

The Federal Budget Process

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THE FUNCTIONS of the Federal budget have been summed up as follows (1):

The (U.S.) budget is the key instrument in national policy making. It is through the budget that the Nation chooses what areas it wishes to leave to private choice and what services it wants to provide through government. When enacted, the budget expresses the decisions of the Nation's elected representatives as to which governmental services should be provided at the Federal rather than the State or local level; through what programs and instruments; and at what level of activity and cost. And the budget serves as the principal instrument of fiscal policy for ensuring the prosperity, stable growth, and high employment of the American economy.

In a nongovernmental organization, a budget is defined as a decision-making financial plan of program operation for a specific period of time, expressing the use of men, other services, and material in a common denominator—money. In governmental bodies, it means the same thing with the additional provision that when a budget is formally approved, certain controlling factors of it become law, and the law is the controlling instrument over financial operations of that governmental body.

The budget is a means of orderly financing of planned programs to achieve governmental objectives in the most effective manner. It is necessitated by the huge operations of modern governments. "In democratic governments it

permits the people, through their representatives, to retain control of public finance" (2).

The budget document is essentially a program plan for the budget period supported by an estimate of future governmental income, expenditures, and fiscal conditions. The document also customarily includes a report on the accomplishments and finances of the previous and present fiscal periods. The budget process can be defined as the activities in the preparation, legislation, execution, and control of the budget.

Types of Federal Budgets

Object classification budget. Many years ago budgets were almost exclusively based on an object classification. This type of budget listed in varying detail the positions to be filled and the specific items of supplies and equipment to be purchased. Sometimes there would be one appropriation for personal services and another for the other object costs of a given organization. Some vestiges of this process are still retained.

Performance or program budget. In the 1950's and early 1960's much emphasis was placed on what was described as a performance or program budget, in contrast to budgets based solely on either objects of expenditure or organizational units. The performance or program budget, as defined by the Hoover Commission, was a "budget based on function, activities, and projects . . . which would focus attention on the general character and relative importance of the work to be done, or upon the service to be

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rendered, rather than on the things to be acquired, such as personal services, supplies, equipment, and so on."

The planning-programing-budgeting system (PPBS). Today, the budget process is in a state of flux. Terms such as cost effectiveness, systems analysis, and program packaging are being utilized to describe the new process. Its function is to integrate the three interrelated phases of the decision-making process of planning-programing-budgeting. Some people add a fourth phase to this group called program evaluation and feedback or measures of effectiveness.

As stated in President Lyndon B. Johnson's message to Congress, "The Quality of American Government," March 17, 1967:

Under PPBS, each department must now develop its objectives and goals precisely and carefully; evaluate each of its programs to meet these objectives, weighing the benefits against the costs; examine, in every case, alternative means of achieving these objectives; shape its budget request on the basis of this analysis, and justify that request in the context of a long range program and financial plan. . . .

The system is needed to "permit laying out the program several years ahead, relate program output (achievement) to resource input, reveal various alternative methods of achieving objectives, quantify activities in terms of accomplishment rather than simply effort, and permit objective evaluation" (3).

"The goal is to improve the present budget process to make available to Department heads, the President, and the Congress a crisp and specific analysis of program objectives and accomplishments measured against costs" (4).

Cost-type budget. Cost-type budgets are based on data geared to accrual accounting. Accrual accounting, which is generally used in private businesses, bases its costs on actual consumption of goods and services rather than on obligations. Public Law 863, enacted August 1, 1956, provides that Government appropriation requests shall be developed from cost-based budgets in such manner and at such time as may be determined by the President.

Organizational budget classification. Because of the large numbers of appropriations which can be involved in support of a given department or organization, the appropriations

are placed together in the budget and summarized to obtain a total cost for operating the department or organization. A summary of these appropriations provides an organizational budget classification.

Historical Background

In order to understand the reasons for current budget processes, it is necessary to review the conditions and situations which led to budget reform in the United States.

From the establishment of the U.S. Government in 1776 to as late as 1921, "no provision existed . . . for preparation by an agency of a single, consolidated statement of prospective revenues and of the estimated expenditure needs of Government—so prepared as to reveal the relations between the two and to furnish an intelligent guide to Congress of the policies that should be adopted by it in respect to increase or decrease of taxation, the incurring or eliminating of debt and the voting of funds for the conduct of the U.S. Government" (5).

Estimates were prepared by the various departments and submitted to the Treasurer of the United States. The Treasurer, in turn, passed them on to the Congress without review as to need, duplication of services, or available revenue. The President had little or no function in the budget process.

"In the House of Representatives, the estimates were reviewed by eight distinct committees, each acting independently of the others, and no one having overall responsibility for relating expenditures to available resources and prospective income" (5). Sometimes different committees reviewed separate portions of a department's estimates with the result that the department could shop the "easier" committee for appropriations.

The system for handling finance measures in the Senate repeated all the mistakes in the House and added a few more. "In addition, conference committees, reconciling appropriations bills between the versions approved by the two legislative bodies, violated their own rules of procedures by changing items beyond the areas of disagreement" (5). Similar chaos existed in most State, county, and municipal governments up to the early 1900's.

This system of fiscal anarchy was tolerated in

the Federal Government because of its relative prosperity and the fact that Federal taxes were almost entirely indirect and scarcely felt by the individual taxpayer.

The rapid development in the scope and amount of governmental expenditures, with an increasing burden of taxation on individuals, focused popular attention on the problem of obtaining more efficient administration of governmental units and led to the adoption of modern budget procedures by the Federal, State, and local governments.

Budget Reforms

In 1921, passage of the Budget and Accounting Act led to a reorganization of Federal financial operations. The most important change brought about by this act was to place upon the President direct and complete responsibility for preparing and submitting to the Legislature, at the beginning of its regular session, a budget which would represent his administration's work and financial programs and his recommendation for financing them. It also prohibited other employees of the executive department from submitting other budget recommendations unless requested to do so by a member of Congress. By implication, this also prohibited any executive department employee from submitting general legislative recommendations which could lead to the need for new funds. The act also provided the President with an organization, the Bureau of the Budget, to assist him with the financial management of the Government. (Originally established in the Treasury Department, the Bureau was transferred to the Executive Office of the President in 1939.)

The 1921 act also authorized an audit staff, under control of and to report to the Legislature. This staff, called the General Accounting Office, reviews the execution of the Administration's work and financial programs. Executive department officials, seeking clarification of legislative intent in connection with ambiguous legislative language, may obtain legal opinions from the General Accounting Office to avoid error or criticism.

Concurrently with the passage of the Budget and Accounting Act, both the House of Representatives and the Senate amended their rules of procedure to require clearance of all appro-

priation requests through a single committee on appropriations in each House. In addition, they agreed that the committee on appropriations shall not have power to report bills containing general legislation and that a separate committee would handle all revenue bills. Subsequent amendments to the Budget and Accounting Act of 1921 have increased the authority of the Bureau of the Budget and the President over governmental fiscal operations.

This general pattern of reform adopted by the United States has been adopted also by many State and local governments.

The Budget Process

The Federal budget process is necessarily continuous. With regard to annual appropriations, the process requires constant review of the current year's program and review and cleanup of previous years' activities. Concurrently with these reviews, plans must be made for a minimum of 5 years in the future. For example, agencies are operating under current fiscal year funds, liquidating obligated balances of prior years, preparing budget-year estimates for processing through the Bureau of the Budget and the Congress, and developing plans for at least the following 4 years.

Planning-programing-budgeting. Each spring, the Bureau of the Budget previews the budget outlook for the Government as a whole. This preview is used as a basis for determining major policy issues and programs to be recommended to the President for use by the agencies in the preparation of their estimates. To assist in the preview, each agency prepares planning-programing-budgeting data. The data outline the agency's goals and objectives for at least the next 5 years and its multiyear program and financial plan for achieving its objectives with gross estimates of cost. In addition the agencies submit program memoranda, based on special studies, containing specific recommendations on significant aspects of agency operations.

The following list illustrates an annual cycle for planning-programing-budgeting submissions (6).

First quarter of calendar year. The Bureau of the Budget sends to agencies letters identifying major program issues for which program memoranda are required and suggested special analytic studies. The

agencies provide the Bureau with lists of special analytic studies either underway or planned.

February 15–July 15. Agencies submit by February 15 program and financial plans which are updated to reflect programs in the President's budget. Agencies start submitting drafts of program memoranda on a staggered schedule, which is agreed on by the Bureau and the agency.

March–August. The Bureau works with agency staff who are preparing the required program memoranda and special analytic studies and reviews these documents as to adequacy for final submission.

July–September. Agency head makes final decision on his program recommendations. Agency completes final program memoranda and related special analytic studies and revises the program and financial plan according to agency head's decision. The Bureau responds to the agencies' drafts of program memoranda.

September 30. Agencies submit final program memoranda, special analytic studies, program and financial plans, annual budgets, and annual legislative programs to the Bureau.

October–December. The Bureau reviews agency submissions and presents recommendations to the President. The Bureau advises the agency of the President's decision.

January. The President's budget is sent to Congress. The agency updates the program and financial plan to conform to that budget, and submits it to the Bureau by February 15.

Government agencies are encouraged to obtain participation in formulating and updating planning-programing-budgeting data at the lowest feasible organizational level. This requires each supervisory level to review existing programs and make decisions on whether or not program emphasis should be modified, based on changes arising from conditions, resources, or accomplishments.

Each supervisory level summarizes and reviews the estimates of its subordinate levels by (a) checking compliance with objectives and policies, (b) eliminating duplication, (c) adjusting the various estimates for balance within that program level, and (d) recommending estimates to the next higher echelon. In this way, estimates are pyramided—for a division, a bureau, a department, and finally the Federal Government.

The Bureau of the Budget consolidates estimates of the large agencies and adds an informal estimate for the smaller ones to determine total governmental fiscal requirements for proposed agency programs. These requirements are compared with estimates of revenue to pro-

vide the budget outlook for the Government as a whole.

The Director of the Budget Bureau meets with the agency heads individually to discuss the agency's budget in relation to the overall fiscal outlook. In these meetings, the agency head reviews his organization's operations and summarizes the need for his proposed programs.

After carefully weighing overall budget objectives against the effect on the programs and responsibilities of each of the larger agencies, the Director of the Budget Bureau recommends to the President the policies to be followed in the preparation of the budget. Proposed budget policies and their impact on agency programs are discussed by the President with members of his Cabinet.

Since budget formulation is a highly political exercise in the American system, the President determines the policies to be followed by the agencies and the overall budget objectives of the Federal Government. The objectives may be, for example, a balanced budget, emphasis on national security, and increased health services. Based on these policies and objectives, the President determines the level of governmental expenditures desired. If expenditures are planned to exceed revenues, the President proposes additional taxes or an increase in the Federal debt to finance the excess. If revenues are expected to exceed expenditures, the surplus may be applied to reduce the Government debt.

The Federal budget indicates the President's plan for allocating governmental resources among the many competing claims for existing and proposed new programs.

The President's determination on governmental expenditures is made available to the agencies in the form of a target or initial budget allowance, which sets the maximum amount that the agency may request in its budget for the fiscal year under consideration. The budget allowances are then allocated by the agency to its bureaus and divisions.

As stated previously, the President is responsible for submitting a budget for his work and financial programs. He is not required to recommend appropriations to the full extent of basic authorizations. He may recommend a lesser amount or no funds at all. All governmental budget estimates are highly competitive. They

are alternate bids for use of a scarce item—the tax dollar.

Although appropriation requests are usually limited to activities for which basic legislation exists, they may include estimates anticipating the extension of expiring legislation. However, in recent years it has become the practice of the House Appropriations Committee not to consider budget estimates anticipating the extension of expiring legislation, although the Executive Branch continues to submit such estimates to the Congress. In order to present a comprehensive fiscal picture in budget estimates, supplemental estimates identifying the cost of proposed new legislation are also included.

Basic legislation is law authorizing the Government to do something or extending expiring authorization to continue something already being done. Appropriations proposed in the absence of existing basic legislation or basic legislation proposed to be appended or to an appropriation bill in violation of existing congressional rules are subject to easy defeat and may be eliminated by any member of Congress during the course of debate on the bill simply by raising a “point of order.”

Budget estimates. The target allowances by the Budget Bureau for the formal 1-year budget generally require reductions in program plans proposed in agency planning-programing-budgeting estimates for the budget year. When the reasons for the reductions are given or the items to be eliminated are identified, the agency will generally give serious consideration to the Budget Bureau's suggestions. To include items not favored by the Budget Bureau in the estimate is to risk having the item eliminated again in the Bureau's formal review of this estimate, and thus lose authorization which might have been allowed for another desirable purpose.

When the bases for the reductions are not identified, the person responsible for the appropriation programs will determine where cuts are to be made. Although the basic budget data for an appropriation may have been developed with full participation of field staffs, the pressure of time in the processing of the formal budget and congressional estimates may preclude their further participation.

The departments are supposed to be informed of their target allowances in July or August,

and they are required to submit their budgets no later than September 30. The budget must be prepared according to the allowance limitation and the procedures set forth by the Budget Bureau (?). The budget estimates support in detail the objectives to be achieved in the budget year and the application of resources toward those objectives.

To point up important requirements that cannot be accommodated within an appropriation allowance, a supplementary, or B, budget is sometimes submitted with the formal estimate. The B budget is evaluated by the Budget Bureau with the formal estimate, and if the Bureau considers it important enough, it will include funds for the item in the appropriation request.

In October or November the Bureau of the Budget holds hearings on the formal estimates. These afford the Bureau another review of an agency's programs some 5 months after submission of the updated program and financial plan data. Budget Bureau examiners question agency officials, and they may ask them for additional evidence to support their estimates. At this time the Bureau makes further adjustments in an agency's budget based on current conditions. These adjustments are referred to as the “mark” or “markup” of the estimates. The Director of the Budget Bureau and the agency head endeavor to reach substantial agreement on the agency's budget, but the Secretary of a department may appeal differences on significant items to the President. Subsequently, determinations by the Director of the Budget Bureau and the President on appeals are communicated to the agency.

In December, approved program plans and budget estimates for all the agencies are brought together and made part of the President's budget document. This is delivered to the Congress together with the annual budget message during the first 15 days of the session beginning in January. All budget estimates are administratively confidential until released by the President in his budget message to the Congress.

Other estimates. Amended, supplemental, or deficiency estimates may be submitted to the Congress, with the approval of the President (a) to finance programs resulting from enact-

ment of new legislation, after the regular budget has been submitted to the Congress or (b) to meet emergencies or conditions under existing legislation not anticipated when the original budget was prepared.

Legislation

Constitutionally, the House of Representatives originates all revenue-raising bills. The House has uniformly held that the section of the Constitution authorizing it to originate revenue bills (article 1, section 3) was intended to cover appropriation bills as well. Although the Senate has at times questioned this claim, it has generally abided by it.

All appropriation requests are submitted to the House Committee on Appropriations (except that after passage of the appropriation bill by the House certain urgent items may be submitted directly to the Senate Committee on Appropriations). Items included in this category may also include estimates not considered by the House of Representatives because expiring legislation has not been extended. A single subcommittee of the House group considers appropriation bills for one or more agencies. The subcommittee studies the material in the budget, consults with its staff employees, and holds hearings at which the agency head and other key officials are asked to appear. Members of the subcommittee may question the officials on any point relating to the proposed budget in order to assure themselves that any money appropriated will be spent for approved purposes.

In appearing before congressional committees, agency witnesses are required to defend the President's budget. This requirement is implied, as pointed out previously, from the section in the Budget and Accounting Act of 1921 which directs the President to submit a budget of his work and financial programs and prohibits other employees of the executive department from submitting other recommendations unless requested to do so by a member of Congress. Only when specifically requested by a member of Congress may the agency witness offer an opinion or estimate which would be critical of the budget document.

The subcommittee makes its recommendation to the full committee on appropriations. The

full committee's recommendation is introduced into the House, accompanied by a printed report that summarizes the programs to be financed and the comments of the committee with respect to them. After debate, the House-approved version of the bill is passed on to the Senate. Senate consideration follows substantially the same pattern, and ultimately the appropriation bills are passed by this body.

Differences between the House and Senate versions of appropriation bills are negotiated by "conferees" appointed by each House. Conferees are authorized only to act on differences. They may not consider items not in dispute but, within the range of differences, they have complete freedom to negotiate. Conference recommendations are subject to approval by each House.

When a bill is agreed on by both Houses of Congress, it is submitted to the President. When he signs it, the appropriation bill acquires the status of a law.

Execution and Control

Enactment of an appropriation bill does not automatically make funds available for use. The funds must first be apportioned by the Budget Bureau. Apportionment is a method of approving the use of appropriated money generally on a time-interval basis, usually quarterly, to avoid deficiency appropriations. The Budget Bureau also uses the apportionment process to review the budget program again, in light of current conditions, before it is put into operation.

The Budget Bureau has the authority to withhold funds and place them in reserve "to provide for contingencies, or to effect savings whenever savings are made possible by or through changes in requirements, greater efficiency of operations or other developments subsequent to the date on which such appropriation was made available" (8).

In the absence of specific information to the contrary, funds apportioned and unused in one quarter are automatically available in the succeeding quarters within the budget period. In an annual appropriation, unused funds cannot be carried over to another fiscal year without legislative approval.

After funds are apportioned, they are allotted by the head of the agency, or his designee, to the person responsible for the operating program. This person may allocate or suballocate these funds to lower program levels.

Each allocatee is expected to remain within the limits set by the allocator. Violations in allotment authorizations, technical or otherwise, must be reported to the President through the Budget Bureau and to the Congress. These reports outline the circumstances of the violation and the action taken against the allottee, if it was due to his negligence. They also review the adequacy of the system of control to prevent recurrence of a deficiency.

To obtain maximum efficiency in the use of budgeted resources, provision must be made for continuous statistical and financial evaluation of programs. Data obtained should be used to inform management, at all levels, of changing patterns of program operations. The data provide a basis for program evaluation of past activities in comparison with the budget and for forecasts of future workloads or needs for funds. Each echelon performs its own evaluation on its level and scope of the program.

Periodic financial reports (generally monthly) on the status of allocations and allotments are an important part of this evaluation. They are submitted from each accounting level to the program chief. Generally, only appropriation reports are submitted to the Budget Bureau, but the Bureau may request such data as it deems necessary (9).

To permit operating evaluations in relation to the budget plan, expenditure accounts should be kept on a classification basis consistent with the budget plan, or they should be capable of being summarized on such a basis without analysis or adjustment.

The process of review is continuous until the period for which the appropriation is available for obligation expires. At that time, unobligated balances are no longer available for use.

Sometimes the periodic evaluations show a need to shift funds, within one program activity, from one geographic area to another. This kind of shift is ordinarily within the authority of the program chief. However, an indication of a need for shifts between line items in the budget may present complications.

If funds have been appropriated on an individual line-item basis within a budget, no changes between them are possible without legislative approval. When the appropriation is for a lump sum of money covering several items, program chiefs may obtain minor adjustments among the activities from higher authority, as designated by the head of the department, without further clearance. Significant shifts of funds between programs, functions, or projects will ordinarily be cleared, prior to the shift, with the Bureau of the Budget and even the chairmen of the congressional subcommittees which normally review the program's budget estimates. This clearance is made to avoid, in subsequent budget hearings, any question as to the agency's good faith in submitting budget estimates.

Since an appropriation limits the funds to be used, some balance must be retained and lapsed to protect the appropriation from a deficiency. Unrecorded obligations must be charged against appropriations for the year in which obligations were incurred. This may occur at any time up to 2 years after the close of the budget year before obligated balances of funds are merged and lose their time-period identification.

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