

New Mexico
**Department of Finance
and Administration**

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 civil servants – all subject to influence
- Module Overview
 1. History of Public Budgeting in the US and New Mexico
 2. Comparative Budgeting Among States
 3. Aaron Wildavsky, Budgeting Scholar
 4. Budgeting Models and Game Theory
 5. Influences on the Budget Process
 6. Components of a Good Budget Request

Poll: Government spends too much overall, too little in specific areas

A majority of U.S. adults say federal spending is too high, but far fewer say the same when asked about specific priorities like education and Social Security, according to a new AP-NORC poll.

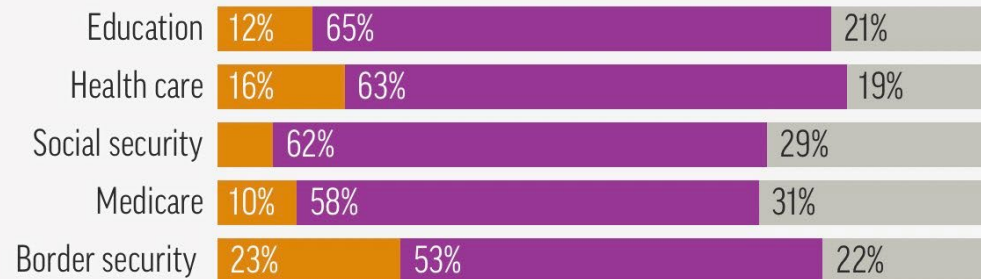
Percentage who say government spending is:

Too much Too little About the right amount

Overall



Spending on ...



Results are based on a survey of 1,081 U.S. adults conducted March 16-20, 2023.

The margin of error is ± 4 percentage points.

Source: AP-NORC Center for Public Affairs Research





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 \$23.8 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 large 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, 2001-21 (?)
- Great Recession (ARRA) and COVID (CARES Act)
- “Bidenomics” (ARPA, Inflation Reduction Act)



Modern Challenges to Budgeting

Earmarks

- Increased dramatically in 20th 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)

U.S. Budgeting History Conclusion

- Despite many conflicts among differing groups, traditional budget process served U.S. 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 20th 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



Budgeting History in New Mexico

General budgeting process has been much the same throughout NM history

Similar contests between the executive and legislative branches over control of the budget have played out in New Mexico

Debates over use of and reliance on oil and gas revenue (land grant permanent fund)

Consolidation of expenditure categories

- Expenditures were formerly more specifically defined in the GAA, such as travel, supplies and materials, and maintenance and repairs
- Adoption of AGA in 1999 - performance measures are added to GAA in 2002, but expenditure categories are reduced and consolidated in 2001

“Junior” budget bills – a recent development, here to stay? Replaced by GRO?

- Supplemental budget bills containing a variety of appropriations for many state agencies at the wish of legislators
- Constitution limits GAA appropriations to those expenditures required under existing law
- Legislators responding to voters and interests or an unnecessary complication of the budget process?



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

The Power of Wisconsin's Frankenveto

Tony Evers uses veto powers to extend annual increases for public schools for the next four centuries

Molly Beck and Jessie Opoien

Milwaukee Journal Sentinel

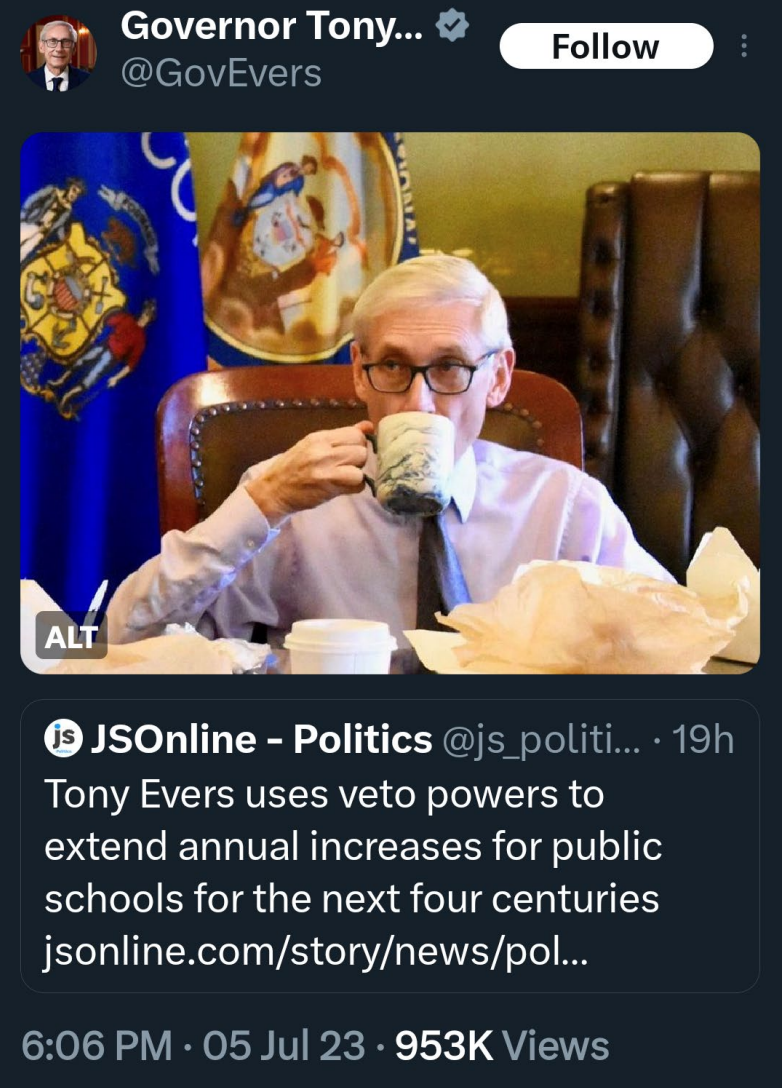
Published 11:58 a.m. CT July 5, 2023 | Updated 3:41 p.m. CT July 5, 2023

SECTION 402. 121.905 (3) (c) 9. of the statutes is created to read:

121.905 (3) (c) 9. For the limit for **the 2023–24 school year and the 2024–25 school year**, add \$325 to the result under par. (b).

Gov. Tony Evers vetoed the words and numbers in red, creating a \$325-per-student increase in school funding each year until 2425. *State Of Wisconsin*

**Vetoed
In Part**

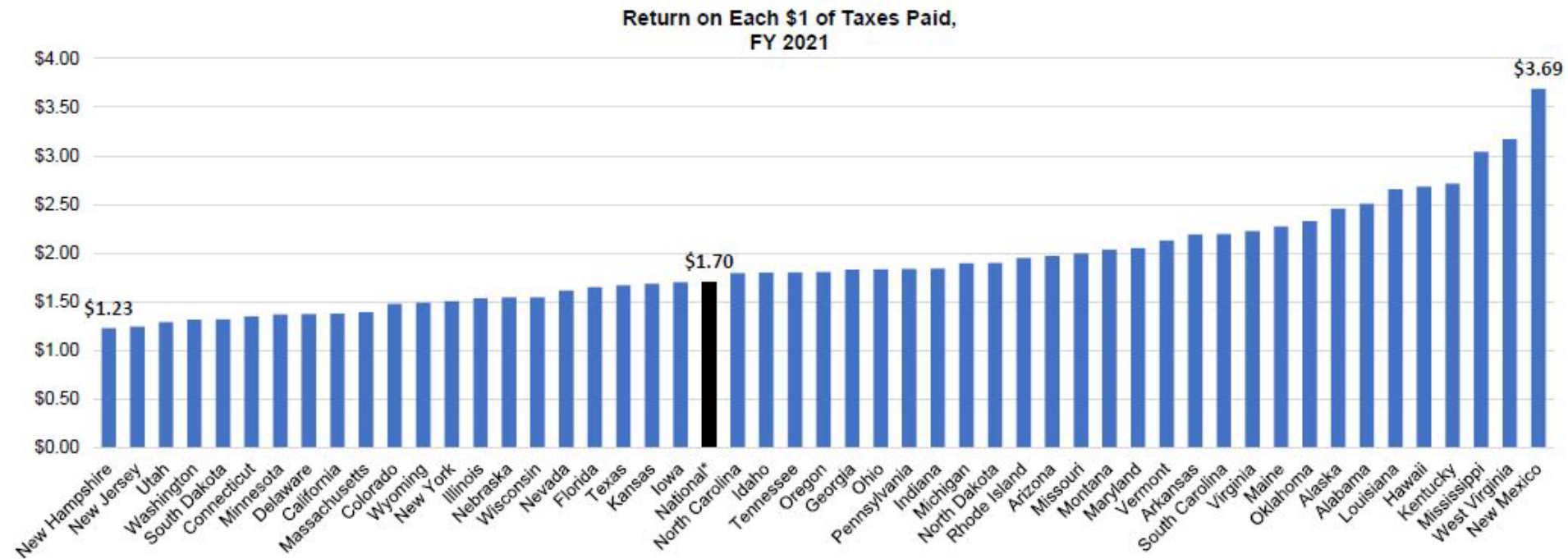


Comparative Budgeting Among States

- 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
 - National Conference of State Legislatures: www.ncsl.org



Spending v. taxes determines balance of payments

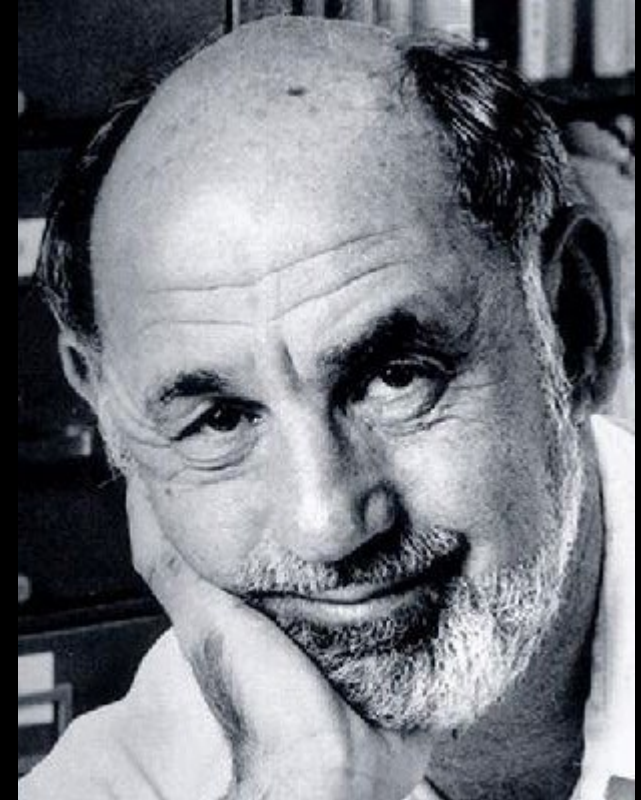


*National figure includes states and the District of Columbia, which is excluded from chart (\$5.18).

Source: NY State Comptroller

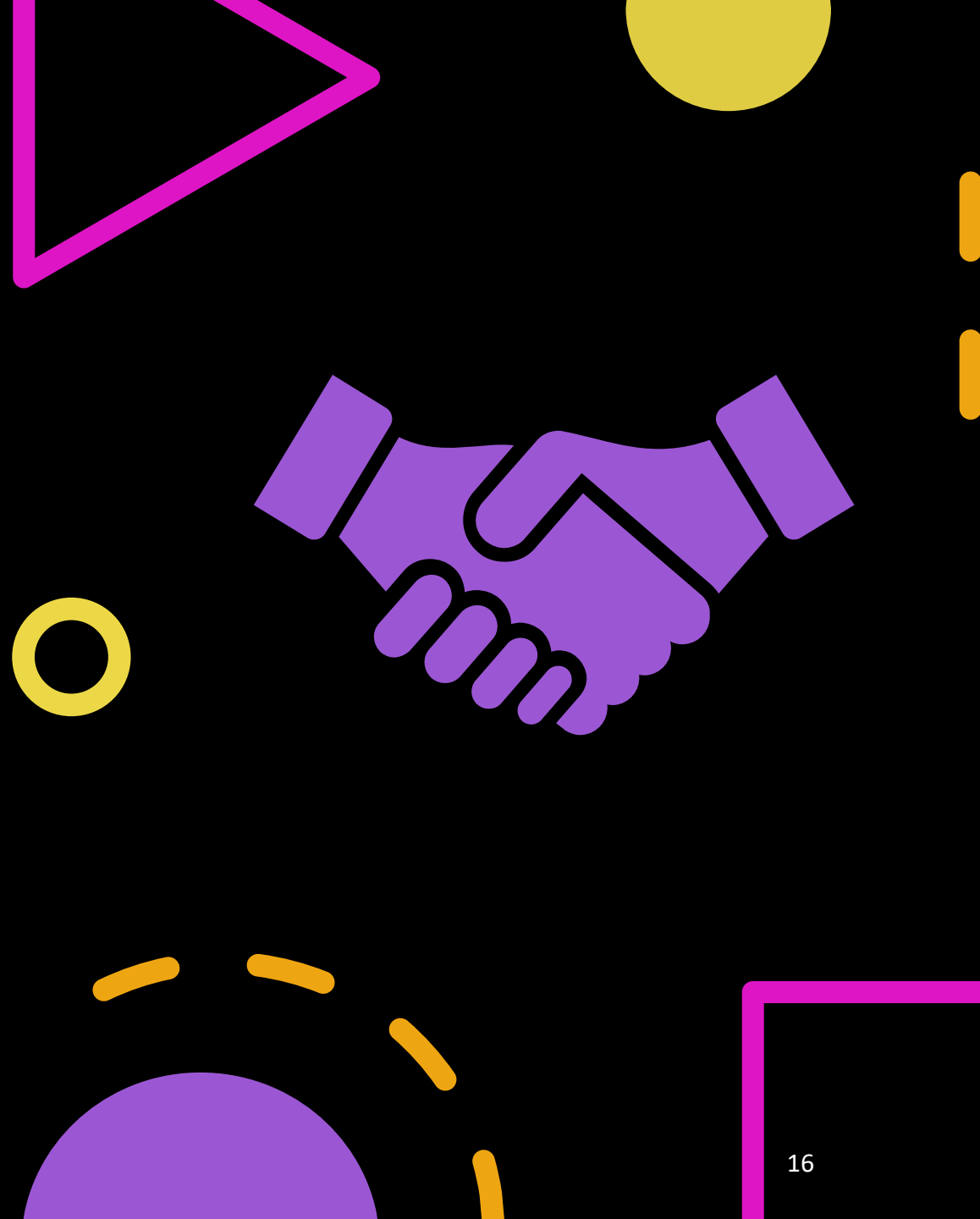
Budgeting Scholarship: Aaron Wildavsky

- *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

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”
- **Actors in the budget process can use game-like strategies through taking advantage of asymmetric information and public emotions**
- **How do analysts respond?**
 - Be adaptable – avoid set of preconceived notions or a set “filter” through which to analyze budgets
 - Often a challenge because the process is disorganized and time-limited



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

Components of a Good Budget Request

- Identify and explain the problem that the request is addressing
 - Societal issue? Remedying an externality? Operational inefficiency?
 - Be specific, provide data and evidence demonstrating the problem
 - Compare problems, data and possible solutions with other (relevant) states
- Demonstrating a need
 - Be realistic about what your agency needs, meet the actual demand rather than the perceived demand
 - Does this request address federal or state mandates?
 - Provide history of caseload, expenditure and revenue trends; inflationary costs
 - Carefully review the methodology used to determine the request's cost
 - Tie proposed solution to agency's performance measures – how will they be affected/improved?

Components of a Good Budget Request

- Funding Amounts and Alternatives
 - Are there options for non-general fund revenue?
 - Does the request need to be recurring – can it be nonrecurring or phased-in?
 - Will the new program be fully operational on July 1 of the new FY or should a lower amount be requested for the first year?
 - Remember to be realistic about vacancy rates when requesting PSEB
 - Think about potential hidden or delayed costs that could impact future budgets
- Final Gut Checks
 - Is this problem real, should the government respond, and will it work? Are we duplicating someone else's effort?
 - Is the math right? Do the numbers match the narrative? Is the request in line with historical trends?
 - Should we eliminate nonworking programs to make budgetary room for new ones?
 - How well are we using data and evidence to support this request, from identifying the problem to proposing an effective solution?



Conclusion: Implications for Public Administrators

How should public administrators react to interests 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!

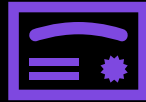
- Do not operate in a vacuum. Integral part of producing the budget and vital policy. "Show me your budget, and I'll tell you what you value." – Joe Biden
- Must fully understand the political world that surrounds them and the myriad factors and forces at work to produce results.
- Balance being properly 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 Document

This will be emailed to all course participants



Course Certificate

To receive a course completion certificate, complete and return to Andrew.miner@dfa.nm.gov by 5:00 PM on Friday, August 9. (Please do not convert to PDF)



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



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.

