

# BUDGET BOOT CAMP MODULE 4: BUDGETING HISTORY AND SCHOLARSHIP



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# INTRODUCTION

- We've talked about "how" to do your job, now let's talk about the "why" and the context in which budgets are crafted and executed
- Budgeting is a core function of government – raise revenue and appropriate expenditures
- The budget document is the most significant indicator of preferred policies by executive and legislative leadership
  - Crafted by legislators, signed by governors, proposed by agencies, planned and executed by bureaucrats – all subject to influence
- Module Overview
  1. History of Public Budgeting in the US
  2. Comparative Budgeting Among States
  3. Aaron Wildavsky, Budgeting Scholar
  4. Budgeting Models
  5. Game Theory and Budgeting
  6. Influences on the Budget Process



# HISTORY OF PUBLIC BUDGETING IN THE U.S.

- Marked by struggle between legislatures controlling the purse strings and executive authority seeking to maximize its power
- Prior to the American Revolution
  - Colonial legislatures tried to control governors through fiscal restraints such as requiring taxes and salaries to be renewed annually
  - Stamp Act, etc. were attempts by Parliament to free appointed governors from colonial legislative control
- First US budget, 1789: One page long and \$689,000 (about \$20.3 million today)
- Congress dominated the budget process for the first century of U.S. history
  - Line-item advocates won out over Federalists who wanted agencies to have broad spending power
  - Over time agencies gradually increased their power, such as ability to transfer funds from one purpose to another

# HISTORY OF PUBLIC BUDGETING IN THE U.S.

- Careful balancing act between political groups
  - Federalists (Hamilton) wanted deficit spending for internal improvements, allied with Whig industrialists who would impose high tariffs for this purpose
  - Jeffersonians: deficit spending gave too much power to the central government, interest payments redistributed wealth from poor to rich
  - Slow growing, balanced budget was the general result
- Civil War: financial controls went out the window and were difficult to reimpose afterward
  - Presidents gained more discretion over funding, agencies demanded it
  - “Iron triangles” among agencies, public stakeholders, and Congressional allies begin to form – insider access wins the day. Eventually: military-industrial complex that Eisenhower warned about in 1961 farewell address



# HISTORY OF PUBLIC BUDGETING IN THE U.S.

- Progressive Era, 1900-1920
  - Party boss system fostered widespread corruption and waste in city governments, which spurred budget reforms for transparency
  - Progressive reformers applied scientific method to create unbiased, practical system of appropriating funds
  - Reformers believed budgeting should be left to administrators divorced from politics
  - Politics vs Administration dichotomy – how responsive should budget administrators be to public demands?
- Large WWI debt prompted Congress to reform
  - 1921 Budget and Accounting Act established modern executive budget process, Bureau of the Budget (become OMB), gave President much larger control over agency budgets
  - Most modern state budget processes follow this model



# FURTHER BUDGET REFORMS

- Introduction of Performance Budgeting in 1940s-1950s
  - Response to growth in federal government after New Deal and WWII
  - Design budgets that achieve program objectives as efficiently as possible
- Congress attempts to reassert control
  - 1974 Congressional Budget and Impoundment Act created more budget committees and Congressional Budget Office as counterweight to OMB (in NM: LFC to SBD)
  - 1985 Emergency Deficit Control Act: set deficit reduction goals for each year, which were missed
  - 1990 Budget Enforcement Act: replaced deficit reduction targets with pay-as-you-go requirements (any new spending must not adversely affect the deficit)
- Today: Occasional attempts at austerity followed by massive spending increases or revenue cutbacks. Budget gridlock often results in lurching forward through continuing resolutions
  - Last balanced budgets passed in late '90s
  - Growth in entitlement (formula-driven) spending
  - Bush and Trump tax cuts
  - War on Terror, 2001-??
  - Great Recession (ARRA) and COVID (CARES Act)

# IMPORTANT DATES IN U.S. BUDGETING HISTORY

1776	The Continental Congress adopts legislative budgeting for the provisional American government and army.
1789	Congress under the Constitution passes a one-page budget totaling \$689,000.
1866	The U.S. enacts its first billion dollar budget.
1900	New York City adopts executive budgeting, establishing a trend for governments across the U.S.
1921	The Budget and Accounting Act creates the Bureau of the Budget and the General Accounting Office and establishes the modern executive budget process.
1939	The Bureau of the Budget is moved from the Treasury Department to the Executive Office of the President.
1950	The Budget and Accounting Procedures Act requires agency heads to justify their budget requests based on performance information and program cost.
1970	The Congressional Budget and Impoundment Control Act establishes the Congressional Budget Office and more budget committees in order to increase Congress' influence in the budget process.
1985	The Emergency Deficit Control Act sets deficit reduction goals for each year, which are missed.
1988	The U.S. enacts its first trillion dollar budget.
1990	The Budget Enforcement Act eliminates deficit reduction targets, replaced with PAYGO spending.
2013	U.S. debt exceeds \$16 trillion.



# BUDGETING HISTORY CONCLUSION

- Despite many conflicts among differing groups, traditional budget process served US well for almost 200 years
  - Growth of entitlement and deficit spending has greatly complicated matters
  - “Entitlement” = formula-driven mandatory spending, no connotations in original meaning
- Reforms have attempted to be large in scope but only small, gradual steps have been achieved.
  - Limited by politics and (in 20<sup>th</sup> century) large growth in entitlement spending.
- Budget itself grew very incrementally from 1971-2010, with only spikes in response to major events – Civil War, Great Depression, WWII



# MODERN CHALLENGES TO BUDGETING

- Earmarks
  - Increased dramatically in 20<sup>th</sup> century as legislators fought back against increased agency budget authority and directed funds to specific projects
  - External actors including interest groups reap rich rewards through earmarks
  - “Pork barrel politics” or “bringing home the goods” to make deals and get budgets done?
- Contracts
  - “Run government like a business” by farming out work to ever-increasing number of contractors who compete for government funds
  - Salaries and overhead costs are actually often much higher than government workers
  - Competition for contracts has declined, accountability is lacking
  - Size of federal contractor workforce: 80% of IT staff, 90% of all Department of Energy operations (including Los Alamos and Sandia). Federal contractors are a “shadow workforce” of up to 7.5 million people, compared to 2.1 million actual federal employees (besides the military and USPS)

# COMPARATIVE BUDGETING AMONG STATES

- Many of the same factors influencing the federal budget process are prevalent among states as well
  - Key difference: States must pass balanced budgets
- 31 states enact annual budgets, 19 enact biennial budgets
  - States with professional/full-time legislatures can take much longer to pass budgets
- New Mexico is one of only a few states where both the executive and legislature publish budget recommendations before work on the budget begins
  - In most states the Governor's budget recommendation forms the basis for budget negotiation
- Differences in Governor's veto powers
  - Some have no line item veto power – must accept everything in budget or nothing
  - Some have rather powerful line-item veto power to change appropriations, which legislatures often fight
  - New Mexico: line item veto limited to bills containing appropriations but can be used for non-appropriation purposes in those bills



# COMPARATIVE BUDGETING AMONG STATES

- Differences among revenue structures
  - 7 states with no income tax (AK, WA, TX, FL, WY, SD, NV), 2 only tax interest and dividend income (TN, NH)
  - 5 states with no sales tax (AK, OR, DE, MT, NH). States with no sales tax exemption for food: AL, KS, HI, ID, MS, OK, SD
  - “Energy” states like Alaska or NM generate significant revenue from severance taxes
  - Different reliance on federal revenue depending on wealth of state and presence of federal facilities
- Appropriations and expenditures
  - Education, health and human services dominate most state budgets
  - Many different options in appropriations, from high level lump-sum to very specific
- For more info check out
  - National Association of State Budget Officers: [www.nasbo.org](http://www.nasbo.org)
  - National Conference of State Legislatures: [www.ncsl.org](http://www.ncsl.org)

# BUDGETING SCHOLARSHIP: AARON WILDAVSKY

- *The Politics of the Budgetary Process* (1964)
  - Inseparably connected budgeting with the political system – no longer on the administrative side of the dichotomy
  - Public and policymakers need to be well-informed
  - Realist: compromises in democratic budgeting process spread dissatisfaction to all parties, but better than any alternative
  - Incrementalist: Use prior year's budget as baseline, focus on narrow increases – but enables budgets to evolve over time
- *The New Politics of the Budgetary Process* (1988)
  - Political and budgetary ramifications of the rise of entitlement spending
  - Less emphasis on eliminating budget deficits – inevitable result of values-driven political conflicts



# BUDGETING SCHOLARSHIP: AARON WILDAVSKY

- Necessity of compromise in budget: accepting the budget you want means accepting the budget of something else you're indifferent or hostile toward
- Agencies' budgetary strategies
  - "Goldilocks" approach: ask for just the right amount of budget increase – not too big, not too small
  - Look for signals from legislators, the executive, their constituencies to determine budget request amount
  - Entitlements opened up the budget to new clientele groups that agencies work with to increase budget
- Clientele (interest/advocacy) groups
  - Anyone affected by a government program. Build networks at all levels to influence government programs
  - Often interact with executive and legislative actors on behalf of agencies
  - More influential if broadly-based, spread across wide geographic area, intensely devoted to their cause (Social Security)
  - Hard to lobby to create entitlements, but their existence is strong incentive to defend them

# BUDGETING MODELS

- Traditional: not closely tied to agency performance, funds appropriated to units not aligned with agency mission
  - Eases control by central administrators, but poor at conveying effective use of taxpayer money
- Modern performance budgeting – include performance measures alongside funding levels to connect to accomplishment of agency goals
  - Provides greater accountability and responsibility, enables other actors to be involved in budget process
- Performance budgeting has noble goals (effectively manage money, incentivize increasing productivity, improve planning and transparency) but often falls short:
  - Too great of workload associated with proper evaluation
  - What constitutes a good measure of performance?
  - No solid empirical evidence that performance budgeting has had a significant impact on agency budgets or their productivity



# ZERO-BASED BUDGETING

- Each year's budget is built from base of zero – every activity must be justified by agency during each budget cycle
- Briefly employed by federal government under Carter, but no substantive change
- Infeasible in practice even for small governments that don't have automatic entitlement spending
- Calculations become untenable; by ignoring the past, every program must be rebuilt from scratch and re-justified every budget period.
  - Discarding of history is irresponsible budgeting - increases the chances of repeating errors and decreasing the odds of settling conflicts

# NEW PERFORMANCE BUDGETING

- Adopt best components of previous models, focus on societal outcomes rather than simple outputs
- Include detailed strategic plan, quantifiable performance measures, flexible paths of achievement
- Challenges
  - Difficult to coordinate measures across agencies
  - Agencies resent being held accountable for measures beyond their control
  - Data overload – what to do with it all?



# GAME THEORY AND PUBLIC BUDGETING

- Game theory: study of decisions actors make under various conditions and rulesets and impact decisions have on collective results
  - See the “prisoner’s dilemma”
- Agencies and other actors use game-like strategies during budget process through taking advantage of asymmetric information and public emotions
  - Facing cuts? Cut popular programs to generate public outcry
  - Requesting increase? Round up cost estimates to create budgetary slack
  - Argue that new program will generate more revenue than it will cost



# GAME THEORY AND PUBLIC BUDGETING

- Connection to evolutionary theory. Actors use deception and trickery to manipulate others
  - Defend budgets by warning of dire consequences
  - Camouflage money or true purpose of program at first
  - Put on an impressive display of statistics
  - Offer up a sacrificial lamb you don't care about to get what you really want
- Can budget analysts learn from birds?
  - Examine world through set of preconceived notions. Agencies seek to learn the analyst's filter – what they look for – and adjust accordingly
  - Analysts must be adaptable, but may be limited by time or poor judgement
  - If too many agencies use deception, central office may “evolve” to counter it



# INFLUENCES ON THE BUDGET PROCESS

- Institutional actors (internal factors) appear to have the greatest influence on budget negotiations
  - Governor's budget recommendation often sets maximum spending for state agencies based on anticipated revenues
- Professional legislatures have greater capacity to be assertive on budgets
- Political makeup of legislature and Governor have a strong influence on budgets
- External factors are important but on a selective basis
  - Per capita income has a small negative relationship with agency budgets
  - Interest groups important when administrative leaders perceive they are important.

# INFLUENCES ON THE BUDGET PROCESS

- What factors influence agency budget requests?
  - Generally agreed they are result of interplay among legislators, interest groups, and bureaucrats, but influenced in many different directions
  - Increasing monitoring ability and professionalization of legislature, as well as vigilance by interest groups, can constrain agency budgets
  - But more professional legislature may also be better at targeting funding and inserting earmarks
  - Also constraining requests: gubernatorial involvement, veto powers, inability for agencies to adapt to rapidly changing situation



# INFLUENCES ON THE BUDGET PROCESS

- The role of bureaucrats in agency requests
  - Often able to secure a budget larger than is economically efficient because they provide one or more public goods and the legislature is the sole “buyer” of them
  - Do not act as single hive mind. Individual reasons for action:
    - Demonstrate technical competence, seeking to advance personal career
    - Secure more funding for salaries/raises
    - Political ideology (Republicans request less than Democrats)
- Interest group influence positively correlated with agency requests – agencies with strong public support are more confident to request budget expansions

# CONCLUSION: IMPLICATIONS FOR PUBLIC ADMINISTRATORS

- How should public administrators react to interest groups advocating for increased agency budgets?
  - Officially apolitical but surrounded by the politics of their environment - must be keenly aware of it and appropriately responsive
  - Understand both the political culture and history of their state as well the ideologies and priorities of elected or appointed leaders
- Role of budget analysts – You are important, and you’re not just a cog!
  - Do not operate in a vacuum. Integral cog in the machinery of producing the budget and vital policy. “Show me your budget, and I’ll tell you what you value.” – Joe Biden
  - Must fully understand the political world that surrounds them and the myriad factors and forces at work to produce results.
  - Balance being properly responsive to will of the electorate while still performing administrative, technical roles of their jobs to the best of their ability
  - Americans expect well-run, efficient and generous government services but don’t want to pay much for them – this is the balancing act budget administrators constantly grapple with.



# FINAL EXAM INSTRUCTIONS

- Final exam as a Word document will be emailed to all course participants
- To receive a course completion certificate, complete and return to [Andrew.miner@state.nm.us](mailto:Andrew.miner@state.nm.us) by 5:00 PM on Wednesday, September 30
- Exam contents
  - 15 multiple choice questions, 5 questions each from Modules 1-3. Get 10 of 15 correct to pass
  - 5 ungraded questions related to course feedback
- If you don't want a certificate, you can complete just the feedback section or email me any comments directly. Your feedback is very important and will help shape this course in future years.

**THANK YOU FOR PARTICIPATING!**

# END OF MODULE 4: BUDGETING HISTORY AND SCHOLARSHIP

