Overview of Modern Public Budgeting

chapter
ONE

Struggle and compromise are the very essence of the democratic process and are necessarily reflected in the budget.

—Harold D. Smith, director of the US Bureau of the Budget, 1944

LEARNING OBJECTIVES

After reading this chapter, you should be able to

- Define public budgets in several ways
- Distinguish between different types of public budgeting decisions
- Distinguish between public and private budgets
- Understand different perspectives about the role, growth, and size of government
- Compare several theoretical frameworks about public budgeting
- Conduct your own investigation of government size
- Distinguish budget principles applicable to the legislative and executive branches of government

It is an especially important time to study public budgeting and financial management. Grim examples of government fiscal austerity, from the global to local scene, are plentiful right now. In 2012, Greece suffered through the greatest sovereign debt restructuring in history; the United States has had to weather an embarrassing downgrade of its credit since 2011; the American states collectively have closed budget gaps of over $500 billion since 2009; and American local governments have cut more than 500,000 positions since 2008. The official end of the Great Recession is now over four years in the past, but the City of Detroit just declared bankruptcy (July 2013).

In fact, public officials, budgeters, finance ministers and directors, agency department heads, and managers in governments around the world are grappling with how to reform their budget systems in order to provide basic services, sustain current operations, and build and maintain public infrastructure given the very long, slow recovery from the economic downturn that ended in June 2009. Many recognize that governments are simply unable to sustain the levels and mix of services and programs that citizens have come to expect. Government budget decision makers are reaching the end of an ability to budget using (as stated in a March 30, 2012, telephone interview by the author with a state government auditor) "strategic seat-of-the-pants flying," whereby budget gaps are plugged with one-time funds. According to this auditor from a traditionally poor (fiscally) US state government, "We think (hope) the federal government will increase funding, we hope our revenues will increase, or that our Attorney General has a settlement coming. It has always worked out for the last decade. And, to us, a couple of million dollars is a huge amount of money. Our luck has helped us find ways to fill gaps to keep the status quo." But how long can governments budget on hope? And for which governments will such luck hold?

This introductory chapter provides an entrée into the complicated and confusing world of public budgeting, beginning with a review of the foundational aspects of budgeting systems, such as governmental structure and size. The chapter addresses the distinctiveness of public (governmental) and private (market) activities, introduces popular theoretical frameworks for better understanding public budgets and budgetary processes, and defines some enduring public budgeting principles. These concepts set the stage for the systems and results of public budgeting that will be examined throughout the book.

The rest of this book describes the foundations for public budgets and budget making in a few countries, with focused attention on those at every level in the

United States. Today, the interconnectedness of governments, businesses, nonprofits, and individuals throughout the world makes it vital to understand how different communities function. Governments provide for the rule of law that structures the relationships among individuals in communities. Governments, by taxing and spending, have an impact on the strength of economies and the behaviors of inhabitants. The countries examined throughout this book were chosen to expose readers to examples from industrialized and developing nations, with different governmental structures and various fiscal capacities. This group is a purely judgmental sample of governments that includes the federal, state, and local ones in the United States (North America), one government each from Central (Guatemala) and South America (Brazil), one from Africa (Tanzania), one from Europe (Italy), one government from South Asia (India), and one from East Asia and Pacific (Australia). There has been no predetermination for selection into this sample that any of these governments consistently conducts budgeting either poorly or well.

WHAT IS A BUDGET?

Merriam-Webster's Dictionary (2013) defines "budget" in several ways:

1. Chiefly dialect: a usually leather pouch, wallet, or pack; also, its contents
2. Stock, supply
3. A quantity (as of energy or water) involved in, available for, or assignable to a particular situation; also, an account of gains and losses of such a quantity (the global carbon budget)
4. a. A statement of the financial position of an administration for a definite period of time based on estimates of expenditures during the period and proposals for financing them
   b. A plan for the coordination of resources and expenditures
   c. The amount of money that is available for, required for, or assigned to a particular purpose

These definitions yield important concepts about public budgets and budgeting—a pouch or wallet brings to mind *containment*, an entity *restricted* in the amount of loose change or paper bills that can be held within it; stock or supply implies *accounting* for quantities of things; accounting of gains and losses entails some sort of *balancing*. The fourth definition presents constraints of *time* and *resources*, and suggests a budget as *strategic*. Irene Rubin (2010), who has written and conducted research extensively about public budgeting, explains that government budgets are different from those of individuals or businesses because they are public or open to scrutiny, they engage public resources, and involve many stakeholders—politicians, government workers, taxpayers, the media, professional groups, clients and customers of government services, and citizens generally—and numerous institutions (budget laws, rules, protocols, and processes).

A couple of things should become apparent to you as you progress through the following chapters. Most important, there is really no way to determine which country or government has the best budget or budgets best. There is no attempt here to ferret out "leaders" or "laggards" in budgeting. There are over two hundred different countries around the world, some with multiple levels of government and with many governments at each level. Each government budgets a bit differently and there are a vast range of revenue capacities and spending categories among them. You will learn that a great way to gain understanding about a country or community, its people and traditions, is to examine its budget. Public budgets—what governments spend money on and the taxes that support this spending—provide a snapshot into the values, commitments, and interests of governments and the people who reside in them.

You will also learn that it is extremely challenging to study and compare governments and their budgets globally because every country is unique—each has its own social, cultural, legal, political, and economic histories and traditions that influence budget development, budget information, and format requirements, tax structures, expenditure categories, and in-country and external relationships with other governments. The *CIA World Factbook* lists information about 237 "world entities" on its website.[1] The July 2013 report on chiefs of state and cabinet members of foreign governments includes information about 198 countries, ranging from Afghanistan to Zimbabwe. This report includes developed (i.e., Australia and Italy) and developing countries (i.e., Brazil, Guatemala, India, Tanzania); governments in transition (i.e., Fiji, Guinea-Bissau, Lebanon, Madagascar, Mali, and Tunisia); those for which the United States has no diplomatic exchanges (Bhutan, Cuba, Iran, North Korea, and Taiwan); territories and colonies (Cook Islands and Bermuda, respectively); and the Holy See (Vatican City). Examining the *Factbook* is a quick and easy way to glimpse the breadth of governments that exist as well as compare data that characterize country budgets and populations.

For example, Table 1.1 presents expenditures for health, education, and military as a percent of gross domestic product (GDP or total annual production in the economy within country borders) for the countries we will investigate throughout this book. Examining this data, it is clear that the public and private expenditure for health care as a percent of GDP in the United States dwarfs that in all other countries—it is about twice the ratio evidenced in Italy, Australia, and Brazil, more than twice that in Guatemala and Tanzania, and more than four times India's ratio. Tanzania indicates the highest ratio for education spending, with Brazil, Australia, and United States falling behind. Public expenditures for education as a proportion of GDP trail in India and Guatemala. Military expenditures as a percent of GDP are lowest in Guatemala, followed by Tanzania, Brazil, Australia, and Italy. India's ratio is six times that of Guatemala; of the countries here, the United States has the largest ratio for this category of spending.

Table 1.1 provides information on a sample of countries about categories of expenditure and a measure of the size of these expenditures in relation to annual economic production. But the data do not give insight as to who gets services, coverage areas, service quality, or the results from such spending. In the case of health expenditures, you would need to dig further to determine what portion of total expenditures is public and what is private. Also, there is no way to tell if Brazil's health services are better than Guatemala's using these data alone. Nor can you determine from the data that people living in the United States are healthier than those living anywhere else. Although you can make some assessments about what governments and their citizens consider important by looking at ratios like these, you would have to collect more and different information to analyze and learn about the effects of these expenditures.

You are probably already realizing that governments will never be able to satiate the public's needs, desires, or expectations related to addressing community and individual problems. Public budgets represent the choices made about how to spend finite resources. As government budgets have grown to accommodate new and changing policies and problems, these choices have become more difficult to make and the results seem to be more painful to bear. Especially in periods of economic stasis or decline, addressing problems by creating new programs or expanding current ones often means that others must be trimmed,

Table 1.1
Expenditures as a Percent of GDP, by Country and Function[a]

	Health[b]	Date of Information	Education[c]	Date of Information	Military[d]	Date of Information
United States	17.9	2011	5.4	2010	4.4	2012
Italy	9.5	2011	4.5	2010	1.7	2012
Australia	9.0	2011	5.6	2010	1.7	2012
Brazil	8.9	2011	5.8	2010	1.5	2012
Tanzania	7.3	2011	6.2	2010	1.1	2012
Guatemala	6.7	2011	3.0	2012	0.4	2012
India	3.9	2011	3.2	2011	2.4	2012

Source: CIA World Factbook, Guide to Country Comparisons, People and Society and Military, available at https://www.cia.gov/library/publications/the-world-factbook/rankorder/rankorderguide.html

[a] Definitions of all terms and measures, available at https://www.cia.gov/library/publications/the-world-factbook/docs/notesanddefs.html
[b] According to the *CIA World Factbook,* for the measure total expenditure on health as a percentage of GDP, health expenditures are defined as "activities performed either by institutions or individuals through the application of medical, paramedical, and/or nursing knowledge and technology, the primary purpose of which is to promote, restore, or maintain health."
[c] According to the *CIA World Factbook,* this is a measure of "public expenditure on education as a percent of GDP."
[d] According to the *CIA World Factbook,* this is a measure of "spending on defense programs for the most recent year available as a percent of GDP; the GDP is calculated on an exchange rate basis, i.e., not in terms of purchasing power parity (PPP). For countries with no military forces, this figure can include expenditures on public security and police."

cut back significantly, or even shut down entirely. In such times, new revenue sources must be tapped or traditional revenue sources reconsidered. As you advance through this book, you will learn about how governments attempt to solve public problems and keep up with growing demands within the constraints of foundational laws.

MACRO- AND MICRO-BUDGETING

Studying budgets is difficult because the process of budgeting involves choices that represent the uniqueness and commonness of human behavior in a certain context (Golembiewski and Rabin 1983). In a most elemental sense, public budgets are the result of the judgments of those legally responsible for requesting, recommending, appropriating, and spending public money. Much of the complexity of public budgets today concerns the fact that they represent the culmination of conflict, negotiations, and decisions made among many elected officials, public agency and department heads, managers, staff, program clients, taxpayers, and the public, more generally.

The process of budgeting includes macro- and micro-budgetary decisions.

- Macro-budgeting decisions are visible, overarching policy decisions that determine the size and role of government in an economy.
- Micro-budgeting decisions are less visible, trade-off decisions made to carry out policies determined by macro-budgeting decisions.

"Macro-budgeting involves setting large policy targets for both fiscal and political purposes" (Thurmaier and Willoughby 2001, 50). Macro-budgeting decisions are those that result in the mix of tax and spending policies determined largely in the political arena and by elected officials. These decisions result in government-wide policy objectives—to advance economic opportunity, to have an educated and healthy citizenry, to maintain safe communities, to foster a clean environment. Elected officials responsible for macro-budgetary decisions receive information from many stakeholders, including high-level political appointees, political parties, business, professional, and other organized interests, the public, and even the media. John Kingdon (1984, 1995) classifies this group as a visible cluster of actors in his theoretical consideration of public policy development. He describes a chaotic policy agenda setting process as a swirl of solutions and problems in which a hidden cluster of actors feeds the visible cluster of actors information about policy alternatives (policies that could address specific problems). The hidden cluster of actors includes bureaucrats, agency and program staff, analysts, and researchers from think tanks, universities, and colleges. Kingdon adds that predictable and unpredictable windows of opportunity afford the chance for the hidden cluster of actors to push certain policy alternatives. In the end, however, everything must come together for success—an identified problem must be matched to the policy alternative, and the political climate must be right for change to occur.

Micro-budgeting decisions are those made to square with or accommodate macro-budgeting ones. Whereas macro-budgeting often entails strenuous debate about a few very high-profile budget issues such as more money for defense versus health care, micro-budgeting entails making tradeoffs among agencies and programs to fulfill policies that have been decided upon earlier (promoting an educated society, for example). The decision makers, mostly in the hidden cluster, take their cues from the macro-budgeting decision arena that has already occurred. That is, it is important for these actors to understand the revenue and expenditure mix that has already been determined at the top in order to figure out how government programs, services, and activities will be conducted. Kingdon's model of policy agenda setting in the United States has crossover benefits for understanding budgetary processes. His model presents policy development as time bound, yet evolutionary, meaning that there are elements of top-down and bottom-up decision making, and change may come about in very gradual or cataclysmic ways.

PUBLIC AND PRIVATE BUDGETING

Public budgets are different from those of individuals or private companies. Individuals cannot spend more resources than they are able to secure through their own labors, by borrowing, or perhaps through bequests. A recent letter writer to advice columnist "Dear Abby" explains typical individual budgeting behaviors well:

> Dear Abby:
> After years of enduring overdraft charges and dodging bill collectors, I have finally gotten my financial house in order. I pay all of my bills, and I pay them on time. However, I have very little money left over at the end of the week. Many of my friends have two-income

households or use credit cards when they go out to eat or to the movies, which is often. I want them to know that because I decline their invitations does not mean I'm antisocial—I just can't afford it. I have said so at times, but I hate to be a broken record.

—On Track But Still Broke in Maine, *Atlanta Journal-Constitution*, July 30, 2013, D2

Whereas the public budgeting process results in legislative appropriations that set the legal limits on spending for a future fiscal year or years, the letter above illustrates how private budgets are more malleable and the timing is different. Private budgets are financial plans that are open to change more frequently, and certainly can be changed more quickly, than public budgets. Also, the profit motive of private companies leads to actions and activities that promote the adage "buy low, sell high" in terms of their market transactions, often necessitating nimble actions. Governments are usually unable to make budget changes on a dime in the way that private companies can. On the other hand, although there may seem to be limitless income amounts possible for individuals and private corporations to realize, there are short-run constraints—the bottom line for individuals is paying the bills when due; that line for private corporations is maximizing profits while minimizing costs.

Governments, however, operate differently, because they are public and not private entities. Governments provide goods and services that do not necessarily generate profits. This discussion acknowledges that many of the services provided by governments today are available through fee for service. Also, governments contract with private companies to conduct public business. Still, the public or communal aspect that undergirds government work necessitates attention to different objectives from private ones. Part of this relates to understanding the nature of public goods. For example, it is difficult to put a price on national defense, an example of a public good. Also, the provision of national defense cannot be contained to specific individuals or communities. In the United States, whether you pay federal taxes or not, you receive the same national defense services as your neighbor. In the most ideal form, a public good or service has two qualities—non-rivalry and non-excludability. Non-rivalry relates a bit to the pricing problem—that is, that the value of the good or service is not affected by how many people receive the good or service. Non-excludability relates to the other point, that no one can be excluded from consuming the good or service.

Governments engage in activities to address market failures or to address externalities that can arise from an imperfect market economy. Importantly, governments can incur deficits to provide public goods and services and to pursue policy goals that address such failures and externalities.

In the United States, policy decisions (macro-budgeting decisions) that influence how large a presence government is in the economy (i.e., federal spending as a percent of GDP) are made at the federal level. Theoretically, national fiscal policy can be used to counteract a changing economy. That is, when the economy is on the decline, the government can initiate tax cuts and spend money through transfers and grants for services, programs, and infrastructure to spur growth. A balancing component to this perspective would be to increase taxes and pull back on spending when the economy surges—but historically this has been more problematic to do, at least in the United States. The US federal budget does not have to balance—it can use borrowed funds in addition to tax receipts, fees, and charges to cover expenditures. Spending that outpaces revenues can cause a budget deficit (the gap between expenditures and revenues in one year) and increase government debt (the total amount of borrowed funds, to date). The decisions that determine the size and role of government in the economy are macro-budgetary ones.

The budgeting decisions of subnational governments are similar to those made by the federal government in terms of setting policy direction for their citizens; however, taxing and spending by these entities are not expected to have nationwide economic impact. Also, at least in the United States, state and local government budgets must balance—the chief executive's budget proposal must balance, the appropriation bill or bills passed by the legislature must balance, the budget must balance at year-end, or some combination of balancing requirements exists. Though the definition of balance varies, subnational governments in the United States cannot conduct deficit financing to support operating budgets.

THE ROLE AND SIZE OF GOVERNMENT

Economists James Buchanan and Richard Musgrave participated in a seminal weeklong discussion at the University of Munich in March, 1998 that has been recorded in *Public Finance and Public Choice: Two Contrasting Visions of the State* (1999). These scholars present their perspectives about government budget growth in the twentieth century by debating principles of efficiency and justice related to their theories of public choice and public finance, respectively. These theories represent opposing views of government taxing and spending (macrobudgetary decisions). Musgrave presents government as beneficent—viewing its allocation, distribution, and stabilization roles as appropriate. He defines democratic governance as problem solving, with the distributive role of government guided by a democratically determined "social welfare function" (Buchanan and Musgrave 1999, 46). Though he considers government and its agents as positive forces of justice and efficiency, he recognizes that *redistributive* politics will "guarantee class conflict" (85–86), which is the antithesis of his vision for a more equitable state through government expansion.

Buchanan, on the other hand, distrusts the state, believing it has become a Leviathan (monolithic) given the self-interested behaviors of political agents (elected officials and bureaucrats). He considers that these agents must be curbed through constitutional rules. Whereas Musgrave views government as an elixir to market failures and inequality, Buchanan views justice as reachable through a well-working market economy and limited government.[2] Both men contemplate if the public sector has grown too large by the mid- to late-twentieth century. Musgrave recognizes this growth as "the share of gross national product (GNP)[3] flowing through public budgets" (Buchanan and Musgrave 1999, 64) and as ranging among governments from 10 to 60 percent. Buchanan considers a 10 to 12 percent share of GDP "devoted to financing public goods as justifiable" (Buchanan and Musgrave 1999, 84).

What does the size of government look like today, using similar measures? The International Monetary Fund (IMF) collects government finance indicators and other measures for countries around the world that allow for some comparability of government size vis-à-vis the economy. According to the IMF in their World Economic Outlook Database (April 2013), average general government revenues as a percent of GDP for countries around the world increased from 28.2 percent in 2002 to 32.4 percent in 2012 (estimated). Average general government expenditures as a percent of GDP increased from 31.1 percent to 34.0 percent and average gross debt to GDP decreased from 74.8 percent to 50.0 percent, for the same decade. As you would suspect, however, averages can mask outliers.

Table 1.2 presents data from the IMF Economic Outlook Database (April 2013). This table indicates how many countries fall into each category of the fiscal measures of interest—general government revenues, expenditures, and gross debt, each as a proportion of GDP. The countries that will be examined throughout the rest of this book are noted where they fall in this table, too. Table 1.2 shows that over half of countries (52.4 percent) have revenues as a

Table 1.2
Number of Countries by Measure of Government Size, 2012

	General Government Revenues as % of GDP *n*=187 (# of countries)	General Government Expenditures as % of GDP *n*=187 (# of countries)	General Government Gross Debtas % of GDP *n*=174 (# of countries)
less than 20%	(28) Guatemala India	(20) Guatemala	(26)
20% to <30%	(70) Tanzania	(59) India Tanzania	(18) Australia Guatemala
30% to <40%	(45) Australia Brazil United States	(53) Australia	(36)
40% to <50%	(28) Italy	(39) Brazil United States	(24) Tanzania
50% to <60%	(7)	(11) Italy	(21)
60% or more	(9)	(5)	(49) Brazil India Italy United States

Source: International Monetary Fund, World Economic Outlook Database, April 2013.

Note: Data for 2012 for some countries may be an estimate.

percent of GDP less than 30 percent; well over half of countries (70.6 percent) indicate expenditures as a percent of GDP at 40 percent or less. Over half of countries (54 percent) indicate debt as a percent of GDP at 40 percent or more; 28 percent of countries indicate a debt to GDP ratio over 60 percent. In 2012, a dozen countries have or estimate this ratio to be over 100 percent—Japan indicates the highest debt ratio at 237.9 percent and of the countries we will examine, Italy stands at 127.0 percent and the United States at 106.5 percent. This data attests to an underlying principle of public budgeting—people want services, programs, and support, but they do not want to pay the full costs associated with conducting the work or the support. Governments borrow and seek grants or donor funds to fill gaps between revenues and expenditures.

MODELING THE BUDGETARY PROCESS

Research about public budgeting that attempts to develop predictive models falls into different camps. *Normative research* is prescriptive, recommending solutions to budget problems that are based on values and not necessarily what happens in actual practice. The primary question addressed through such research is, "what *should* be done?" In the early part of the twentieth century, during the Progressive movement, budget reformers, public administrators, and economists pressed for greater efficiency of government operations and decision making. This normative approach to budgeting focused on rationalizing the business of government. In strong reaction to corruption in governments at all levels in the United States at the time, some reformers sought more limited government as well as a means to good government; that is, government efficiently conducted and economic in results (Rubin 1990, 1993). The public choice and public finance theories discussed above present different "amounts" of government as efficient—public choice theory reaching efficiency through individual choice behaviors that constrain government growth and public finance theory suggesting government spending to realize the greatest possible return for the public.

On the other hand, *descriptive studies* seek observable proof of trends, sequences, and patterns of events to determine cause. The primary question addressed through this type of research is "What *is* done?" Around the mid-twentieth century, incrementalism became the predominant budget theory, having mushroomed from disciplines of political science, economics, and decision sciences. Using descriptive studies of budgetary decisions, processes, and relationships as well as statistical analyses of budget expenditures, the theory offered (at the time) a realistic consideration of public budgeting. Incrementalism was different from normative theories of budgeting that focused on the science of government operations. Nonetheless, Berry (1990), Rubin (1990), and others clarify why incrementalism lost favor as a good explanation for public budgeting by the latter part of the twentieth century. The theory's tenets of the regularity of relationships, simple decision rules, and an insularity of process simply did not hold up. Especially at the US federal level, as the budget and its components grew more complicated, as the process of budgeting became more jumbled, as conflict among stakeholders amplified, and as budget imbalance expanded, new perspectives poured forth. Following incrementalism, punctuated equilibrium and real-time budgeting (RTB) are two theoretical perspectives that take root as viable predictive models of public budgeting.

Each of these theories is described in more detail below. In the following chapters, you will read about how budget processes have developed in different countries around the world and at the local, state, and federal levels in the United States. You should find that governmental budgeting today, wherever practiced, is an evolving process that is difficult to explain with one theoretical framework or through one research lens.

Branch and Root Methods of Decision Making

Incrementalism is a theoretical perspective used to describe government budget growth around the middle of the twentieth century in the United States. Aaron Wildavsky (1964) explained a framework in which budget development is backward looking, based on history and past policy. That is, current budget deliberations are anchored on past agreements, thereby keeping conflict to a minimum. Budget allocation is based on political promises of goods and services to be provided. Rather than representing any grand scheme for government, the budget was the result of successive limited comparisons or consideration at the margins—the most important determinant of next year's budget was this year's budget.

This perspective of budgeting regarded a process in the United States at the time that was routine. There were annual, repetitive roles among the president, executive (central) budget examiners, agency heads, and budget and program officers in terms of developing spending requests, and the congressional committee and subcommittee members in terms of determining appropriations. Receipts from the national income tax that grew significantly after World War II provided a ready resource to federal agencies in accommodating the burgeoning expectations of the public for new or expanded services. Ever-growing revenues, a routine budget cycle, and consistent roles among budget actors allowed Wildavsky (1964) to tease out the calculations made and strategies used by these actors throughout the process. Cabinet secretaries and agency heads pushed for expansive budgets to carry out programs and services demanded by clients and constituents; central budget examiners culled requests to fit with the president's budget and policy agendas and later in the process provided central clearance for agency spending. Congressional committee and subcommittee members (Appropriations) acted as naysayers in the House—cutting back agency budget requests in their traditional service as guardians of the public purse. Senators, however, traditionally offered some recourse to agencies to recoup cuts made by House members. According to Wildavsky (1984), "[a] member of the Senate Appropriations Committee is likely to conceive of his proper role as the responsible legislator who sees to it that the irrepressible lower House does not do too much damage either to constituency or to national interests" (51). Incrementalism was a good explanation of budgeting in its day. It accommodated consistent, slow growth of the federal budget and the distinctive roles but routine negotiations of budget actors who recognized and engaged in a sense of the budget base and fair share in terms of the budget pie.

Incrementalism is often juxtaposed with more rational methods of budgeting. In his research about policy development, Charles Lindblom (1959) compares what he terms the branch (successive limited comparisons) and root (rational comprehensive) methods of decision making. The most distinctive aspect of the branch method is that agreement among decision makers determines which policy or policies to pursue. The most distinctive feature of the root method is its comprehensiveness—the determination through means-end analysis of every possible policy to tease out the most valuable one to be pursued. The root method requires that "every important relevant factor is taken into account" (Lindblom 1959, 81), whereas the branch method requires that "important possible outcomes, alternative potential policies and affected values are neglected" (81).

The root method or rational comprehensive theory is normative and certainly in its ideal form, unrealistic for humans to conduct (see Simon 1957). On the other hand, incrementalism (successive limited comparisons) is heavily descriptive, recognizing roles among budget actors in a routine process, requiring the restriction of possible alternatives to reduce conflict, and in fact, determining that complete information and comprehensive analyses are impracticable and even undesirable.

Punctuated Equilibrium

Eventually, incrementalism became “too many things to too many people to be useful” (Berry 1990, 182) as a concept or theoretical framework for understanding public budgeting. Frank Baumgartner and Bryan Jones (1991, 1044–1045), like Kingdon, develop a theory of policy development founded upon agenda setting that accounts for periods of both “extreme stability” as well as “bursts” of dramatic change to policy. James True (1995) considers policy intervention and its effects on budgeting in the United States, examining federal budget authority from 1969 to 1993 to tease out significant budget changes. True determines that some dramatic changes to the US national budget can be explained by policy intervention. Then, Jones, Baumgartner, and True (1998) investigated periods of budget stability or stasis versus change, comparing annual percentage changes in US federal budget authority for domestic spending across time to identify significant budget epochs. They identify three epochs:

1. From the end of World War II to 1956, characterized as high variability among budget categories, but no consistent trend of budget growth or decline
2. From1956 to 1974, characterized as substantial budget growth
3. Since 1976, characterized as “slower budget growth”

These scholars are able to rule out partisan control of government, changes in the economy, and the public mood as determining budget changes. They explain that finding significant budget change across time knocks traditional incrementalism out as a good predictive model of public budgeting. Both incrementalism and punctuated equilibrium recognize the limits of human decision making. But punctuated equilibrium allows for “shifts in selective attention” that can bring about dramatic changes to policy and budgets (Jones, Baumgartner, and True 1998, 23). These authors point to punctuated equilibrium as a better model of budgetary change, though they conclude that much more data must be collected and analyzed to accurately predict the results of extremely complicated interactions among numerous variables inherent to budgeting. Nonetheless, their framework, in line with Kingdon's ideas about budgets as evolutionary and the possibilities for cataclysmic change, offered up a new way of thinking about public budgets and the budgeting process.

Real-Time Budgeting

Rubin's real-time budgeting (RTB) (2010) is a celebration of the complexity of the budgetary process that concentrates heavily on timing and the intersection of budget streams, including revenues, process, expenditures, balance, and implementation. RTB is important for highlighting budgeting as nonsequential and composed of overlapping processes, each with its own timing, budget actors, and context. Each stream produces decisions that affect other streams. Budgets are the result of intersections of these different budget streams, though intersections do not occur at the same time or consecutively.

Each stream regards a vital component of public budgeting. The revenue stream produces decisions about government resources and availability. Tax structures result from this stream, engaging the public, taxpayers, interest groups, and politicians who negotiate and determine the fiscal resources available for government to spend. The process stream regulates who has access to budgeting decisions and presents the rules of the game. This stream provides the framework for how decisions will be made, who will make them, and any constraints to budgetary decision making. Examining a government to determine its process stream would involve investigating budget rules and institutions. Some questions that would need to be answered include

- What spending (programs) are legally required to be provided by the government?
- What tax and expenditure limits are applicable to the government?
- What is the fiscal year for the government?
- Who or what office is responsible for developing the budget?
- What is the required budget format?
- When must the chief executive present the budget to the legislative branch?
- How long does the legislative branch have to deliberate about the budget?
- Are public hearings required to be held to discuss the budget?
- Must the budget balance? If so, how is balance defined?

- What type of veto power, if any, does the chief executive have?
- What accountability, evaluation, and reporting rules exist regarding funds in particular and the budget more generally?

These questions indicate how constraining a budget process can be for decision makers and stakeholders. For instance, requirements in federal law related to health care for the poor (Medicaid) have a dramatic impact on US state governments—most that have statutory or constitutional requirements to balance their budgets. Eligibility rules and matched funding requirements can (and do) constrain the ability of state government budgeters to spend for other services and programs.

The expenditures stream recognizes the significant difficulties in determining public spending categories and amounts. The result of decisions in this stream is the mix and level of goods and services provided by a government. Competition in this stream is extremely high. Budget actors strive to protect and expand their preferred goods and services. Many of the strategies that budget actors engage in this stream are reminiscent of Wildavsky's calculations discussed earlier regarding budgeting in the US federal government. According to Rubin, however, modern budgeting is characterized by strong efforts on the part of budget actors to "lock up" (2010, 157–164) expenditures—earmarking revenues, establishing entitlements, stipulating automatic increases—so as to reduce conflict and avoid having to compete for funding in the first place.

The balance stream considers the basic budgeting equation, in which revenues (should) equal expenditures. RTB recognizes that governments at all levels and around the world operate in constrained circumstances—a limited supply of revenues must support seemingly limitless demands for spending. The US federal government does not have a legal requirement to balance, though its credit downgrade in 2011 was a nod by some about the effects of runaway national borrowing. It is within the balance stream that conflict arises about the size and reach of government and the appropriateness of deficit spending. For example, in the following chapters, you will read about constitutional and statutory requirements that some national governments have put in place to promote budget balance or some deficit or debt reduction. Many of these rules have been unsuccessful in disciplining governments in terms of actually reaching balance. But the existence of these laws reflects the ongoing struggle in societies regarding the scope and impact of government. On the other hand, US state and local governments do have requirements to balance, as noted earlier.

These subnational governments are often referred to as "revenue driven," given that they technically cannot spend more than they bring in through pooled tax receipts, fees, charges, grants, and borrowed funds.

RTB wraps up the budgeting framework by including the implementation stream or budget execution. Once the budget is passed, the real work begins—that is, the spending of public funds for the conduct of government work. Just as every stream has constraints, in the form of budget actors, degrees of access, laws, rules, regulations, standard operating procedures, and traditions, this one also can be immediately and severely affected by changes in revenue forecasts, numbers served, and costs as well as cataclysmic events such as a hurricane, forest fire, drought, the outbreak of a disease, or any sort of international conflict. For example, the State of Louisiana's Revenue Estimating Conference indicated a reduction of $34.7 million in that state's fiscal 2014 budget because of changes in corporate income tax receipts during the year. In spite of the fact that Louisiana's Commissioner of Administration noted the ability to make up the deficit with other excess funds, the governor instituted a hiring freeze in certain executive agencies to account for the dip in revenues (Baker 2014).

Though Rubin points out that most budgets are implemented "as passed," with little deviation, the implementation stream hones in on the balance (or lack thereof) between control and discretion. In addition to any outside forces that can compromise budget execution, the degree of flexibility that the chief executive, department heads, program managers, and staff have for managing the flow of funds into and out of government also determines how smoothly the budget will be implemented.

Rubin's RTB comes close to being a comprehensive theory of public budgeting. It recognizes the special nature of the individual budget streams, the distinctive budget actors, and the complexity of circumstances and relationships within each, as well as the external factors that can easily divert a stream in midflow. Timing and nonlinearity are important components of this perspective. In Rubin's own words, "'real time' refers to the continual adjustment of decisions in each stream to decisions and information coming from other streams and from the environment" (2010, 283). Nonlinearity refers to the fact that the five streams do not flow into each other sequentially. Streams flow together at different times and for different periods of time. Budget actors in any stream may have to look forward, backward, or both into other decision streams to access the information that they need to make a decision.

BUDGET PRINCIPLES

It is hard to provide a definitive list of public budgeting principles that, if followed, will meet with budget success. However, Harold Smith (1944), director of the US Bureau of the Budget (now the Office of Management and Budget) from 1939 to 1946, determines the public budget to be "the very core of democratic government" (181) and discusses a number of budgetary precepts that should exist to promote democracy. His tenets span the work of the legislative and executive branches of government. Budget principles to support legislative control include publicity, clarity, comprehensiveness, unity, specification, prior authorization, periodicity, and accuracy (Smith 1944). Public budgeting should be conducted in the open (publicity). The information in the budget should be understandable (clarity). All revenues, expenditures, and debt for all that government does should be included in the budget (comprehensiveness). Government funds should flow through one general fund, with earmarked and special funds kept to a minimum (unity). Legislative appropriations should be specific, not overly broad (specification). Authorization to spend should be made before budget implementation (prior authorization). Spending should be confined to a specified period of time (periodicity). Revenue and expenditure estimates should be correct (accuracy).

On the executive side, Smith (1944) considers eight budget principles, including executive programming and responsibility, reporting, tools, procedures, executive discretion, flexibility in timing, and a "two-way budget organization" (184). The budget represents the chief executive's budget and policy agenda, representative of the government-wide work program (programming). The chief executive has the obligation to execute the budget as passed by the legislature (responsibility). The executive branch is responsible for full disclosure of the finances and flow of funds of government (reporting). The chief executive needs staff and authority to execute the budget and spend funds (tools). The executive branch should be allowed to budget differently for a variety of activities (capital versus operating; businesslike activities versus traditional government administration) (procedures). Some choice should be afforded to the executive branch in the conduct of government operations (discretion). The executive branch should be able to adjust the budget to accommodate changing circumstances (flexibility in timing). The final commandment regards a two-way budget organization and calls for budget offices within executive agencies along with a central or executive budget office. The flow of information should not be one-way from the central budget office to agencies, but also from agency budget offices to the central office. According to Smith, "budgeting is not only a central function but a process that should permeate the entire administration structure" (185).

Admittedly, it is difficult to reconcile some of these principles across the branches. The legislative commandments address traditional fears of an omnipotent monarchy and so press for strict control of the executive and the ability of this branch to make changes to what the legislature has decided. According to Smith (1944), the executive management tenets promote "the responsible executive who must be equipped to deal with the difficult political, economic and social problems of our time" (183). Smith further suggests that the principles themselves are "dynamic" and recognizes the budget "not as an incomprehensible book but as a living process of democratic policy formation and policy execution" (188). Important to modern budgeting, Smith's tenets do not include the role of the judiciary in making and changing budgets. A later chapter in this book considers how the courts influence government taxing, spending, and programming.

CONCLUSION

This chapter has introduced you to the living process that is public budgeting. Public budgets grow, decline, and change. There continues to be strong debate worldwide about the appropriate reach and impact of government on individuals, communities, and societies. Understanding public budgeting requires knowledge of the many things that are involved in the process and various components that constrain it. For example, considerations of revenue sources and their restrictions must be addressed along with any requirements for balance, if they exist. Theoretical frameworks for understanding public budgeting have evolved with the process itself to recognize the complexities of decisions and relationships among numerous budget actors in distinctive circumstances and across time. As you proceed, you should come to realize that understanding public budgeting requires talking with budgeters, reading budget documents, examining numbers, memos, and reports, examining government websites, following budgets as they develop in real time, making calculations and, most important, asking questions.

DISCUSSION QUESTIONS

1. Why do governments budget?
2. Consider the different definitions of "budget" presented in this chapter. Do you think any of the definitions are more important or relevant than others? Explain your answer.
3. What can you learn about a government by examining its budget?
4. Why is it difficult to compare the quality of public services provided by different governments using only expenditure data? How would you measure the quality of a government service?
5. Define and explain the differences between macro- and micro-budgeting. How do macro-budgeting decisions inform micro-budgeting ones? How do micro-budgeting decisions influence macro-budgeting ones?
6. Kingdon highlights visible and hidden clusters of actors involved in the budgeting process. Define the scope of each cluster and its respective influences on macro- and micro-budgeting.
7. How does public budgeting differ from private budgeting?
8. Explain what you consider to be most distinctive about the perspectives of Musgrave and Buchanan regarding government growth. Justify your response.
9. Explain why the development of normative and descriptive theories is important for understanding public budgeting. How do the budgeting theories discussed here inform your understanding of the process?
10. Consider Smith's budget principles for the legislative and executive branches of government. Are these commandments relevant for public budgeting today? Justify your ideas about principle relevancy and modern budgeting.

NOTES

1. Available at http://www.cia.gov/library/publications/the-world-factbook/index.html
2. In a classic debate about administrative responsibility and democratic accountability, Carl Friedrich (1940) and Herman Finer (1941) discussed

their opposing views of the appropriate checks on bureaucratic judgment. Friedrich considered that bureaucrats could be held in check through professional association. By virtue of the technical specialization required of work in public agencies, bureaucrats as professionals would be held accountable by fellow specialists. Finer believed such checks must come through institutions such as the courts, agencies themselves, or spelled out by legislative directive. Though regarding different concepts, Buchanan similarly called for institutional checks (rules) as a check on state behavior.

3. Gross national product includes gross domestic product and income earned by residents from overseas investments but excludes income earned within the domestic economy by overseas residents.

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