Controlling Federal Expenditures

December 1963

TAX FOUNDATION, INC.
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FOREWORD

For many years great concern has been expressed about the rapid rise in Federal expenditures, which have tripled since the post-World War II low in 1948. This concern assumes special significance because of the fiscal implications of the proposed tax reduction, when coupled with a level of Federal budget spending approaching $100 billion. Those concerned with the problem have suggested that faulty procedures for determining spending levels both in Congress and in the executive branch have been a contributing factor. As a result of these defects, it has been charged, effective control over spending has been lost.

This study examines the methods employed by the executive and legislative branches in making the basic decisions which govern the amount of Federal spending. Principal problems are described. There follows a review of proposals for improving procedures, major emphasis being placed on those of the Congress.

Robert W. Schleck, senior researcher, was primarily responsible for the research and preparation of this study.

Tax Foundation, Inc., is a private, non-profit organization engaged in research and citizen education on all aspects of government spending and taxation. Its purpose is to aid in the development of more efficient government at least cost to the citizen and taxpayer. It also serves as a national information agency for organized taxpayer and citizen research groups throughout the country.

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Controlling Federal Expenditures

I. INTRODUCTION

The budget message of January 1963 estimated fiscal 1964 budget expenditures at nearly $10 billion and total spending at over $20 billion more. These figures focused new attention on the issue of spending. Current proposals for reducing the Federal individual and corporation income taxes have sharpened interest in spending control. It is widely felt that tax reduction must be accompanied by greater efforts to reduce expenditures, or at least to “hold the line.” There is doubtless even greater conviction that without a drastic reduction in the growth of spending, tax cuts are unsound.

Effective expenditure control requires that there be a workable system of institutional procedures by which Congress can examine spending requests from the executive branch and from within Congress, and judge their merit while maintaining a continuing awareness of the fiscal consequences of spending actions. Existing methods have been criticized as cumbersome and inadequate. Proposals for bringing about procedural reform in the direction of greater control have been introduced in each recent session of Congress. Nevertheless, the traditional methods remain to a large extent unchanged. The question therefore arises as to whether Congress can exercise desirable spending control under the existing system, or whether basic changes must be adopted in order to secure this objective.

Examination of the entire Federal spending process would require a study of each of the four main budgetary phases: (1) preparation, (2) authorization, (3) execution, and (4) audit. Of these, the first and third fall under the purview of the executive branch, the second is the responsibility of Congress, while the executive and legislative branches share responsibility for the fourth phase. The analysis which follows is confined to the first two: how expenditure requests are prepared in the executive branch, and how they are then examined and passed upon by Congress.

Although recent developments have focused new attention on the problem of expenditure control, the problem itself is not new. Since the earliest days of the Republic the problem has remained a perplexing one. Section II reviews the history of significant developments in procedural devices for spending control since 1796.

The manner in which spending requests are prepared and reviewed in the executive branch for presentation to Congress will either assist or hamper the legislative branch in determining their justification. Hence, the process of executive budget preparation and the effectiveness of the budget document as a tool for spending control assume considerable importance. Section III deals with the role of the executive branch in the budgetary process.

The crux of the problem, however, is the role of Congress in expenditure authorization. In examining spending requests and approving expenditure authority, Congress makes the decisions which eventually determine the level of spending. A highly complex organization and set of procedures have been established within the legislative branch to deal with budget examination and decision-making. The established procedures have shortcomings; and the principal emphasis of this study, presented in Sections IV, V, and VI, deals with these problems.

Section VII analyzes possible improvements through the adoption of new procedures and control devices.
II. HISTORICAL SUMMARY

Since the inception of the American Republic, maintenance of effective Congressional control over the flow of public monies expended at the Federal level has been a continually perplexing problem. Keeping the “power of the purse” firmly in the hands of Congress has usually been the objective of the lawmakers, even though the actual situation often fell short of the desired goal. Those who drafted the Federal Constitution may have felt that in Article I, Section 9, Paragraph 7, they were providing an effective control mechanism. The paragraph contains these words:

“No money shall be drawn from the Treasury but in consequence of appropriations made by law; and a regular statement and account of the receipts and expenditures of all public money shall be published from time to time.”

At least the first Secretary of the Treasury, Alexander Hamilton, would appear to have considered this provision effective. Referring to the constitutional stipulation on appropriations, he remarked that “the public security is complete in this particular, if no money can be expended, but for an object, to an extent, and out of a fund, which the laws have prescribed.”

In actual practice, however, almost from the beginning a number of arrangements grew up which accorded the executive branch certain discretionary powers in spending public funds. Speaking in 1819, Senator Henry Clay of Kentucky posed the question:

“Are we to lose our rightful control over the public purse? It is daily wrested from us, under high-sounding terms, which are calculated to deceive us, in such manner as appears to call for approbation rather than censure of the practice.”

Legislative versus Executive Responsibility

The functions in the budget process are divided between the executive branch, which has jurisdiction over budget preparation and execution, and the legislative branch, which controls expenditure authorization and shares in the task of post-audit review. This division tends to result in a tug of war. Officials in the executive branch repeatedly seek to avoid strict legislative supervision over spending; at times they have engaged in practices which served to obscure the real state of the national finances. The executive branch has at one time or another mixed appropriations, transferred appropriations, incurred “coercive deficiencies” (which compelled Congress to provide additional funds for particular purposes), and brought backward and forward unspent and anticipated balances.

Congress, for its part, has at times authorized the unlimited use of income of executive agencies and has agreed to the establishment of government corpora-

tions with separate budgets and wide discretion in spending. However, its main efforts have been aimed at gaining stronger control. It has opposed “lump-sum,” “deficiency,” and “supplemental” appropriations. It has insisted on spelling out in great detail the specific objectives for which public funds are to be spent (the concept of “specific appropriations”).

Nevertheless, there is no well-planned, systematic, and comprehensive pattern of Congressional procedures for regulating the flow of Federal expenditures. Despite numerous attempts at procedural improvement, legislative efforts have been disappointing time and again.

Resistance to Change

The present system of Congressional control procedures has evolved slowly and haphazardly. Congress has been slow to consider basic changes in the appropriating machinery. At times lawmakers have actively opposed suggestions which would probably have brought about improvement. Having acquired considerable familiarity with methods of handling appropriations according to the existing rules, some legislators apparently feel that any departure from the established procedures might curtail their own influence over spending.

Opposition to change has been expressed in colorful terms. For example, the establishment of the combined executive budget after World War I was opposed by the then Speaker of the House of Representatives, Joseph Cannon, on the grounds that this was an instrument of tyranny such as was used by the Pharaohs of ancient Egypt and the Czars of Russia; and that its adoption in the United States would surrender “the most important part of representative government and put this country back where it was when the shot at Lexington was ‘heard around the world.’”

References

4 Ibid.
Congress has tended to go along with the existing procedures until some period of national emergency, requiring unprecedented sums of money, has put such a severe strain on the appropriating machinery that reform could no longer be postponed. Such situations arose in connection with the Civil War (1861-1865), World War I (1917-1918), and World War II (1941-1945). Until 1921 Federal spending requests were handled without any over-all national budget. The methods followed in Congress for review and approval of spending proposals have varied in accordance with the shifting attitudes and power relationships within the legislative branch.

Early Appropriations Procedures

During its formative years Congress tended to handle its appropriations activities in a perfunctory manner. The House of Representatives did set up a Committee on Ways and Means as early as 1796, and entrusted it with jurisdiction over both the revenue-raising and the appropriating functions. However, as this committee also dealt with substantive legislation, its total work load became so burdensome that in carrying out its appropriations function it exercised only a very lax review of the annual spending requests.1

The Civil War period marked the transition from Federal spending measured in tens of millions of dollars to expenditures of hundreds of millions. Expenditures rose sharply from $67 million in 1861 to a wartime peak of $1,298 million in 1865. In no year since 1862 has Federal spending fallen below $237 million (see Table A). To cope with this new situation, the House of Representatives in 1865 set up an appropriations committee with wide, though not all-embracing, jurisdiction over appropriations bills.2 Two years later the Senate followed suit.

In the following years a jurisdictional conflict arose between the House Appropriations Committee and the committees dealing with substantive legislation. The Appropriations Committee succeeded in temporarily obtaining authority to propose amendments to legislative bills, provided these changes reduced expenditures. This led to a sharp reaction which largely stripped the Appropriations Committee of its appropriating authority. By the late 1880's appropriating authority in such important fields as the armed forces, foreign affairs, rivers and harbors, and agricultural programs had been transferred from the House and Senate Appropriations Committees to various substantive committees.3

Budget and Accounting Act of 1921

This situation continued essentially unchanged until after World War I, when large-scale increases in Federal expenditures focused attention on the shortcomings of existing procedures.4 Earlier, in 1912, a commission set up by President Taft to examine the efficiency and economy of the national government had pointed out the necessity for an annual comprehensive executive budget. But it was only with the report of the Select Committee on the Budget, created by the House of Representatives itself to study and make proposals for a budget system, that Congress in 1921 passed the Budget and Accounting Act (P.L. 13, 67th Cong., 1st sess.).

This piece of legislation has been considered the most important fiscal reform enacted in the United States in the 20th century. It made mandatory a comprehensive executive budget, authorized staff assistance for the President in preparing this document, and provided for post-expenditure review by an independent, non-executive agency. In addition, the act clearly established the role of the Congressional appropriations committees.

Title II of the 1921 act formulated "ground rules" for a system of Federal budgeting. It required the President to submit to Congress, at the beginning of each regular session, a budget for the national government. In addition, he was empowered to submit at his discretion requests for supplementary or deficiency appropriations.5 The act established the Bureau of the Budget to do the over-all preparation of the President's budget (and at the same time to increase Presidential control over the executive agencies), and the General Accounting office, headed by the Comptroller General, for post-expenditure review. The latter agency was to be administratively under the supervision of the legislative branch.

Prior to this the United States, alone among the important nations of the world, had not developed a system of over-all national government budgeting. Each of the executive agencies had made a separate request to Congress for funds, with no necessary relationship to proposals made by other agencies or to the aggregate of Federal appropriations. There had been

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1 Prior to fiscal year 1917 Federal spending had only once passed the billion dollar mark (in fiscal year 1865). It rose from $715 million in 1916 to $18.4 billion in 1919. Except for the five fiscal years 1924-1928 it has since remained above $3 billion.

2 Prior to fiscal year 1802 it was given permanent status.


4 This change did encounter some opposition based on the view that effective handling of the entire spending process required that both revenue-raising and appropriations be handled by a single committee, as was previously the case. See: Marvick, ibid., p. 23.

5 Wallace, op. cit., p. 10.
no over-all coordination of expenditure proposals within the executive branch. Thus there were no guidelines for regulating requests of individual agencies or of all agencies combined. Nor was there any way to relate total spending requests to estimated revenues or to the broad policy objectives of the national administration.

The executive budget was to remedy this situation. It was to provide Congress with a blueprint of the future goals of the administration, as well as with a tool for examining new spending requests and evaluating past spending performance of executive agencies. Through the budget the executive agencies were required to translate their work programs in advance into fiscal terms so that each proposed activity might be brought into balance with all other activities, with the revenues of the government, and with long-range policies.

In addition, the Budget and Accounting Act firmly established the role of the appropriations committees in both the House and Senate. While these committees were to be excluded from any role in the formulation of substantive legislation, they were henceforth to have exclusive jurisdiction over the appropriations process. None of the standing committees of either house was to have any share in this activity.

Depression of the 1930's

Attempts to cope with the depression of the 1930's brought a significant rise in Federal expenditures. One indirect result was increased complexities in the organization of the executive branch. Another re-examination of the control procedures established in 1921 resulted in the Administrative Reorganization Act of 1939 (P. L. 19, 76th Cong., 1st sess.). It provided for transferring the Budget Bureau from the Treasury Department to the newly established Executive Office of the President, thus enabling the bureau to function more effectively as a staff arm for the Chief Executive.

Further need for Congressional action to control expenditures grew out of problems of the 1930's. A number of wholly government-owned corporations had been set up, such as the Reconstruction Finance Corporation, Commodity Credit Corporation, Export-Import Bank, Federal Housing Authority, and the Tennessee Valley Authority. Except for passing upon the administrative expenses of these corporations, Congressional jurisdiction was limited to situations in which corporation charters came up for renewal, operating losses had to be made good, or authority to raise new capital by borrowing from the Treasury was under consideration. Congress assumed greater authority over these corporations by the Government Corporation Control Act of 1945 (P. L. 248, 79th Cong., 1st sess.). The law required that all corporations "wholly owned" by the United States government submit annual "business-type" budgets, to form part of the President's executive budget and thus come under review of the Budget Bureau and examination of Congressional appropriations committees. Corporations in which the government owns any stock were made subject to annual post-audit by the General Accounting Office. However, corporations which are only partially owned by the government were excluded from the budget requirements.

World War II and Postwar Measures

World War II once again brought a sharp increase in the level of financial operations and another re-examination of existing spending procedures, although in fact restraints on the executive were relaxed greatly. In 1941 Congress had set up a Joint Committee on Reduction of Nonessential Federal Expenditures (headed by Sen. Harry F. Byrd, of Virginia). In February 1945, during the final months of the war, Congress created a Joint Committee on the Organization of Congress, better known as the La Follette-Monroney Committee. In its final report this committee included the statements that "Congress has not adequately equipped itself to resist the pressure of departments and agencies in behalf of larger expenditures," and "we have failed to implement Congress with adequate facilities for scrutinizing agency justifications."

The Legislative Reorganization Act of 1946 (P. L. 601, 79th Cong., 2nd sess.) embodied the principal recommendations of the La Follette-Monroney Committee. Among its salient features relating to spending control was authorization for Congressional appropriations committees to hire an unlimited number of professional staff assistants and establishment of the Joint Committee on the Legislative Budget. This committee, which was to consist of the full membership of the appropriations and revenue committees of both houses of Congress, was to establish a ceiling for total Federal "appropriations for expenditure"—termed a Legislative Budget—early in the course of each regular Congressional session. For reasons which will be explored later, this attempt to control in advance the actions of the appropriations committees did not work out in practice, and the provision has to all intents and purposes been disregarded.

The Legislative Reorganization Act also required the Congressional appropriations committees to develop a standard appropriation classification schedule, and it...
stipulated that no general appropriations bill was to be introduced which provided for re-appropriation of unexpended balances of prior appropriations. An exception was made, however, for public works already under way. In addition, the appropriations committees were to study permanent appropriations with the aim of limiting, and if possible, reducing their number. The act contained a provision, extending the rules of the Senate, which aimed to restrict the practice of adding substantive legislation to appropriation bills in the form of “riders.” It stipulated that no amendments to appropriations bills could be made which were “not germane or relevant to the subject matter.” The Senate was to have full authority to decide on the “germaneness” or “relevancy.” In practice, the addition of legislative riders to appropriations bills has not been prevented by the act.

The Employment Act of 1946 was not directly related to the problem of spending control procedures; and the Joint Committee on the Economic Report, which this legislation established, has no direct role in regard to either the appropriations or revenue-raising functions. However, the committee does have as one of its primary concerns the economic impact of the Federal budget.15 This committee, in August 1963, made an extensive report on the need for reforms of budgetary practices.

Developments from 1950 On

In 1950 Congress passed the Budget and Accounting Procedures Act (P. L. 784, 81st Cong., 2nd sess.). This was generally considered to be the most important step toward reform of Federal spending control procedures since 1921. However, the improvements it provided were focused on budget preparation and post-auditing, rather than on budget review and approval in Congress.

Embodying recommendations of the First Hoover Commission,16 the 1950 act provided for changes in the methods of government accounting and auditing, as well as for disclosure of the results of Federal financial operations. Its most significant innovation was the recommendation that the annual executive budget be refashioned in accordance with the principles of a “performance budget,” which, while not necessarily de-emphasizing review of the objects of expenditure, would focus attention on the program goals to be attained by spending. (The commission report of 1912 had recommended that there be a functional classification of expenditures.)

Another approach to procedural reform came in 1950 with the experiment with an “omnibus appropriations bill,” combining in one single “package” all Congressional actions on appropriations. This move interfered with the existing balance of power by increasing the influence of the chairman of the full appropriations committee and consequently reducing the role of the subcommittees. Opposition forced its abandonment following a one-year trial.

There have been important improvements, especially as related to the executive end of budget formulation and presentation. Table 1 presents a chronology of significant developments in regard to expenditure control from the beginning of the nation’s history up to the present. Congress, however, continues to encounter frustration in its varied attempts (described more fully below) to maintain an effective “power of the purse.” Each recent session has seen bills aimed at improvements in the procedures. All in all, there is a widespread concurrence with the view expressed by Senator Byrd in 1939 when he introduced a resolution for a general expenditure authorization bill:

“Congress has lost control over Federal expenditures, and it acts on spending legislation without providing itself with means of knowing whether it is creating deficit or surplus.”17

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III. BUDGET PREPARATION WITHIN THE EXECUTIVE BRANCH

Despite considerable improvements in recent years in the procedures of budget preparation in the executive branch, there are still shortcomings at this initial phase of the process of determining Federal expenditures.

A. RESPONSIBILITIES OF EXECUTIVE BRANCH

The basic responsibility of the executive branch in budget preparation is set out in the Budget and Accounting Act of 1921. It requires the President to transmit a budget to the Congress during the first 15 days of each regular session. Section 201, as amended, stipulates in detail the information to be presented. The budget document is to set forth "in such form and detail as the President may determine": (1) functions and activities of government; (2) where practicable, information on program costs and accomplishments; (3) a reconciliation of the summary data regarding expenditures and proposed appropriations which the President considers necessary for the operation of the government during the ensuing fiscal year; (4) estimated expenditures and proposed appropriations which the President considers necessary for the coming fiscal year; (5) estimated governmental receipts during the forthcoming year, under both existing laws and new revenue proposals; (6) actual appropriations, expenditures, and receipts during the last completed fiscal year; and (7) estimated expenditures and receipts, and actual or proposed appropriations, during the fiscal year which is still in progress.

Should there be an anticipated deficit for the fiscal year to which the budget applies, the President is required to recommend "new taxes, loans, or other appropriate action to meet the estimated deficiency." On the other hand, should there be an expected surplus, the Chief Executive is to make "such recommendations as in his opinion the public interest requires."  

B. THE BUREAU OF THE BUDGET

In establishing the President’s responsibility for transmitting a budget to Congress, the 1921 act also set up the Bureau of the Budget to provide him with staff assistance. As of 1963 the Bureau of the Budget had a professional and clerical staff of 459 (average number of personnel for the year) and $5.65 million of appropriated funds for its operations.

Originally a part of the Treasury, the Budget Bureau tended to operate more like a subdivision of the Treasury than as a staff arm for the President. The Administrative Reorganization Act of 1939, therefore, made possible its transfer to the Executive Office of the President. The direct relationship of the Bureau to the President is further emphasized by the fact that the Bureau Director is appointed by the Chief Executive without the necessity of Senate confirmation. This is one of the few instances in which a high policy-level official can take office without needing approval by the upper house of Congress.

In 1952, following the recommendations of the first Hoover Commission, and possibly in response to them, the Bureau was reorganized and took on its present structure. It is now organized in five program divisions, corresponding to major substantive areas of Federal government operations. These divisions, which cover broad but essentially homogeneous groups of government agencies, are the principal channels through which the Bureau works with executive agencies. In addition, there are five functional offices. Both before and after the 1952 reorganization, administrative arrangements within the Bureau were described as relatively flexible and thus adaptable to needs as they arise.

The Bureau is charged with preparation of the executive budget, and any proposed supplemental or deficiency appropriations; it is empowered "to assemble, correlate, revise, reduce, or increase the requests for appropriations" of all departments and agencies in the executive branch. Agencies are expressly forbidden to submit any other form of request for funds to Congress, unless specifically requested to do so by either the Senate or the House. The 1921 act states:

"No estimate or request for an appropriation and no request for an increase in any item of any such estimate or request . . . shall be submitted to Congress or any committee thereof by any officer or employee of any . . ."
department or establishment, unless at the request of either House of Congress."

Since expenditure commitments can sometimes be made by substantive legislation as well as by the appropriating process, executive agencies are required to submit to the Budget Bureau for approval any reports which they send to Congress dealing with proposed substantive legislation. The departments must state in any such reports whether the Budget Bureau has found their proposals to be "in accord with the President's program." This requirement does not prevent an agency from submitting proposals which are not "in accord," but it does permit Congress to ascertain which ones have been found to agree with over-all administration policy.

When requested by the President, the Bureau must also "... make a detailed study of the departments and establishments for the purpose of enabling the President to determine what changes (with a view to achieving greater economy and efficiency) should be made ...." The President may submit the results of such studies to Congress, but is not required to do so.

Since World War II the Bureau has intensified its role in budget review and execution. Corporations "wholly owned" by the Federal government have been required to submit annual budgets to the Budget Bureau for review and subsequent inclusion in the annual executive budget. The 1959 Budget and Accounting Procedures Act strengthened the authority of the Bureau in budget classification, while the General Appropriation Act of 1951 (P.L. 759, 81st Cong., 1st sess.) gave the Bureau increased authority to apportion appropriations to the executive agencies.

G. TOP-LEVEL POLICY COORDINATION

Questions have been raised as to whether there is completely effective top-level coordination of all the policy considerations which relate to Federal finances, including taxation, expenditure, and debt management. The Secretary of the Treasury, the Council of Economic Advisers, the Federal Reserve Board, Federal lending agencies, the Director of the Bureau of the Budget, and other officials, are all involved in shaping economic policy. Since the Federal Reserve system and Federal regulatory agencies have a "statutory independence," even the President cannot require that all these groups operate along common lines of policy. A number of suggestions have been made for setting up additional machinery (or making more effective use of that which is already existing) to bring about a more harmonious integration of budget decisions on expenditures with the over-all goals of economic policy.

D. BUDGET PREPARATION

Preparation of the annual executive budget has been described as the most effective device available to the national administration for controlling and directing the executive activities of the Federal government. As such, it gives the power to shape agency policies, provides a means of control over agency expenditures, and grants authority to insist on measures for more efficient management. 4

Examination of the process of budget formulation can begin with submission to the Budget Bureau of spending requests by individual agencies. The ordinary rule is for expenditure proposals to be presented on the basis of prior substantive legislation authorizing the programs for which the requested amounts are to be spent. For example, Congress may have approved a program of public works entailing the expenditure of $X million by the agencies entrusted with its implementation. Until the substantive legislation authorizing the proposed programs is approved, Congress cannot ordinarily take up for consideration appropriation requests required to finance such operations. The 1964 executive budget, for example, included a request for $500 million in new spending authority for the proposed urban mass transit aid program. However, since substantive legislation authorizing this program was not passed in the 1963 Congressional session, this request was not considered by appropriations committees.

Authorization followed by appropriation is the usual manner by which Federal spending is initiated. Some other methods will be discussed later.

The budget as presented to Congress in January of any given year sets forth estimated receipts and expenditures for the 12-month period which will begin on the first of the following July. Thus, the budget presented to Congress in January 1963 applies to fiscal year 1964, beginning July 1, 1963 and ending June 30, 1964.

Preparation of the executive budget is an elaborate process that begins nearly a year before the date on

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3 Smithies, op. cit., p. 75.
which it is presented to Congress for approval. Thus, initial preparation of the budget for any given fiscal year starts almost a year and a half before that particular fiscal year actually begins. This creates problems related to estimates of both revenues and expenditures, since actual developments can easily render obsolete some of the underlying assumptions.

In the early months of the year preceding the one in which the budget is presented to Congress, the various departments and agencies in the executive branch make a preliminary attempt to translate their expected program obligations for the fiscal year in question into estimated budget amounts required to carry out these objectives. Concurrently, the Budget Bureau makes its own preliminary estimate of expenditures. The next step involves discussions between the agency heads and the Budget Bureau Director concerning preliminary spending estimates submitted by the agencies. The results of these conversations are reported to the President, who in consultation with such agencies as the Treasury Department and the National Security Council, lays down a tentative schedule of expenditures for each agency. These schedules comprise in effect a tentative budget for each agency.

This tentative budgetary schedule provides a "containing wall" for spending requests at each administrative level in the executive branch. Otherwise expenditure requests could flow unchecked from bottom to top through the administrative structure—from branch to division to bureau to department. In such a situation the Budget Bureau at the end of the line would be faced with the task of attempting to determine where or how to reduce overly inflated aggregate expenditure requests.

During the summer, the departments work up their spending requests in the light of the tentative budget ceilings. Although required to submit spending requests which correspond to these limitations, agencies are permitted to ask consideration of requests in excess of their ceilings. During the autumn the detailed departmental requests are scrutinized by Budget Bureau examiners and then by the Budget Bureau's Review Committee. Hearings are held at this stage; agency heads and division chiefs are called upon to defend their requests.

Final decisions are made by the President, in conjunction with the Budget Bureau Director and the department heads. Although the National Security Council has no specifically defined budget responsibilities, it does play an important role in final budget decisions because of the high priorities attached to expenditures for defense and foreign policy. The Treasury Department has primary responsibility for furnishing estimates of future revenues and submitting proposals for revenue changes. Projected spending totals are measured against these revenue estimates.

In viewing the budget-making process, one must keep in mind that the President at no time makes any final decisions on expenditures in a "political vacuum." Over-all spending requests, as well as those for particular programs, may be worked out with close attention to the temper of the Congress, and of the nation as a whole. Thus the President will at times reduce certain politically vulnerable spending requests before presentation of the budget to Congress, rather than incur the subsequent embarrassment of having the legislative branch refuse to accept his proposals.

In the case of the budget for fiscal year 1964, the Administration made voluntary reductions in spending requests for certain of its programs even after the budget had gone to Congress. In April 1963, the President reduced by $420 million the requests for foreign aid authorization submitted in January. He also reduced by $70 million his requested appropriation for operation of the Small Business Administration.

It is often necessary to make some last-minute changes in order to arrange all programs in their estimated order of priority and at the same time have the aggregate of expenditure requests fit within the overall limit decided upon for the national budget. Funds will be taken from some operations to provide additional support for others.

All final decisions must be made by January, at which time the budgets approved in the executive branch for each agency are combined into one document and submitted to Congress as the Budget of the United States Government, for the fiscal year in question.

E. PROBLEMS IN BUDGET PREPARATION

In seeking effective control over spending, the Budget Bureau faces important problems at the very beginning of the formulation process. The legislation establishing certain government programs stipulates that funds be made available in whatever quantity is required to fulfill program objectives so long as these

\[\text{Smithies, op. cit., p. 141.}\]

In practice the administration can make some changes through the first week in January and still leave time for printing of the document.
activities remain in existence. Each year, for example, the agricultural price support program and the programs for assisting veterans, the aged and blind, and persons permanently and totally disabled, entail expenditures over which the Budget Bureau or the President have only limited control. Over-all economic conditions, actions of state governments, and even the weather are of greater importance in determining the funds to be made available for these purposes than the decisions of the Budget Bureau. Also hard to control is interest on the national debt; each year whatever amount is required for this purpose must be made available.

The Department of Defense budget, which constitutes by far the largest amount, must be based on a number of considerations other than purchasing the most serviceable goods and services at the lowest cost. In making its purchases, the Defense Department is required to observe, among other things: the Buy American Act, the Buy Canadian Program, offshore buying and aid to Europe, conservation of critical materials, encouragement of subcontracting, geographical dispersal of contracts, aid to depressed areas, aid to small business, and avoidance of concentration of economic power. In view of these restrictions, the Defense budget cannot be based on the most economic means of achieving program goals.

In addition, there are the Davis-Bacon and Walsh-Healey Acts, passed in 1931 and 1936, respectively. The former provides that workers engaged on Federal contracts (over $2,000) for construction or repair of public works and buildings must be paid at the prevailing wage rates for work of this type in the localities concerned. The Walsh-Healey Act has been generally interpreted to require that workers employed on U.S. government contracts (over $10,000) for materials, supplies, articles, equipment, or naval vessels be paid at the minimum wage rates which prevail for similar work, not on a local, but on an industry-wide basis. In both cases the rate is to be determined by the Secretary of Labor.

Civil Service regulations and laws regarding salaries for government employees also place limitations on economy in department operations, and thus in budget planning. Employees of a given grade must receive the same remuneration irrespective of the part of the country in which they are employed, even though there may be substantial variations in the local cost of living and in the wage and salary scale for non-government workers.

With respect to those parts of the annual spending package which are subject to adjustment by the administration, the Budget Bureau is faced with a difficult task—determining the justification of the spending requests submitted by the operating agencies. One close student of the budgetary process has pointed out:

"The greatest single weakness of the entire estimates procedure in the Federal government is the general inadequacy of the estimates preparation at the operating level."

"... The measure of the work of a departmental budget officer, in fact, is his ability to obtain the maximum amount of money from the Budget Bureau and from Congress with a minimum of commitments concerning it use."

Employees of executive agencies are the persons most familiar with their operations and are in the best position to know the amounts of funds required for carrying out their programs. But the Budget Bureau has no entirely satisfactory way of "going behind" an agency's estimate of needs. The Bureau is not always in a position to determine whether a particular spending request is justified, or whether it reflects a wasteful use of resources, over-staffing of personnel, or the desire to engage in administrative "empire-building" by agency heads. The Budget Bureau does have examiners attached to agencies on a full-time basis. The danger may exist, however, that the examiners will tend to identify themselves with the agency point of view on spending requests.

While agency officials may be in the best position to know the amounts of funds required, their budget requests will not necessarily be based on these needs alone. Within agencies the emphasis is often held to be on justifying spending requests, rather than on exploring ways in which the same job can be carried out at less cost. And there are various "institutional" pressures, as distinct from substantive needs, which make for increased spending requests. On this point, it has been said:

"The rank and reputation of an administrator is often determined by the size of his budget, the number of employees under his direction, the size of his office, the quality of his office furnishings, and even the amount of janitorial service for his office." (Italics added.)


It has been often charged that agencies will frequently put in initial requests for more funds than they need or actually want, on the assumption that Congress will cut back their budget proposals no matter at what level they are presented. Putting in some initial padding may be the only way to ensure that the agency comes out in the end with approximately the amount it believes really necessary.

Many agency heads may feel no great interest in seeking to harmonize their individual budget requests with over-all administration goals. In addition, even with the best will in the world, it may often be difficult for them to do so. This condition may result from terms of reference which are limited or out of harmony with other aspects of policy, as well as from organizational self-interest in maximum budget allotments.

Finally, the comment has been made that the process of budget preparation does not really get at the roots of the problem of economy and efficiency in government operations. Instances of waste are certainly discovered and brought under control from time to time. But if an agency merely proposes to continue its scale of operations on the previously existing level, necessary or not, its budget request is unlikely to come in for major criticism.\(^{17}\)

In presenting its budget an agency may spell out separately and in great detail proposed expenditures for programs known to be popular in Congress and in the nation. On the other hand, an agency may in effect “bury” requests for less popular programs by lumping them together in broad spending categories so that it is more difficult to single them out for scrutiny and possible curtailment.\(^{18}\)

Thus to a certain extent the final allocation of funds in the proposed executive budget may not be based on the comparative justification of one program against another. When it is necessary to make cuts, these may be applied to those items which for mechanical reasons can most easily be reduced. Other spending areas, with perhaps less substantive merit, may remain relatively untouched.\(^{19}\)

### F. Budget Document

A budget document may either help or hinder in the attainment of effective spending control, depending on whether it provides a clear picture of the relationship between total expenditures and revenues, and whether it supplies the type of information necessary for reaching intelligent decisions on the justification of expenditure proposals. Doubts have been expressed as to whether the document currently in use fulfills these objectives.

#### Budget Coverage

The Budget Bureau now uses three methods of comparing the income and outgo of the United States government for any particular fiscal year:

1. The regular, or “administrative,” budget takes in income and payments of only those funds which are “owned” by the Federal government, such as the general fund, special funds, and intragovernmental revolving funds.

2. The “consolidated cash statement” is more comprehensive. It covers not only the funds “owned” by the government, but the trust funds which it merely administers, such as the social security and highway trust funds.

3. The “Federal sector of the national income accounts” is more comprehensive than the administrative budget in that it covers most trust funds. However, it differs from both the administrative and consolidated cash methods in that it records receipts and expenditures on an “accrued” rather than on an actual cash receipts and payments basis, and it does not include loans, etc.

Summary comparisons of receipts and expenditures measured according to all three of these concepts are now contained in the executive budget document. The document also contains detailed information of the operations of the trust funds. But the administrative budget is the one which for many years has served as the principal plan for conducting Federal financial affairs. Comparisons of administrative budget income and outgo are the bases usually used for estimating deficits and surpluses.

There has been considerable criticism in recent years of the use of the administrative budget — the least comprehensive of the three — as the standard measurement of government financial activities. So long as the transaction of funds “owned” by the government comprised the great bulk of Federal fiscal operations, the administrative budget presented a reasonably complete picture. In recent years, however, the operations of the trust funds have increased rapidly, proportionately more than the rise in the administrative budget. Therefore, the flow of financial transactions between the Federal government and the public is now considerably greater than indicated by administrative budget totals. For fiscal 1964, for example, estimated expenditures

\(^{17}\) Smithies, op. cit., pp. 114-115.


\(^{19}\) Smithies, op. cit., pp. 112-113.