. These models, drawn mostly from local experiences or the 1990 national budget compromise, were soon to be jettisoned as the economy rebounded from the recession of 1991. In addition, a significant change of administrations from a Republican to the Democratic Clinton Administration preceded sustained economic growth that moved the emphasis on fiscal stress and cutback budgeting to other subjects. Scholars instead directed their focus toward models of other narrower environmental concerns associated with the increasing federal, state and local budgets. Matters like tax reform, a reshaped grants system that focused on such selective policies like the environment, and the use of mandates, both funded and unfunded, attracted academic and practitioners' attention during a period of economic growth. One consequence of this focus on growth-related events or concerns versus the process as a whole is that useful, extensive, and pragmatic budget models that seek to explain decision-making regardless of economic performance are still in short supply (Meyers, 1994).

Despite this absence of broad and extensive explanatory models, it remain an important way of assessing budgetary scholarship and practice by examining the various and significant environmental changes that shape both research and practice. To do this, we return to our

benchmarks, the classic functions drawn from the budget “framers” of 1911, and those compelling administrative/political environmental changes that like tsunamis have swept over our public sectors at the national, and state and local since 1990.

Movement on the Control Function

At the time of Caiden’s review, the environment offered serious challenges to governance at every level. Nationally, mounting federal deficits that despite President Reagan’s second term retrenchment still threatened to explode, pronounced entitlement spending trends that gave birth to The Concord Coalition and other budget patriots still portended a race to the debt cliff despite a serious pause created by the 1983 Social Security reform. Heightened calls for national security spending were imaginatively expanded by some federal politicians to include education, a war on drugs, and enhanced border security. At the state level, accelerated growth in Medicaid and corrections spending, and in infrastructure decay with its attendant replacement costs, came to the fore along with both serious tax limitation movements and education reform concerns associated with the national report, *A Nation at Risk* (U.S. Department of Education, 1983). While it is common to say that all politics is local, it may also be the case that all budgeting consequences manifest themselves at the local level. Increasingly the squeeze of fewer federal grant dollars with more unfunded mandates, increased social services costs, retrenchment, frustrated searches for additional tax and fee revenues, and the growing regional divergence of the Rust and Sun Belts created enormous challenges across a wide spectrum of public policy (Mullins and Pagano, 2005).

These challenges, among others, played out in different ways geographically across the nation. In Michigan, for example, its dependence on an automotive industry buffeted by recessionary shocks, unstable gasoline prices, and unexpectedly strong competition from foreign-

based manufacturers colonizing southern states generated persistent pressure that limited recovery in the 1980s (Brookings Institution, 2006). In Arizona, on the other hand, a surge in migrants from the rust belt fueled a housing boom and economic expansion that relied less on movement of or growth in native industries and more on population growth itself that fueled construction, public services, and service industries in new low tax communities (Florida, 2009; Judd and Swanstrom, 2008; Orfield, 2002). This variation of collective experiences across geographic space spawned a divergence of budget practice, and as a consequence, a divergence of scholarship based on shared experience. Research addressing growth politics, financing new infrastructure and public services, and hiring staff based on experience in one region seemed foreign to scholars in other regions confronting housing decline, decaying infrastructure, population losses, and economic decline. If environmental changes stimulate development of budget practices and the selection of research topics, then the 1980s stimulated a variegated research agenda among scholars as well as public administrators in search of relevant scholarship consistent with their experiences.

One common ground in this situation was the function of control. It naturally enters into the practical and scholarly lexicon of budget reductions, fiscal stress, and cutback budgeting, and can also emerge in places with growth-induced stress where spending demand exceeds revenue capacities. In both situations a persistent question is, “How to exert control in situations where political pressure works against it?” Schattschneider’s (1960) well-known answer based on practical politics is to alter institutional rules so as to shape policy outcomes. Meyers developed a new budget model along these lines that incorporated control with pragmatic and strategic elements, including process rules, in a consistent explanatory and descriptive way in his dissertation at the University of Michigan. The dissertation received the American Political

Science Association's L.D. White Dissertation Award in 1989, and when later published as *Strategic Budgeting* (1994), it won him The National Academy of Public Administration's Louis Brownlow Book Award recognizing outstanding contributions to the literature of public administration. Even though Meyers based it on his experience as a budget analyst working in the Congressional Budget Office, the model also has potential applications for both state and local budgeting, albeit with some caveats given the policy options of "spenders" or "controllers." Its weakest link, the indeterminate nature and role of budget "deciders" is yet to be explored. The Meyers model arguably comes closest to what Caiden sought in her 1990 review.

Budget practitioners, both administrative and legislative, developed pragmatic process rules to regain control, or the "capacity to budget" (Kingdon, 1995; Schick, 1990). These rules, some of which like the U.S. Senate's Pay As You Go rule, or "PAYGO", first emerged in the failed Gramm Rudman Hollings reform, took collective shape in the great compromise of 1990 between President George H.W. Bush and Congressional Democrats. These rules, adopted initially for three years, had many untested features. For example, the Congress could formally declare an "emergency" that would suspend the rules and allow resumption of old practices. In a revealing test shortly after adopting the rules, Congress had an opportunity to declare such an emergency given a large natural disaster but determined to stay the course and demonstrate its resolve to make hard choices (Collender, 1999). In another encouraging sign, the rules were extended in 1993 and 1997 during the Clinton Administration. When combined with Congressional and Executive discipline and political will, the rules contributed to the pragmatic control that produced surpluses by 2000 (Schick, 2007). This success at producing surpluses also extended generally to states and local governments across the nation (Kettl, 2003).

One unanticipated consequence of surpluses in the short run was the lack of scholarship to explain 1) what caused surpluses, 2) what influence it exerted on budget processes, and 3) how it altered the practice of public administrators in both the process and administration of budgeting. For a professor at that time who sought to adopt relevant budgeting textbooks in light of an unexpected “surplus” as opposed to the traditional “deficit” was frustrated. Kettl’s useful *Deficit Politics*, enjoyed by both practicing administrators as well as students, suddenly became irrelevant. Some scholars like Schick (2000) quickly developed initial explanations for surpluses, but we did not experience enough of them to adequately test more formalized models before deficits reemerged.

By 2001, the slowing economy combined with the new Bush Administration’s fiscal policies quickly transformed the surplus back into a deficit. Many scholars attributed part of the reemergence of deficits to the Administration’s reluctance to again extend the 1990 budget rules in 2002 for yet another four years (Kettl, 2006; Lee, et al., 2004). More recently longtime Congressional scholars Thomas Mann and Norman Ornstein, in their diagnostic book *The Broken Branch* (2006), devoted significant attention to a need for a new Congress to re-impose budget control and discipline in a number of ways, including reintroducing the PAYGO rule, strengthening ethics enforcement, and exposing legislators’ pork barrel projects. Others, like Pulitzer-prize winning journalist David Cay Johnston (2007) exposed egregious projects and added to the public furor over undisciplined Congressional behavior. Reforms could most likely have been taken by the new Democratic House and Senate majority when it took power in 2007. Groups like The Concord Coalition (concordcoalition.org) and Citizens Against Government Waste (cagw.org) argued for years for such action, but with mixed success. The one chamber adopted it, but not the other. The search for budget control at the U.S. national level continues as

a new Democratic Administration takes command during the most serious economic contraction in decades.

Movement on the Management Function

Complementing efforts since 1990 to reintroduce control mostly through institutional rules changes, another important movement occurred across levels of government and among budget practitioners and academics seeking greater understanding of the management function of government with its emphasis on efficiency and economy in government. This “performance movement” with its longtime champions in both the public and private sectors gained national prominence with adoption of the Government Performance and Results Act (GPRA). Public sector advocates who based their arguments on works like Hatry’s widely known texts on performance measurement in state and local government (1977; 2006) blended with private sector quality improvement reformers like W. Edwards Deming of Total Quality Management (TQM) fame (1986; 1993). Calls for reform from both groups were premised on performance measures, and they helped give shape to the combined efforts of The National Association of Public Administration and other professional organizations to support GPRA champion Delaware Republican Senator Roth (Gueorguieva et al., 2009). Bi-partisan Congressional adoption in 1993 stimulated state and local budgeters to increase use of performance indicators and seek to institutionalize them in meaningful budget processes. Practitioners in Dallas County, Texas, for example, showed how selective performance measures incorporated in a local process that compelled their use resulted in important issues raised during implementation of a current year budget and that significantly influenced decisions during the formative budget process for future fiscal years (Schepps, 2000).

More contemporary incarnations of the performance movement such as The Balanced Scorecard (Kaplan and Norton, 1996) and ICMA's *Evaluating Financial Condition: A Handbook for Local Government* (Groves and Valente, 2003) seek to advance the concept of fiscal sustainability across time. A more populist version by Osborne and Hutchinson's *The Price of Government* (2004) styled after the widely read *Reinventing Government* (1992) also influenced state legislatures and cities as they used comparative measures of cost and tax burdens to foster innovation and develop budget alternatives.

More recently at the federal level, the Bush Administration introduced the Program Assessment Rating Tool (PART) to assess programs, identify and publicize strengths and weaknesses, and thereby encourage administrators to improve agency performance. PART reviews generate information that, when combined with publicity, create forces for change and improvement over time. Like GPRA, however, its measurement component is severely limited and in combination PART and GPRA create confusion among public administrators and policy makers (Behn, 2003; Gueorguieva et al., 2009). Many programs acquire conflicting designations from each measurement system and there is no clear resolution for action. Others argue the fundamental limits of such systems preclude their effective use by more than first line public administrators (Radin, 2000; 2006). At the national level, many budgeters await the Obama Administration's new stamp on these programs, and early actions taken to measure stimulus spending outcomes suggest that performance measurement in some form will be continued.

A report by the Association of Government Accountants Corporate Partner Advisory Group (2009) to pilot a new program called Performance-Based Management among several federal agencies describes what may serve as a manager-level federal replacement for PART. Corporate sponsors Grant Thornton, IBM and SAS combined technologies and resources in a

way to combine existing information systems and produce integrated output to support federal agency decisions. The report claims the system consistently tracks cost and performance over time and improves predictive ability thereby giving top leaders the means to make decisions on “the basis of combined management experience, intuition, and facts.” Using existing agency data base resources, it arguably systemizes and enhances transparency in their use to support decisions. However, the report also shows exceedingly limited use of performance measures, and this is a chronic complaint in all performance measurement systems where managers decide on the basis of the “critical few” measures (Behn, 2003; Gueorguieva et al., 2009; Radin, 2006).

Movement on the Planning Function

An expansion of the study and development of strategic planning processes beginning in the 1990s, and their links to performance measurement, management options, and most importantly to policy goals and long range targets, reveals a strong linkage to the Planning function within budgeting. One is reminded of the Planning Programming Budgeting System (PPBS) model that Schick represented as an evolutionary culmination of rationally driven budget reforms in the 1960s. Was PPBS premature by three decades? PPBS had sought to integrate long term planning with existing programs and related objectives within the annual budget document and process in a systematic manner. It did so successfully in the Department of Defense which prompted President Johnson to order its adoption for the domestic budget in 1965 where it had limited success and quietly died under the Nixon Administration (Lee, et al. 2004). Meanwhile, the Air Force continued to use PPBS under that name until 1996, when it was revised under a different label. The lack of cross fertilization among budgeters in defense and domestic areas may have frustrated use of the reform, but strategic planning advances in the 1990s brought back PPBS’s long-term policy perspective.

The Government Finance Officers Association (GFOA) published *Financing the Future* as an eminently practical guide to long-term financial planning (Kavanagh, 2007). In her introduction, Rubin identifies this subject as the next wave of reform in a discipline characterized by a series of reforms. Several features of this book support such a stark claim, among them the incorporation of elected officials and a recognition of legitimate political influences, its direct linkages to strategic planning identifying service-level preferences and the capital budget with its identification of significant future infrastructure outlays, a focus on debt capacity and growth, and the simplifying outcome standard of financial balance and stability (see also Voght, 2004). The definition of “long term” is elastic and can range from five years as in PPBS to 30 years, or a generation or more. GFOA’s promotion of the system guarantees its influence among practitioners.

Two other compelling budget factors reinforce this planning function with an extended time horizon. First, the focus on long term unfunded budgetary obligations of more than \$50 trillion at the national level as identified by former U.S. Comptroller David Walker and his colleagues on the national *Fiscal Wake-up Tour* (The Concord Coalition, 2009) call public attention to the implications of more immediate budget decisions. Second, at the state and local level, similar concerns arise with large and growing unfunded pension and health care cost liabilities in the absence of recognition of financing implications. When adopting a long term perspective, both conditions take on frightening budgetary dimensions. The GFOA, International City/County Management Association (ICMA) and other practitioner and citizens groups seek to confront these state and local issues head on. At the national level, The Concord Coalition’s *The Fiscal Wake Up Tour* and its movie version *I.O.U.S.A.* seek to once again popularize deficit reduction by showcasing the problem’s urgency.

Governance that is dependent on a changing environment, when viewed using long term future perspectives, will influence both public administrators and scholars seeking budgetary alternatives. Indeed, many such alternatives raised within integrated planning and budgeting processes and presently under review include alternative service delivery like privatization and collaboration, capital budgeting, use of tax subsidies and earmarking, revised revenue systems, health and pension system changes, and intergovernmental revenue transfers. In each of these areas, practitioners and scholars attempt to join all three budget functions in ways that foster policy understanding as well as improvements over time (Mullins and Pagano, 2005).

Transparency and broadened participation as two critical elements in long-term planning processes has been advanced in a variety of ways linked to technological advances with the internet. For example, Michigan's formalized and refined Fiscal Stress monitoring system for its local government units combines the use of ten select performance indicators in a scale to identify relative fiscal stress. In so doing, the state can identify units in the midst of severe stress and develop appropriate remedial action to correct the situation. In many cases this involves the appointment of a "financial manager" backed by the state's full sovereign power (Kloha, Weissert and Kleine, 2005). This kind of system complements the state and local governments that place their budgets, audit reports, and financial statements online.

Likewise, web-based resource sharing such as by Rutgers University's free Public Performance Measurement & Reporting Network (ppmrn.net) "brings together citizens, government officials, public and nonprofit managers, researchers, faculty, and students who are dedicated to measuring, reporting, and improving public sector and not-for-profit performance" (*PA Times*, 2009). Transparency is critical to the Governmental Accounting Standards Board (GASB), created in 1984 to authoritatively establish financial reporting standards for state and

local governments, and which this year celebrates its 25th anniversary. GASB's original agenda focused on issues such as the financial reporting model and treatment of pensions. A comprehensive model for state and local governments presented by GASB in 1999 was "the most significant change in the history of governmental accounting." More recently, GASB has turned its attention to proactively engage in issues that foster the long-term perspective noted above (Patton and Freeman, 2009). Efforts like those of Rutgers University and GASB recall the early budget reformers who shared knowledge and practice for public benefits (Rubin, 1993) and also demonstrate the extent of integration of planning with management and control.

Future Directions for Scholars and Practitioners

The most pressing need in public budgeting research is for more comparative case studies, as called for by many of the prominent researchers (Rubin, 2005; Wildavsky, 1984). Rubin, a scholar who provides actionable research for practicing budgeters, suggests first developing standards for identifying appropriate cases suitable for comparison, as case selection is frequently one of convenience and based less on thoughtful and reasoned criteria. Comparative scholars at all levels depend on rigorously conducted research on carefully selected cases to both develop and refine models (Jreisat, 2002; Wildavsky, 1984; Benito and Bastida, 2009)

For practitioners, the challenges are significant in a future that may hold what economist Joseph Schumpeter (1942) called "creative destruction." This term denotes a "process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one." Indeed, this "process of creative destruction is the essential fact about capitalism" (p. 83).

If governance reacts to environmental changes, economic or otherwise, then budgeting, a central function of governance, also responds to economic “creative destruction.” Clearly we observe today’s steep drop in home prices and hence local property taxes, shrinking consumer spending with corresponding drops in sales tax revenues, and massive private sector layoffs wreaking havoc with national, state and local income taxes. These forces may be able to positively shape budgeting processes and outcomes in creative ways. At a minimum, economic stresses applied to existing processes will test their resilience.

Whether the processes, budgeters, voters and scholars adapt in creative ways to advance public interests are yet to be seen. But there are signs of new creations, as with Michigan’s Land Bank program championed by local economic developers (Swope, 2008; Gallagher, 2009). In the last recession, Utah’s Governor had his budget office create a sophisticated online budget simulation for citizens’ use to educate them in balancing the state’s budget. A similar but less sophisticated system for the national budget had many of the same basic features. Both illustrated how difficult getting to balance becomes once a citizen eliminates his or her pet programs. Practitioners like these are creatively responding to “public finance destruction” with tools, awareness and greater citizen education.

Scholars also give us hope for creative responses. After decades with only crude “how-to” budgeting texts, several recent ones now introduce relevant tools with practical exercises and illustrations to educate public administration students (Chen, et al., 2009; Wang, 2006; Gupta, 2001; Michel, 2001). Moreover, the literature is once again looking back to the cutback budgeting era of the 1970s and 1980s to gain lessons and move toward the development of new descriptive and explanatory models (Levine, 1980; Alliance for Innovation, 2009).

Nonetheless, Posner (2009) raises a concern for the strain on “Pracademics,” or those persons who balance meaningful practitioner involvement with the academic enterprise of seeking understanding, explanation, and prediction of budgetary events. Similarly, Joseph Nye, Jr. former dean of Harvard’s Kennedy School of Government recently pointed to a dearth of scholars rotating into federal service to conduct foreign policy (2009). As the incoming president of American Society for Public Administration, Posner offers several alternatives to be taken by public agencies, but especially by academic departments to encourage a rotation among scholars into government, and vice versa. Clearly the roots of public administration generally, and in public budgeting in particular, were planted and nourished by ”pracademics” like those who served on the 1911 Taft Commission. Nye and Posner each argue that the solutions must come via a reappraisal within the academy itself.

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